

11/11/2024

# Estate Planning Basics

AN OVERVIEW

 Security Benefit®





# Speaker Slide

Title



# Agenda

- ✓ Estate planning basics
- ✓ Planning for incapacity and health care directives
- ✓ Property management
- ✓ Wills and probate taxes
- ✓ Tax basics
- ✓ Lifetime gifting
- ✓ Trusts



# What Is an Estate Plan?

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- An estate plan is a map.
- This map reflects the way you want your personal and financial affairs to be handled in case of incapacity or death.



# Who Needs an Estate Plan?

Chances are, you do

- Estate plans are not just for the wealthy.
- An estate plan allows you to control what happens to your property if you die or become incapacitated.
- An estate plan makes your wishes clear and helps avoid family disputes.
- Proper estate planning can preserve assets and provide for loved ones.

Especially needed if:

- Your spouse isn't comfortable with financial matters.
- You have minor children.
- Your net worth exceeds the federal transfer tax exclusion amount or, if less, your state's exemption amount.
- You own property in more than one state.
- Financial privacy is a concern.
- You own a business.



# Basic Estate Planning Concepts



Planning for  
Incapacity



Health  
Care



Property  
Management



Planning  
for Death



Wills and  
Probate



Tax  
Basics



Lifetime  
Gifting



Life  
Insurance



Trusts



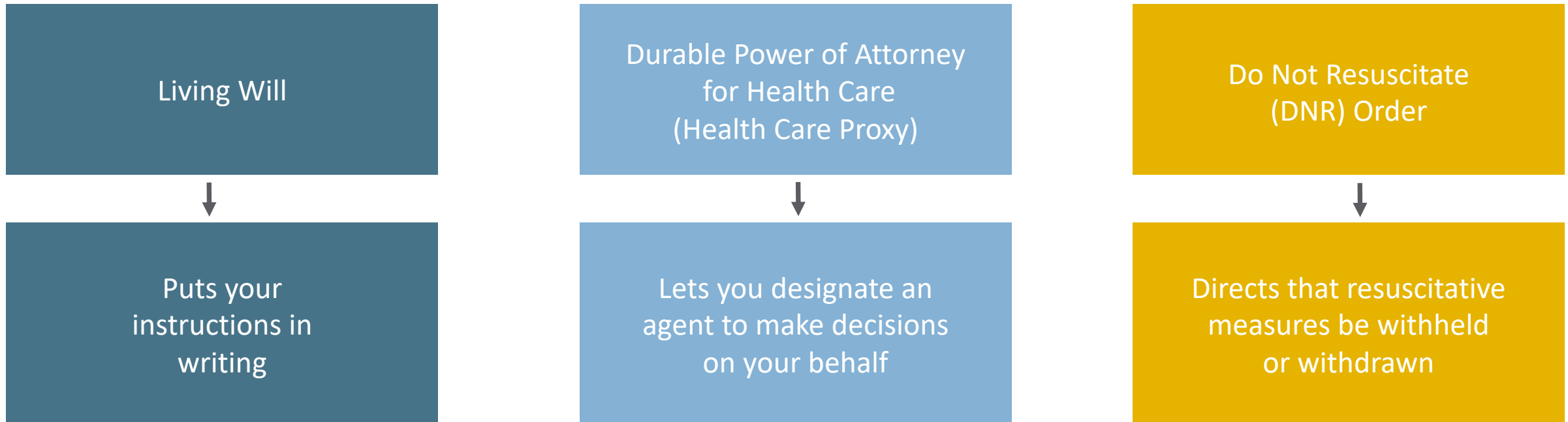
## Planning for Incapacity

- Incapacity can strike anyone at any time.
- Failing to plan means a court would have to appoint a guardian.
- Lack of planning increases the burden on your guardian.
- Your guardian's decisions might not be what you would want.



# Planning for Incapacity

## Health Care Directives



Not all types of health care directives are effective in all states, so be sure to execute the one(s) that will be effective for you.



