WEALTH
FINANCIAL & LIFESTYLE PERSPECTIVE FROM NORTHERN TRUST

Wealth Transfer Fundamentals

In this second part in a four-part series based on Northern Trust's book, "Legacy: Conversations About Wealth Transfer," we discuss the basics behind planning a successful wealth transfer.

By now, most people understand the importance of wealth transfer planning. But successful plans first require a basic understanding of the key planning documents, knowledge about how to decrease your tax liability, and recognition of the role that trusts can play in helping you achieve your individual wealth management and transfer objectives.

The best way to begin wealth transfer planning is to make sure you have the three basic planning documents of wealth transfer: a will, a power of attorney and a revocable trust. Of those documents, a current will may be the most critical.

LEARN MORE: Listen to Ray Odom, Northern Trust's director of wealth transfer services, Personal Financial Services, as he discusses Creating Your Wealth Transfer Plan - what to consider when transferring wealth to family members or charity, whether during life or at death.

"While most people would benefit from having all three, the truth is that most individuals do not have a will, or do not have a will that is up-to-date," says David Connell, chief fiduciary officer for Northern Trust's Southwest region.

LEARN MORE: Listen to David Connell, Northern Trust's chief fiduciary officer, southwest region, as he discusses Wealth Transfer Fundamentals - developing a basic understanding of key planning documents and the use of available tax exemptions, exclusions and deductions to decrease your tax liability, and the role that trusts can play in helping you achieve a variety of wealth management and transfer objectives.

Will Basics

Most people know that a will transfers your individually owned assets when you die. It also names an executor to administer your estate and can establish a guardian for your minor children. But what you might not know is that a will alone doesn't dispose of all of your assets.

Some forms of ownership contain their own transfer provisions, and some types of assets, such as retirement plans, can only be transferred by means of beneficiary designations. In addition to retirement assets, property that will not pass under a will includes property held in trust, life insurance, pay-on-death bank accounts as well as property titled in joint tenancy with right of survivorship.

Provide Protection

Astute wealth transfer plans don't limit themselves to simply transferring wealth. Your plan should also protect you and your family during your lifetime by including a power of attorney for property and a health care power of attorney. The former gives the person you name the power to deal with property held in your name if you become incapacitated. The latter will provide direction to medical staff, can convey your wishes about life-sustaining treatment, and may designate a friend or family member to speak for you if you can't.

According to estate planning attorney Jeffrey Skatoff, partner and co-founder of Clark Skatoff LLP in Palm Beach Gardens, Fla., "incapacity" or disability planning is also a very important — but often overlooked — strategy that can minimize disruption to your health care and financial affairs should you suddenly become incapacitated. Unfortunately, many people think that incapacity or disability planning is useful only for the elderly or people with significant financial responsibilities. "But the truth is, if you have any amount of wealth and you care who gets it, then you should have a comprehensive estate plan, the first part of which should include planning for incapacity," Skatoff says.

Of course, state laws vary and may require different documents to accomplish your goals. For example, in some states, a health care power of attorney requires a separate document — a health care directive or living will — to direct your attending physicians about life-support decisions.

A "power of attorney" is an instrument designed to empower a person to act on someone else's behalf during his or her lifetime. It ceases to be effective once the person granting the power dies, which is when

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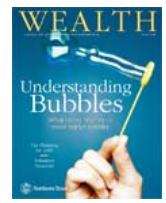

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a will or trust agreement can take effect. Make sure your survivors know about these estate planning documents beforehand to ease the transition for them after your death.

Transferring Through Trust

The third key planning document is a trust. These are extremely flexible instruments that can, for example, fund charitable endeavors and provide continuity of management for your business during your lifetime and across generations.

By combining these key documents with skillful use of exemptions, exclusions and deductions, your estate planning attorney can help you achieve your wealth transfer goals in a tax-efficient manner.

“Setting up a trust is not as complex as you might think, particularly when you work with an experienced estate planning attorney,” Connell says. “Ask your attorney to provide a plain language summary to aid your review; check for basics such as distribution provisions, trustee provisions and beneficiary names.”

By creating a trust, you place your assets, your wishes and the welfare of your family in the hands of your designated trustee. Whether a person, an institution or both, a trustee typically invests and distributes trust assets; administers discretionary provisions of the trust; and performs recordkeeping, accounting and trust reporting.

Many trust creators name co-trustees. Often, a professional trustee is appointed co-trustee together with a family member or another individual. But, according to Skatoff, leaving a professional trustee in charge can be a good way to avoid any intra-family turmoil.

“If an heir is also named a trustee, it could be a source of conflict between family members and potentially encourage litigation,” Skatoff says. For that reason, he often discourages clients from appointing individual family members as trustees, he says.

Either way, make sure your trustees are people to whom you can confidently entrust your property, secure in the knowledge they will have good relationships with your beneficiaries.

Keeping Up to Date

To successfully reach your wealth transfer planning objectives, Connell recommends that you first update your existing documents and beneficiary designations on retirement plans and life insurance, then look at lifetime gifting and the effect of taxes.

“Solicit competent, professional advice and analyze the effect of transfer taxes before making significant transfers to family members or friends,” Connell says.

New Podcasts Provide Wealth Transfer Planning Advice

Despite the ongoing market turbulence, this is a good time to focus on long-term financial planning, review your wealth transfer plans to ensure that they reflect your wealth management goals and lay the foundation for your future. For more information on wealth transfer strategies, you can listen to our podcasts, “Creating Your Wealth Transfer Plan” and “Wealth Transfer Fundamentals” online at northerntrust.com/podcasts.

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