



Live beyond yourself

Advanced strategies for building, protecting, and transferring a legacy



Estate strategies, protecting your legacy

Building and managing wealth is a challenge in today's changing economic environment. Protecting and preserving multiple assets to transfer to the next generation and beyond requires professional guidance, an in-depth knowledge of advanced planning strategies, and an understanding of ever-changing tax laws.

Changes in estate tax laws don't change the fundamental need for sound estate planning or the basic techniques used for wealth preservation.¹

This guide can help you and your professional advisors create a personal estate strategy that is designed to preserve wealth, distribute assets to your heirs, and ensure your legacy — taking into account your wishes and objectives. It briefly outlines:

- Why you need an estate plan,
- Basic guidelines for organizing and distributing assets at death, and
- Summaries of a few sophisticated planning strategies available to preserve, protect, and pass on wealth to your chosen beneficiaries in a tax-efficient way.

Please take a moment to review these concepts, then contact your Guardian Financial Professional to help you and your tax and legal advisors design and implement a custom-tailored strategy to help fulfill your legacy.

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Federal estate and gift tax system — how it impacts your legacy

You have worked hard all of your life to build, grow, and accumulate a significant net worth, and it is most likely that you wish to pass on this legacy to your family — children and perhaps grandchildren, or to friends, or your favorite charities.

But passing on wealth is not simply a matter of your intentions. The federal and state governments may take a significant share of your estate after your death, unless you have provisions in place to help limit estate and inheritance taxes and estate settlement costs. Let's review a recent history of the federal estate and gift tax system as a first step. Please note that you and your attorney should determine the impact of your state's estate and inheritance tax laws on your particular situation.

A brief recent history

Prior to the passage of the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA), individuals could transfer up to \$675,000 at death, free from federal estate taxes. EGTRRA then raised the exemption limit from \$1 million to \$3.5 million in 2009, to the eventual repeal of the estate tax in 2010 (for that year only). The maximum estate and gift tax rates went from 55% to 45%.

The gift tax exemption did not change under EGTRRA, remaining at \$1 million for a lifetime. Keep in mind that use of the gift tax exemption amount consumes a portion of the estate tax exemption.

Gifts that fall under the annual gift exclusion amount are not considered as taxable gifts. For 2022, the annual exclusion amount is \$16,000 per person, per donee, per year. In other words, spouses can jointly give away \$32,000 per year to as many people as they want without incurring any gift tax penalty.

The *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act* (Tax Relief Act of 2010), created in December 2010, raised the federal estate and gift tax exemption amount to \$5 million (indexed for inflation) and imposed an estate and gift tax rate of up to 35%. Without this legislation, the estate and gift tax exemption amounts would have reverted back to \$1 million in 2011, and the tax rate would have reverted back to 55% for the top tax bracket.

On January 2, 2013, the *American Taxpayer Relief Act of 2012* (ATRA) was signed into law. ATRA made the \$5 million federal estate and gift tax exemption amount permanent, but raised the maximum estate and gift tax rate to 40%.

Finally, in December 2017, the *Tax Cuts and Jobs Act* (TCJA) was passed. Under the TCJA, the federal exemption amount increased to \$11 million per person (indexed). The key planning note with the TCJA is that these increased levels are set to sunset at the end of 2025 and revert back to the pre-TCJA (i.e., ATRA) levels. However, there is already much discussion and debate as to what this might actually mean. Will it revert back to the \$5 million level or could it even be lower? No one knows at this point.

In addition to federal estate and gift taxes, there is the Generation Skipping Transfer Tax (GST Tax). Introduced in 1976 and reworked in 1986, this tax is levied upon assets transferred, for example, from grandparents to grandchildren, thus "skipping" or bypassing the children's estate. Gifts that fall within the annual gift exclusion amount are also free from the GST Tax. Under the *Tax Relief Act of 2010*, the GST Tax exemption amount was also raised to \$5 million, indexed for inflation, starting in 2012, with a maximum tax rate of 35%. This law applied to skip transfers made before December 31, 2012.

An ever-changing landscape

ATRA made permanent the estate and gift tax exemption amounts at \$5 million, indexed annually for inflation, and raised the maximum tax rate to 40%. ATRA also made permanent the concept of “portability,” which provides that if a spouse passes away without using his or her estate or gift tax exemption amount, the surviving spouse may use it, along with his or her own exemption amount. And as mentioned above with the TCJA, while the exemption amount has skyrocketed to over \$11 million, no one knows what will happen at the end of 2025. So how do you plan for the future if the transfer tax laws are constantly changing?

