



Clarity for Complex Issues™

WHITE PAPER

Trust Mapping or Estate Distribution Overview

BEST PRACTICES



It is critical that you align your client's/family's expectations with the level of overview they want to see.

You may have several versions of the same information to accommodate the family based on the goal of the meeting.

There has been a lot of interest in trust mapping expressed by members on the Family Office Peer Group and Private Trust Company (PTC) Network.

Wellspring Associates is a FOX Thought Leaders Council member and has provided thought leadership on this issue for nearly 40 years. Wellspring would like to share insight with the FOX community on best practices and an example of what a comprehensive trust map could look like. In addition to a list of best practices, an example is provided of a simplified estate distribution summary and also a detailed trust map of the same estate.

BEST PRACTICES IN TRUST MAPPING

(Estate Distribution Summary)

1. Have the chart on one page and in a picture format.
2. Overlay the financial information with the wealth distribution plan.
3. Use colors for the numbers and boxes to denote different aspects of the chart.
4. Build a format that can be extremely detailed or simplified, so you can tailor to your audience (see examples).
5. Determine what information is most appropriate for the purpose of the trust chart. It is common to have several versions for the same family with varying degrees of detail.
6. Create a legend that describes how to read the chart.
7. Do not expect your client/family to completely understand how to read the chart or the volume of information on it without an explanation of how to read the chart. Plan to meet and walk through the document and explain how to use the tool.
8. A well-designed trust map can be used to help the family understand the current plan and also can be used by the planning team to illustrate new planning opportunities that have not been implemented to date.



HELPFUL TIPS

It is critical that you know if the audience wants a high-level overview or if they would prefer to see everything they need for decision making on one page. It is possible to get most everything a family would need for decision making on one page in a picture format.

- > Customize and adapt charts guided by family's needs
- > Custom software is not necessary
- > Families find it helpful and clarifying to have a one-page map for both testamentary trusts and intervivos trusts over-layed together
- > Sometimes the detailed trust maps are used more by the family's advisors as a tool to identify areas of additional planning than the family uses them to understand the current planning in place. Both uses are critical and important.

READING AND DEVELOPING THE TRUST MAP

(See illustrations that follow)

The simplest way to describe the process used by Wellspring is to imagine overlaying the balance sheet of a client or family, onto a one-page graphical representation of how their wealth transfer plan flows based on their current planning.

The referenced map is a generic example for a family who had twenty-five years of planning in place, so there is a fair amount of complexity.

If you take the graphic one box at a time and understand how to read the page, it really is fairly simple.

TIPS FOR READING THE CHART:

This will make more sense if you review the trust chart example while you review the information that follows.



READING AND DEVELOPING THE TRUST MAP *continued*

How to read the simplified Estate Distribution Summary

- > **GOLD BOXES** represent assets and entities like trusts that are in existence currently.
- > **BLUE BOXES** represent trusts or assets that will be there in the future, once a death has occurred and a trust is created testamentary or some assets are moved at death.

The numbers in the boxes have meaning too and are listed in three colors:

- > **BLACK NUMBERS** represent assets that will go through all tax funnels and will be taxed at each generation.
- > **BLUE NUMBERS** represent assets that will skip taxation at the first generation.
- > **GREEN NUMBERS** represent generation skipping assets that will skip taxation at multiple generations.

SEE NOTES AND LEGEND PAGE 5



NOTES AND LEGEND

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Numbers in **BLACK** are part of the taxable estate.

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Numbers in **BLUE** are Estate Tax exempt.

These values are excluded from the taxable estate of the generation shown, but will be included in the taxable estate of the following generation.

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Numbers in **GREEN** are both Estate Tax exempt and Generation Skipping Transfer (GST) Tax exempt.

These values are excluded from the taxable estate of the generation shown and the following generation.

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Assets shown in a **GOLD BOX** are owned by individuals or entities that exist during your lifetime.