# Planning for Incapacity

## Property Management Tools

Joint Ownership



Joint owner with the same access to property that you have

Durable Power of Attorney



Lets you designate an agent to make decisions on your behalf

Living Trust



Lets a successor trustee take over the management of trust property





## What Happens if You Die Without an Estate Plan?

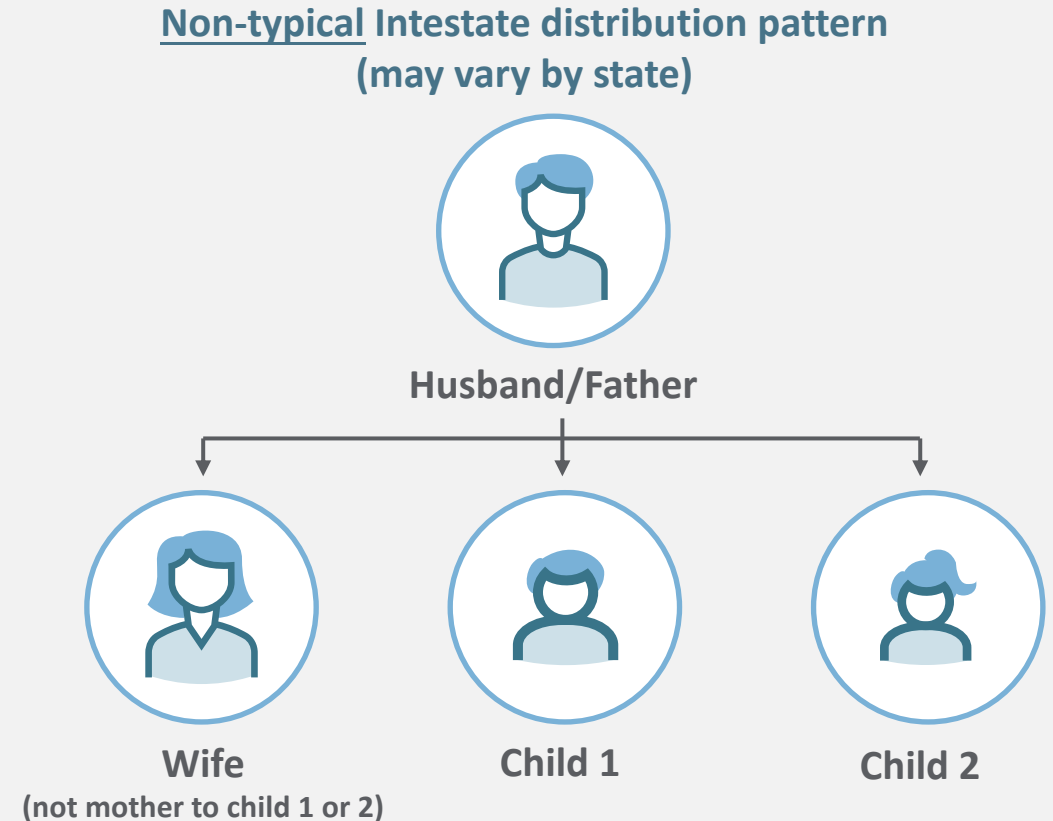
- Some property passes automatically to a joint owner or to a designated beneficiary (e.g., IRAs, retirement plans, life insurance, trusts).
- All other property generally passes according to state intestacy laws.



# What Happens if You Die Without an Estate Plan?

## Intestacy

- Intestacy laws vary from state to state.
- "Under Intestacy laws in most states, the spouse inherits everything, unless the children are not the biological or legally adopted children of both the decedent and the surviving spouse."
- Your actual wishes are irrelevant.
- Many potential problems can result.





# Wills and Probate

**A will written and signed by you is a cornerstone of an estate plan. A will:**

- Directs how your property will be distributed;
- Names executor and guardian for minor children; and
- Helps accomplish other estate planning goals (e.g., minimizing taxes).



# Wills and Probate

## The Probate Process

Most wills must be probated.