Estate planning is a dynamic process. You and your tax and legal advisors should plan to meet at least annually to review your estate plan. If your family’s estate is not currently subject to federal estate and gift taxes, it may be in the future.

In summary, the chart below shows exemption amounts and rates discussed above:

Wealth transfer costs		
Year	Estate and GST Tax exemption amount	Highest estate, GST Tax, and gift tax rates
2011	\$5,000,000	35%
2012	\$5,120,000	35%
2013	\$5,250,000	40%
2014	\$5,340,000	40%
2015	\$5,430,000	40%
2016	\$5,450,000	40%
2017	\$5,490,000	40%
2018	\$11,180,000	40%
2019	\$11,400,000	40%
2020	\$11,580,000	40%
2021	\$11,060,000	40%
2022	\$12,060,000	40%

State costs

There is more — many states and the District of Columbia have estate and/or inheritance taxes with varying rates, depending on the state, the size of the estate, and who the beneficiaries are.

In addition to the tax costs listed above, there are many other expenses that may be incurred upon the death of a family member. These debts must be settled before any remaining assets can be transferred to heirs:

- Funeral/burial expenses
- End-of-life medical expenses not covered by insurance
- Income taxes on annuities and/or retirement assets
- Probate costs, including executor’s and attorneys’ fees
- Outstanding debts to creditors

What is your estate worth?

Your net worth may place you in the category where estate taxes may be of concern. Try this simple test. Use the worksheet below to compile an estimate of your estate value. The fact is, people *often do not realize the true value of their net worth*.

Current estate value:	
Cash	\$ <input type="text"/>
Annuities	\$ <input type="text"/>
Bank accounts/CDs	\$ <input type="text"/>
Stocks and bonds	\$ <input type="text"/>
Notes and mortgages	\$ <input type="text"/>
Personal residence	\$ <input type="text"/>
Vacation home	\$ <input type="text"/>
Other real estate	\$ <input type="text"/>
Retirement benefits	\$ <input type="text"/>
Business interests	\$ <input type="text"/>
Automobiles	\$ <input type="text"/>
Jewelry	\$ <input type="text"/>
Artwork	\$ <input type="text"/>
Furniture (and other personal property)	\$ <input type="text"/>
Life insurance (death benefit amount)	\$ <input type="text"/>
Gross Estate:	\$ <input type="text"/>
Less: Debts	\$ <input type="text"/>
Less: Charitable donations	\$ <input type="text"/>
Less: Transfer to spouse*	\$ <input type="text"/>
Taxable Estate:	\$ <input type="text"/>

* Assuming the surviving spouse is a U.S. citizen, assets may qualify for the unlimited marital deduction.

Once you have established where you stand in terms of your overall estate, there are other compelling reasons to have an estate plan in place, in addition to the impact of estate and inheritance taxes.

The most important and fundamental document to have in place is a properly executed Will.

Why have a Will

The Last Will and Testament is the legal document that specifies your directions upon your death with respect to who you wish to:

- receive the assets you own individually;
- serve as your estate executor; and
- appoint as guardian to minor or disabled adult children.

Without a Will, settling an estate is troublesome and costly. Furthermore, without a Will, your assets will most likely not be distributed according to your wishes.

Settling your estate, with or without a Will

With a Will in place	Dying intestate (without a Will)
You determine how your assets will be distributed.	State laws dictate who inherits your assets.
You determine the terms and timing of how your assets will be transferred to your heirs.	Terms and timing of asset transfer to heirs is determined by state law. Children or a spouse could be left in control of a sizable estate.
You choose your estate executor or trustee.	The court appoints administrators, whose ideas and views may not be compatible with yours.
You can prepare your estate in advance through gifting or other strategies to reduce estate taxes and administrative expenses.	Costs are typically greater due to taxes and administrative expenses, reducing the amount of assets that could be transferred to your loved ones.
You select a guardian for your minor or disabled adult children.	The court appoints a guardian for your minor or disabled adult children.
You can set up a plan for the continuance or sale of a business or shares of a business.	A forced sale may result in financial loss and family hardship.

Other basic documents to have in place

In addition to having a Will, there are other fundamental tools to have in place as the first steps in an estate planning strategy. These include:

- **A Living Will**

This is prepared when an individual is considered competent to make decisions, and it specifies wishes concerning end-of-life medical care, or ongoing care in the case of permanent unconsciousness.

