


ESTATE PLANNING

Preserve Your Estate for Your Beneficiaries



A night landscape photograph featuring a starry sky with the Milky Way visible. The foreground is a dark, grassy field with a small, calm pond on the right. In the background, there are dark, silhouetted mountains under a sky with some light clouds near the horizon.

Estate planning involves charting
the course for the disposition
of your assets upon death.

Preserve your estate with a stellar plan

If you're like most people, you'll work your entire lifetime to accumulate assets: a home, cars, savings, real estate, investments, etc. The relatively small amount of time and money required to create an estate plan will help ensure your assets are efficiently passed on to your beneficiaries.

Ensure your wealth reaches the individuals and organizations you select in the manner you choose

Provide financial security for heirs who are dependent on your income

Guarantee settlement costs are paid without jeopardizing your legacy

Take care of immediate liquidity needs

Maximize income tax basis opportunities for your heirs

Minimize the effect of federal and state taxes

Four basic estate planning steps

First, take inventory of your assets. This may include your home, jewelry, stocks and bonds, bank accounts, insurance policies, retirement plans, and other property. Note how they are owned, along with any beneficiary designations. Next, take a similar inventory of your debts and liabilities.

Second, determine your estate planning goals and set a plan in motion. For example, do you want all your assets to go to your family? If so, should they inherit assets outright? Do you want any assets to go to charity? An estate planning attorney can guide you through this process and draft important documents.

Third, develop an organized strategy for meeting important financial needs and paying settlement costs, expenses, and any applicable taxes.

Life insurance is an excellent way to provide liquidity to your estate.

And finally, periodically review your estate planning documents to ensure they still accomplish your goals.

Tax laws and circumstances may change, making it important to regularly review your plan.

Obtain key estate planning documents

Wills and trusts are powerful estate planning vehicles. An estate planning attorney can help you decide what design is most appropriate in your situation and draft all legal documents.

Will

A will allows you to decide how your probate assets are to be distributed upon death. Additionally, a will allows you to nominate the guardian of minor children. Many wills are called “pour-over” wills, which simply means the assets “pour-over” into your revocable living trust (below) for distribution according to the terms in your trust.

If you die without a will, state law creates one for you. State law is often rigid and can prevent you from leaving assets to the ones you care for most. A properly drawn will allows you to specify your wishes.

Testamentary trust

A testamentary trust is a trust created inside a will. It has no legal effect until your death when your will is submitted to probate. Arguably, it is the most affordable way today to create a trust arrangement whereby a trustee will manage your assets after death. Testamentary trusts can be particularly useful if you do not want to spend much on your estate plan today, but you desire to have a trustee manage assets for heirs after your death.

There are a few disadvantages to testamentary trusts. Testamentary trusts do not avoid probate, which means assets are subject to court supervision and costs while the trust is in force, as well as possible attachment by creditors. Also, wills are public documents, so disposition of your estate through a testamentary trust is not kept private.

Revocable living trusts

A revocable living trust is an estate planning tool with many benefits. The primary benefit is that at death, trust assets avoid probate, avoiding delays and probate administration costs. Revocable living trusts are also private and need not be submitted to a court in most cases. Trusts can also be used to control disposition of assets after your death (for example, delaying until children reach a certain age) and to provide creditor protection for your beneficiaries. During your lifetime, you may amend or revoke the trust as your situation changes, and trust ownership of assets can be very beneficial if you should ever become incapacitated.

Plan for possible incapacity

By planning ahead and creating a comprehensive estate plan, a few important tools can help if you should ever become unable to manage your affairs during your lifetime.

General durable power of attorney (GDPOA)

A GDPOA appoints an individual to manage your finances and property if you are unable to manage your affairs during your lifetime. The documents vary significantly among states and can be broad or restrictive in power, given your individual circumstances.

Health care proxy

Also known as a health care power of attorney or advanced medical directive, a health care proxy appoints an individual to manage your health care decisions if you become incapacitated. These documents typically authorize your agent to receive otherwise protected medical information, so he or she may make the best decisions regarding your care.

Living will

A living will allows you to provide end-of-life instructions in the event you are unable to communicate your wishes. The forms vary by state, but a living will allows you to describe the medical treatment you want withheld if you are in a permanent vegetative state or a terminal condition where you are unable to communicate your wishes.