# Wills and Probate

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## Probate Pros and Cons

### Pros

- ✓ Time and costs typically modest
- ✓ Court supervision
- ✓ Protection against creditors

### Cons

- ✗ Often time consuming for complex estates
- ✗ Title transfer delays
- ✗ Fees
- ✗ Ancillary probate
- ✗ Public record



# Wills and Probate

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## Avoiding Probate

**Can you avoid probate?**

**Yes. An estate plan can be designed to control which assets pass through or avoid probate:**

- Own property jointly with rights of survivorship
- Complete beneficiary designation forms for property such as IRAs, retirement plans, and life insurance
- Use trusts
- Make lifetime gifts





## Tax Basics

### Transfer taxes include:

- **Federal gift tax** – imposed on transfers you make during your life.
- **Federal estate tax** – imposed on transfers made upon your death.
- **Federal generation-skipping transfer (GST) tax** – imposed on transfers to individuals who are more than one generation below you (e.g., grandchildren) both during your life and upon your death.

Transfer taxes imposed on the state level tend to affect smaller estates.



# Tax Basics

## Federal Gift Tax

- Gift tax applies to transfers made during your life.
- Certain gifts are excluded (e.g., \$19,000 annual gift tax exclusion).
- \$15 million is excluded from all transfers (gifts and estates) combined in 2026.
- The exclusion is the largest in the history of the federal gift and estate tax.
- The unlimited marital deduction allows spouses to transfer an unlimited amount of money to one another, including upon death, without penalty or tax.

### Lifetime Transfer



**You**  
(Donor)



**Person**  
**Receiving Gift**  
(Donee)

Gift tax may apply.



# Tax Basics

## Federal Estate Tax

- Estate tax applies to transfers made at death.
- It generally does not apply to transfers made to a spouse or charity.
- \$15 million is excluded from all transfers (gifts and estates) combined in 2025.
- Any portion of exclusion used for gifts will be unavailable to the estate.

### Transfer at Death



**Your Estate**



**Beneficiary**

Estate tax may apply.



# Tax Basics

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## Federal Estate Tax

- Exclusion is “portable” – unused portion left by deceased spouse can be transferred to surviving spouse.
- Up to \$30 million can be left to beneficiaries tax free (in 2026 for a married couple).