- **Health Care Proxy**

This authorizes another individual to make health care decisions for you if you are unable to do so due to physical or mental incapacity.

- **Durable Power of Attorney**

This authorizes another individual to make certain financial decisions on your behalf if you're unable to do so.

- **Ethical Will**

This document has become more popular recently. It offers a parent an opportunity to express certain values with the hope of conveying this philosophy to their children, providing guidance to them in the future, often with respect to charitable or philanthropic issues.

Having a Will in place, along with other fundamental legal documents, puts you in control of important decisions that should only be made by you.

Trusts and life insurance — valuable estate planning tools

Keep in mind that, while a Will and other basic documents do direct the disposition of your estate and establish legal provisions for your medical care and administrative decisions, they may not be sufficient to accomplish other specific long-term goals, such as:

- leveraging the value of your legacy
- equalizing bequests among your heirs
- funding children's or grandchildren's education
- preserving wealth in a tax-efficient way for your heirs
- providing ongoing care for elderly relatives or for a special needs child
- making gifts to charities or the arts

A properly established trust can help you achieve your objectives, while protecting wealth for the next generation. The following provides a brief look at some of the more common trusts, used in combination with other strategies that you can leverage to protect, preserve, and transfer wealth.

Revocable Living Trust (RLT)

People often use this type of trust in order to avoid probate and minimize estate settlement expenses because property passes through the provisions of the trust, and not through the Will. They are particularly useful when real estate is owned in multiple states. RLTs also help to provide privacy and can help to manage assets during periods of disability or incapacity, similar to a Power of Attorney.

Marital Trust

While assets pass estate tax-free to a living spouse, certain marital trusts may enable control over asset distribution, professional management of funds, or to help provide for a second spouse's care while ensuring that children from a first marriage ultimately inherit.

Credit Shelter Trust

Typically created within a Will or Revocable Living Trust, this strategy was traditionally used to preserve the federal estate tax exemption amount of the first spouse to die by using it to fund a trust for the benefit of the surviving spouse and children. The federal estate tax exemption was a "use it or lose it" proposition. The Tax Relief Act of 2010, however, introduced the concept of "portability," which allowed a surviving spouse to use his or her deceased spouse's unused exemption amount. ATRA made portability permanent. As a result, the traditional use of a Credit Shelter Trust may no longer be necessary.

A Credit Shelter Trust, however, is still useful for many other reasons, including the following: (1) preservation of the state estate tax exemption amount; (2) asset protection; (3) professional management of assets; (4) freezing asset values and excluding asset growth from the taxable estate; (5) spendthrift protection; (6) protecting inheritances of children from a prior marriage; and more.

Life insurance can integrate with various planning techniques to help provide value and tax savings.

Irrevocable Life Insurance Trust (ILIT)

Use —

We're a financially comfortable family, having owned our own successful business for years. Much of our wealth is tied up in assets for the business, which we hope to pass on intact to our children. However, we also have one son who doesn't work in the business and we want to make sure he is also taken care of. How do we settle our estate planning goals?

Irrevocable Life Insurance Trusts are frequently used to ensure that cash will be available at death to address various needs.

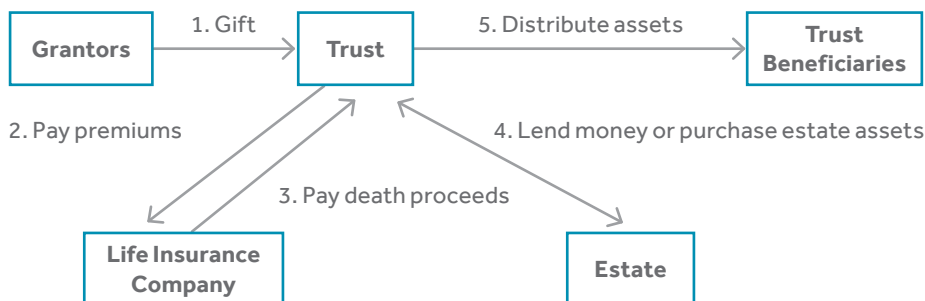
Importance —

1. Provides liquidity to help pay taxes when primary assets are illiquid, such as in the case of a business or real estate
2. Replaces wealth lost to taxes
3. Avoids a forced sale of assets to raise needed cash
4. Helps equalize bequests