Disability income insurance

For many individuals, their primary asset is the ability to work and earn a living. A disruption to your cash flow due to a disability that renders you unable to work can have a devastating impact on your financial well-being and your plan for the future. While many employers offer disability insurance, coverage is often inadequate and benefits taxable. By supplementing your coverage with an individual disability insurance policy that can be structured to pay tax-free benefits, you can bridge the gap between the coverage you have (if any) and the coverage you need.

Maximize your estate plan with life insurance

Life insurance plays an essential role in estate planning. The death benefit on a life insurance policy provides liquidity for your heirs and passes directly to your named beneficiaries. Most of all, life insurance can provide assurance that your heirs will be financially protected if you pass away.

Income tax-free death benefit

The death benefit on a life insurance policy is income tax free with very few exceptions. This means income taxes will not erode or deplete the benefit your heirs ultimately receive. Further, because life insurance passes to a named beneficiary, benefits avoid probate, publicity and administration costs in most cases.

Provide liquidity for loved ones

Life insurance provides liquidity when your loved ones need it most. This makes life insurance an excellent vehicle in your overall estate plan. Your heirs may use policy benefits to replace lost income, to provide essential liquidity, or to pay debts, taxes, or expenses. Additionally, life insurance can be used to leave a legacy for younger generations, to provide care for a loved one with special needs, to create a charitable bequest, or to provide liquidity for the sale of a business interest.

Cash values for lifetime needs

Permanent, cash value life insurance accumulates cash values that are accessible during your lifetime for any number of needs. This means some types of life insurance not only provide death benefit, but can be used to supplement retirement income and help manage other liquidity needs during your lifetime. And even better, properly structured loans and surrenders to tax basis from the life insurance policy's accumulated cash value are income tax free, assuming the policy is not a modified endowment contract (MEC).

Accelerate benefits for chronic or terminal illness

You may add riders to your life insurance policy to enhance policy benefits. The Accelerated Benefit Rider (ABR), where available, allows you to take a lien against the policy's death benefit in the event of a terminal or chronic illness up to certain limits. This means you can access a portion of the death benefit during your lifetime to enhance quality-of-life and manage important expenses during critical times.

No estate plan is complete without a proper review of beneficiary designations.

While it is important to have a will or trust, many of your assets pass without reference to your will. For example, if you own property with another person as joint tenants with rights of survivorship, the property will pass automatically to the surviving owner upon death.

Similarly, some assets pass directly to a named beneficiary according to a beneficiary designation form you completed at some time. These assets might include:

- Life insurance
- Retirement plans
- IRAs
- Pension plans
- Group term life insurance offered by your employer
- Annuities

It can be easy to forget who you named as the beneficiary of certain assets. It can also be easy to forget to update the beneficiary designation after major life events, such as marriage, divorce, or birth or death of a beneficiary.

Because these assets will pass directly to your named beneficiary – without regard to your will or trust – a well-rounded estate review must also consider any beneficiary designations.



Understand the impact of estate taxes

Under current tax law, the top federal estate tax rate is 40%. Importantly, roughly one-third of states impose their own estate or inheritance tax, making it even more important to plan for liquidity needs.

The first step in analyzing your federal estate tax exposure, if any, is to estimate the value of your estate (your "gross estate"). Your gross estate generally includes:

- Property held in your own name
- Property held jointly with others, for a portion of the value
- Property held in your revocable living trust
- Your retirement plans (regardless of beneficiary)
- Face value of life insurance you own on your life
- Other property interests

The tax code allows you to pass a certain amount of wealth free of estate and gift taxes. This is known as the lifetime exclusion amount. In 2025, the lifetime exclusion amount is \$13,990,000 per individual. For married couples who timely elect portability (see details to follow), they can effectively combine their exclusions and pass almost \$28 million free from federal estate taxes. Under current law, the lifetime exclusion amount is scheduled to sunset at the end of 2025, reverting back to \$5,000,000 (indexed for inflation).

Portability

Under current law, surviving spouses may elect to carry forward the unused exclusion amount of a deceased spouse (also known as "portability"). This allows spouses to maximize wealth transfers to heirs without an A-B trust in many cases, as was required under prior law. Further, because of the unlimited marital deduction, you may pass an unlimited amount of wealth to a surviving spouse free of estate or gift taxes and defer estate taxes until death of the second spouse to die.

There are a few important considerations:

The executor must timely elect portability on an estate tax return of the first spouse to pass away, typically within 9 months of death, even if no estate taxes are owed.