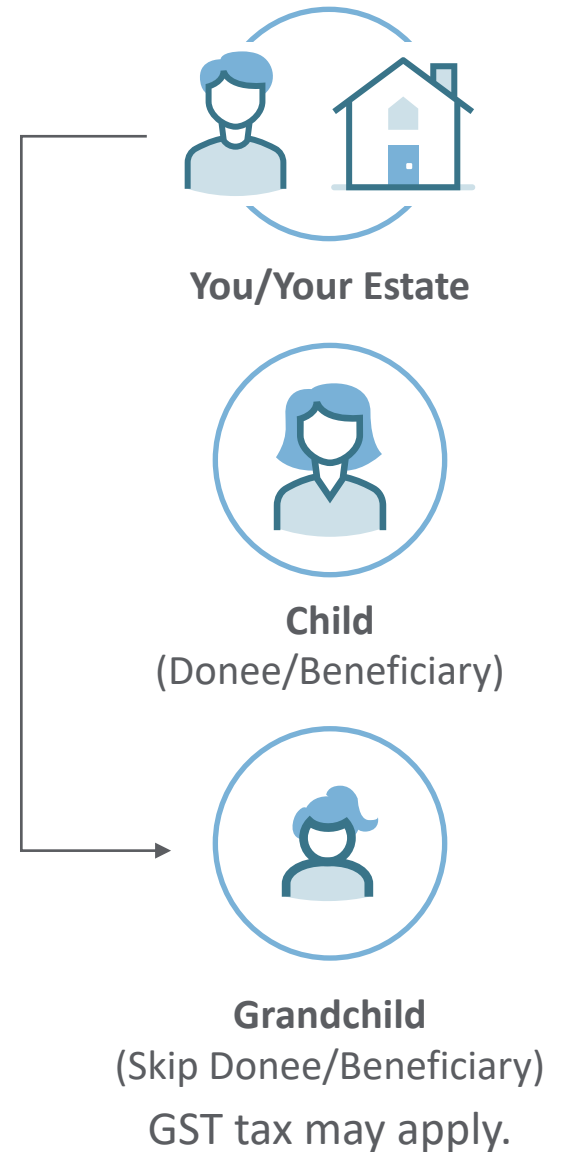


# Tax Basics

## Federal GST Tax

- The generation-skipping transfer (GST) tax may apply to transfers made to someone more than one generation below you.
- In 2026, the GST tax exemption is \$15 million.
- Unlike the gift and estate tax exclusion, the GST tax exemption is NOT portable.

### Transfer During Life or at Death



# Transfer Tax Basics

	2024	2025	2026
Top rate	40%	40%	40%
Gift and estate tax exclusion amount	\$13.61 million	\$13.99 million	\$15 million
GST tax exemption	\$13.61 million	\$13.99 million	\$15 million





## Lifetime Gifting

- Lets you see the recipient enjoying your gift
- Lets you minimize transfer taxes by taking advantage of the \$19,000 annual gift tax exclusion and other tax deductions
- Removes future appreciation of property from your taxable estate
- No “step up” in basis – your basis in the property carries over instead





# Lifetime Gifting

## Transfers Excluded From Gift Tax

- You can give \$19,000 to as many individuals as you want federal gift tax free (\$38,000 if you and your spouse make the gift together).
- If you're contributing to a Section 529 plan, you can give a \$19,000 (\$38,000 with spouse) gift tax free.
- There is no gift tax on amounts paid directly to a school for an individual's tuition.
- There is no gift tax on amounts paid directly to a medical care provider for an individual's medical care.



## Trusts

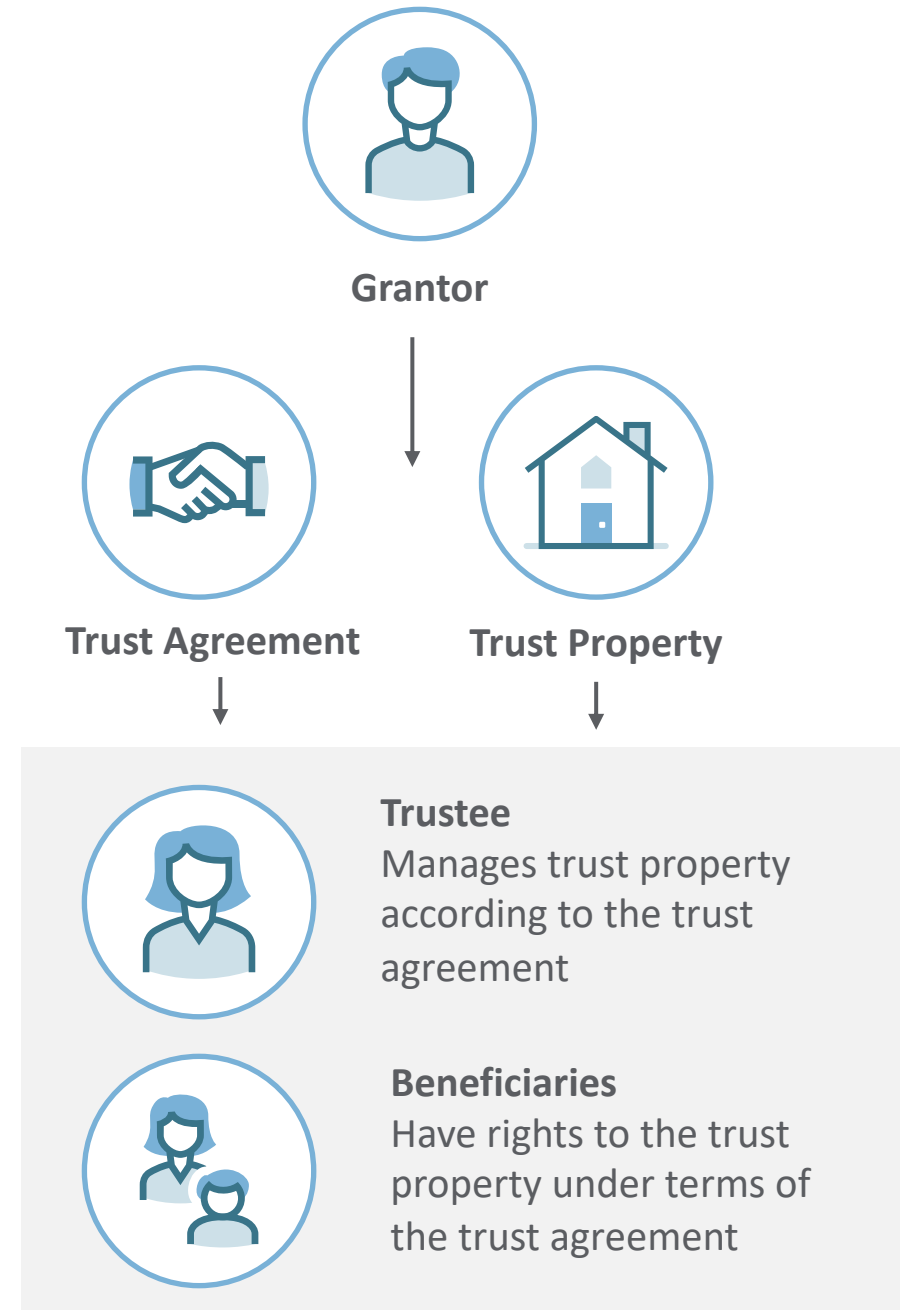
- Protect against incapacity, avoid probate, and minimize taxes
- Allow professional management of assets
- Provide safeguards for minor children, elderly parents, and other beneficiaries
- Protect assets from future creditors
- Provide control over property