Leveraging your estate through the purchase of life insurance in a trust can provide many benefits:

- It offers the opportunity to boost the value of your legacy to your beneficiaries. As long as a life insurance policy is in force and premiums are paid, the trust benefiting your heirs would receive the face amount of the life insurance policy, even in the event of premature death.
 - Premiums gifted to the trust help to reduce the value of your estate.
 - Policy proceeds are typically not considered in the calculation of estate taxes.
 - Policy proceeds in a trust may be protected from creditors² of the trust beneficiaries, including ex-spouses, with the appropriate trust provisions in place.
 - The trust can make distributions to the beneficiaries when they need them.³

How an ILIT works



With an ILIT in place, the trust will receive the life insurance policy proceeds at death and can use the money to either make a loan to the estate or buy assets from the estate at fair market value.

Dynasty Trust (Intergenerational Trust)

Use —

Significant wealth has been passed down through my husband's family for several generations. We want to continue this practice and, in particular, see that our grandchildren and great-grandchildren have a legacy to help them during their lifetimes. We're concerned about the future of the economy, and want to be sure that the wealth we have preserved isn't lost to market downturns and taxes. What strategies can we use?

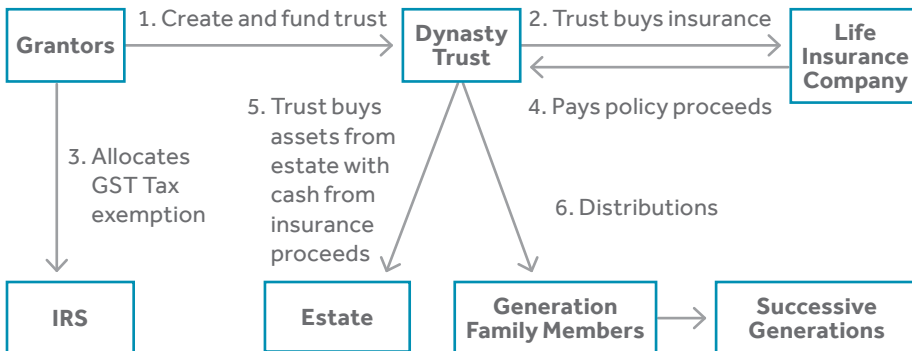
Affluent individuals often use Dynasty Trusts to pass significant wealth down to future generations, ensuring that assets are preserved for grandchildren and their children. These trusts can be an excellent way to pay for college education costs, which could rise exponentially for future generations, or to help with a business start-up, fund a home purchase, or any other number of initiatives.

Importance —

1. Takes advantage of the Generation Skipping Transfer Tax exemption.
2. Can be designed to last many years — possibly hundreds and, in some cases, in perpetuity.
3. Future generations can enjoy your legacy when the trust makes distributions to the beneficiaries when needed.
4. Trust assets may also be protected from potential creditors of the beneficiaries, including ex-spouses, with appropriate trust provisions.

Life insurance is often used in a Dynasty Trust because of the dollar leveraging it can provide.

How a Dynasty Trust works



Charitable Remainder Trust (CRT)

Use —

My wife and I would like to leave a legacy to our favorite charity in our hometown, but need to have access to income to make sure we have a comfortable retirement. We would also like to ensure that our children and other family members receive a full inheritance. What are our options?

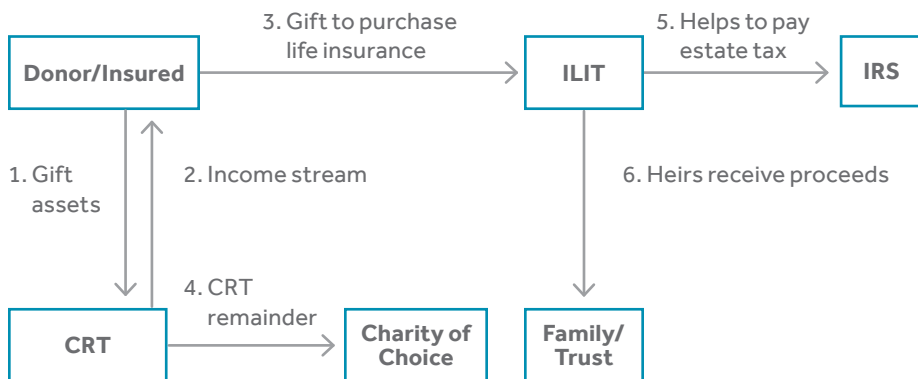
A type of “split interest” trust, the Charitable Remainder Trust may be established to benefit the charity of your choice. A CRT may be designed to provide you with a stream of income from the trust for a period of years up to 20 or for a lifetime, and the charity receives the remainder of the money upon your death.