A surviving spouse may only use the unused exclusion amount of his or her last deceased spouse – there is no stacking of exclusion amounts if the surviving spouse remarries.

Different estate tax rules apply if a spouse is a non-US citizen.

Create a gifting program to reduce estate taxes

In addition to the lifetime exclusion amount, the IRS allows you to give a certain amount of money each year free of estate or gift taxes. This is known as the annual exclusion amount. In 2025, the annual exclusion amount is \$19,000 per recipient.

This applies to any number of recipients. For example, if you have five grandchildren, you could give them each \$19,000/year (or \$95,000 total) free of estate and gift taxes. If you are married and your spouse joins in the gift – formally known as "gift splitting" – you can double this amount, effectively making up to a \$38,000 per recipient a tax-free gift to any number of recipients.

Gifting to a trust

A more formal gifting program may involve leveraging your annual gift tax exclusion amount to make gifts into an irrevocable trust. The trustee can use the gift to purchase life insurance inside the trust: for the cost of the premium, the entire death benefit is removed from your taxable estate. And if the trust has multiple beneficiaries, you may be able to use multiple annual exclusion amounts.

Special rules apply when making gifts to a trust, such as Crummey letters to beneficiaries. Your estate planning attorney can assist in helping you decide whether a gifting program is appropriate in your case.

Spousal lifetime access trusts (SLATs)

A SLAT is an irrevocable life insurance trust that grants your spouse access to trust assets for needs such as health, education, maintenance and support. This allows you to reduce your estate through a gifting program with an irrevocable life insurance trust while maintaining spousal access to policy cash values.

Intentionally defective grantor trusts (IDGTs)

An IDGT is an irrevocable trust designed to protect assets from estate taxes while positioning the grantor (the trust creator) to remain responsible for income taxes attributable to trust assets. This allows the trust to avoid compressed income tax rates applicable to trusts and estates during the grantor's lifetime.

Although structured as an irrevocable trust, IDGTs typically include powers that give limited flexibility to respond to changes in the tax environment. Many SLATs are structured as IDGTs, giving a spouse access to trust assets while maintaining the powerful income tax treatment and flexibility of the IDGT.

Stay on the right trajectory

As life changes, you and your attorney should review your estate plan and make updates accordingly. The following life changes typically necessitate review of your estate plan and beneficiary designations:

- Change in marital status
- Birth of a child or grandchild
- Relocation
- Tax law changes
- Major changes to your income or asset portfolio, such as purchase/sale of a business
- Death in the family or of a beneficiary
- Passage of time

Keep in mind that a good plan implemented now is better than a great plan implemented someday. For a helpful guide in developing your estate plan, consult your financial professional for a copy of AuguStar's® Estate Planning Workbook (Form 2492LMP).

This brochure provides general information that should not be construed as specific legal or tax advice nor the law of any particular state. Please seek the advice of a qualified legal or tax professional for your specific situation.

Withdrawals (partial surrenders) and loans, if taken, will reduce the death benefit. Withdrawals and loans from life insurance policies that are classified as modified endowment contracts (MECs) may be subject to tax at the time that the withdrawal or loan is taken and, if taken prior to age 59½, a 10% federal tax may apply. If tax-free loans are taken and the policy lapses or is surrendered, a taxable event may occur. Always consult with a tax advisor regarding your particular situation.

The optional Accelerated Benefit Rider provides for a partial acceleration of the policy death benefit in the event that the base policy insured is certified by a licensed physician as being chronically ill or terminally ill. By taking an accelerated death benefit payment, a lien is created against the policy death benefit. The lien accrues carrying charges at an adjustable rate we declare. The lien, including the lien carrying charges, will be deducted from the total death benefit otherwise payable to the policy beneficiary(ies) and will

reduce the cash value available for policy loans, surrenders, or the exercise of any non-forfeiture option. The required premium for the policy must still be paid even if an accelerated death benefit is taken. If an accelerated benefit is taken and the policy lapses or otherwise terminates, a taxable event may occur. Any death benefit provided by an optional Accidental Death Benefit Rider is not available for acceleration under this rider.

Any accelerated benefit you elect to take under this rider may be taxable. Consult your tax advisor on all tax matters. Adding the rider to a life insurance policy or the taking of rider benefits may affect eligibility for certain public assistance programs and government benefits.

The Accelerated Benefit Rider is not designed to be a substitute for long-term care insurance, health insurance, or nursing home insurance. Rider benefits and features may vary by state.

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