# Trusts

## What Is a Trust?

- Legal entity that holds property
- Parties to a trust: grantor, trustee, beneficiary
- Living trusts vs. testamentary trusts
- Revocable trusts vs. irrevocable trusts





# Life Insurance

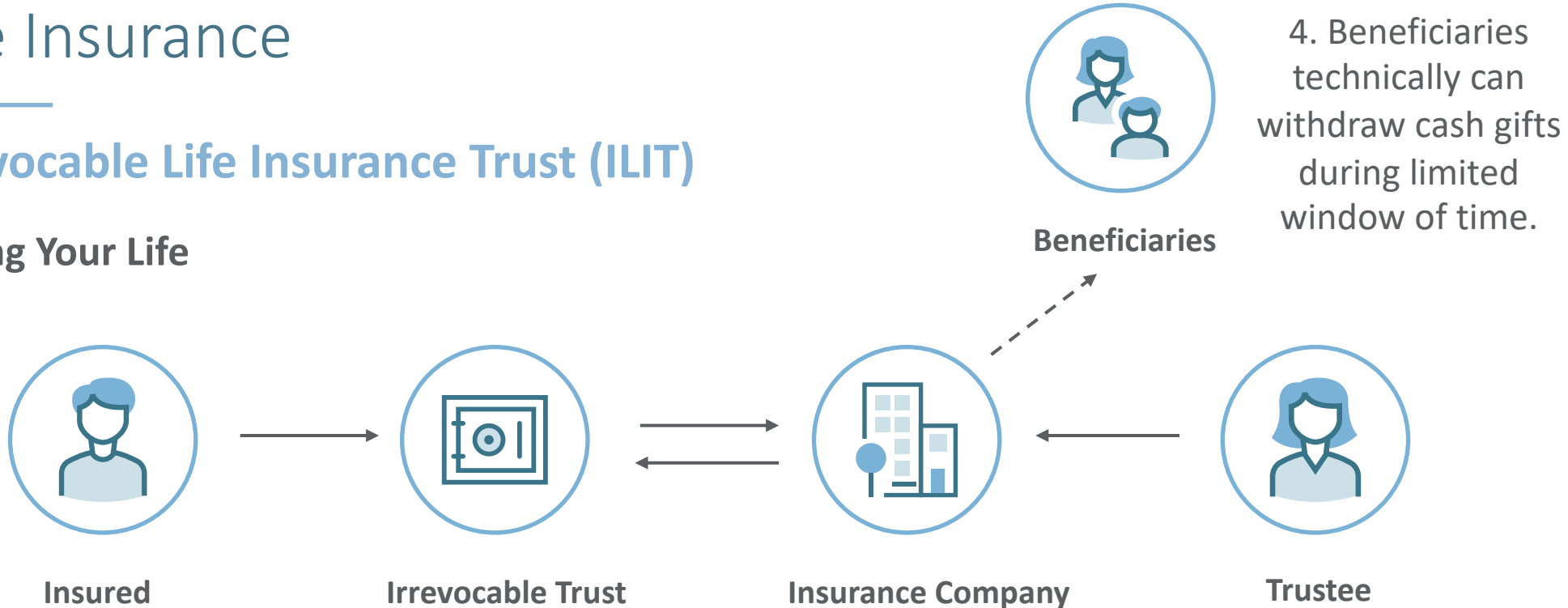
- Can provide instant estate
- Can provide needed estate liquidity
- Life insurance proceeds included in your estate for federal estate tax purposes unless your estate plan addresses this issue
- Policy ownership key