Importance —

1. You receive a charitable income tax deduction for your contribution to the CRT to create a social legacy.
2. There are a number of variations that can be used to design a trust that is tailored to your individual situation.

Donors often create an Irrevocable Life Insurance Trust (ILIT) and fund this with some or all of the CRT income stream to replace funds donated to the charity for other heirs or family members.

How a CRT works



A variety of other types of trusts and combinations of planning techniques can provide you with a sustainable strategy to preserve and pass on wealth within a number of personal or business scenarios. Some of these include an Intentionally Defective Grantor Trust, often used for highly appreciating assets; a Qualified Personal Residence Trust, for passing on family homes outside of the estate; and Grantor Retained Annuity Trusts, a type of split interest trust that enables you to remove the asset from your estate, but benefit from an income interest.



Gifting as a strategy

Gifting assets while you are living is another way to systematically reduce your estate value and transfer wealth to the next generation. By taking advantage of the annual gift tax exclusion, gifting allows you to pass on a substantial amount to others on a tax-free basis. It also removes the value of the asset and its potential appreciation from your estate. In 2022, individuals may transfer up to \$16,000 in cash or other assets to any number of individuals.

Some gifting options may include:

- Gifts of cash or property
- Payment of life insurance premiums
- Educational accounts or 529 plans

There is also a lifetime gift tax exemption, which may cover a gift made outside of the annual exclusion amount. In addition, payment of another person's qualified medical or educational expenses is not considered a taxable gift, provided that the payments are made directly to the medical or educational provider.

Although charitable gifts are not subject to the annual gift tax exclusion or the lifetime gift tax exemption, they still help to reduce the value of the estate, while also being a benefit to society. Tax deductions are also available. In addition to the CRT strategy, there are other charitable giving techniques which may be advantageous to you and your family:

- Charitable giving
 - Cash or property
 - Charitable gift annuities
 - Donor advised funds
 - Pooled income funds
 - Establishing a family foundation
 - Charitable Lead Trusts
 - Life insurance as charitable gift

The value of life insurance in a financial portfolio

Life insurance is an important and powerful tool in estate planning strategies, and a key asset in any financial portfolio. Permanent (cash value) life insurance provides an income tax-free death benefit that can help sustain a family in the event of premature death, and help recoup expenses that may continue to burden an estate. Additionally, the policy can provide income tax-free growth during the insured's lifetime, and accessible cash values that may be borrowed or withdrawn to help supplement income.³

Various riders and options⁴ can help you create your own custom-designed policy that offers the flexibility to adapt to life's changes. There are many different types of life insurance to choose from. You can choose the policy that is best for you, based on your current and eventual protection needs, budget, and your goals and objectives. Once you have insurance in place, your Guardian Financial Professional will provide you with periodic complimentary policy reviews to help you ensure that your policy continues to perform according to your strategy.

Choosing a company

The company you buy from is as important as your life insurance purchase. When selecting a company, look for one that will be there when needed — a company like Guardian:⁵

- A mutual life insurance company founded in 1860
- Broad portfolio of quality products
- Access to knowledgeable representatives and professionals
- State-of-the-art financial tools

Next steps

Creating and implementing a comprehensive estate plan can seem to be a daunting task. Our professionals and representatives can help you and your other trusted advisors set up an estate planning process that is designed to align your goals and objectives with your individual situation. A good place to start is to complete the simple questionnaire on page 5 of this brochure, then give your Guardian Financial Professional a call.

Take control. Call your Guardian Financial Professional today to get started.

¹ Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

² State creditor protection for life insurance policies varies by state. Contact your state's insurance department or consult your legal advisor regarding your individual situation.

³ Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty. Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

⁴ Riders may incur an additional premium or cost. Rider benefits may not be available in all states. Riders may not be available based on certain risk classes or other criteria.

⁵ Financial information concerning Guardian as of December 31, 2021, on a statutory basis: Admitted assets = \$72.1 billion; liabilities = \$63.5 billion (including \$51.8 billion of reserves); and surplus = \$8.6 billion.

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