# Life Insurance

## Irrevocable Life Insurance Trust (ILIT)

### During Your Life



1. You (the insured) create an irrevocable trust and name a trustee and beneficiaries.

2. Trustee purchases life insurance policy on your life – policy owned by trust.

3. You make regular cash gifts to trust.

5. Trustee uses cash gifts to pay premiums.

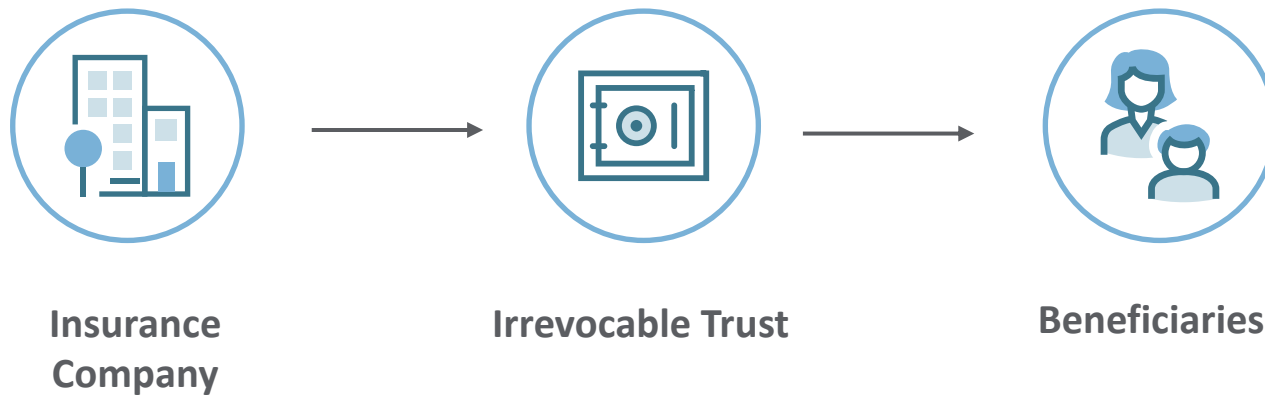
4. Beneficiaries technically can withdraw cash gifts during limited window of time.



# Life Insurance

## Irrevocable Life Insurance Trust (ILIT)

### At Death



1. ILIT receives proceeds of life insurance policy.
2. Proceeds are not subject to estate tax.
3. Proceeds are distributed according to terms of trust.
4. Beneficiaries receive full proceeds, free from estate tax.



# In Conclusion

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- Have you implemented a plan for incapacity (health and property)?
- Do you have a valid will?
- Are transfer taxes a planning concern for you?
- Does your overall estate plan reflect your current wishes and circumstances?





# Thank You

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