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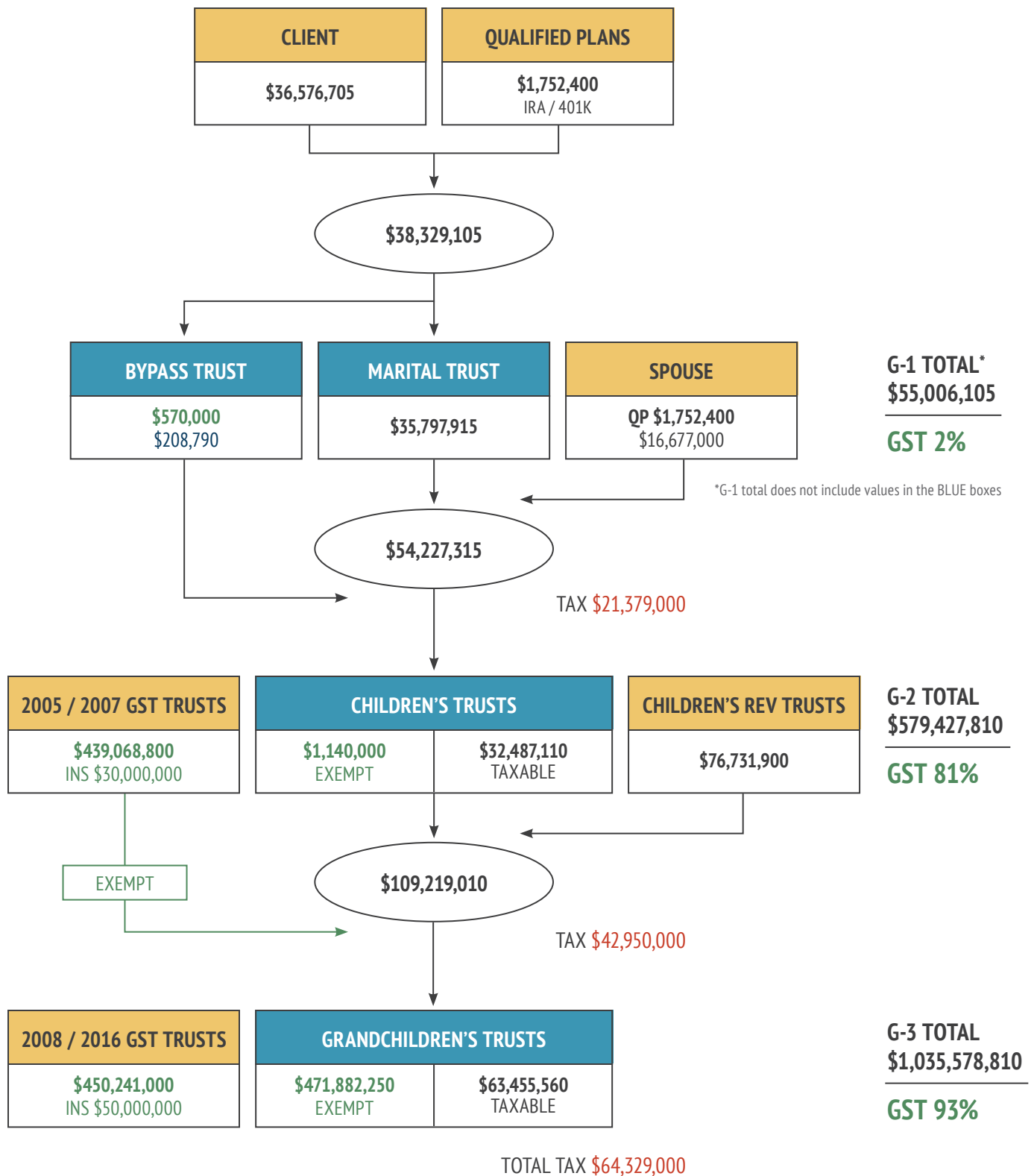
Assets shown in a **BLUE BOX** are owned after death and/or are created within the language of your will at your death.

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Assets shown a **DASHED BOX** have less protection from lawsuits, creditors, and/or divorce.

See important disclosures attached.

SAMPLE MULTI-FAMILY DISTRIBUTION





READING AND DEVELOPING THE TRUST MAP *continued*

Each estate is separated by a tax funnel and the amount of federal income tax is calculated based on current estate tax law.

In the simplified example, the top line has two **GOLD BOXES** which illustrate the client's current assets. The reason there are two boxes and not one box, is that this client has some assets that have already been income taxed and some that have not, like his IRA and 401-K.

Each estate (client, spouse, children, grandchildren) is separated by a tax funnel showing what taxes are due, and the distribution of assets at death.

- > In this example, the will creates the two **BLUE BOXES** on the second line, Bypass Trust and Marital Trust. Assets that currently are owned by the first to die, fund these boxes at death. The **GOLD BOX** on line two shows assets the spouse owns currently and are not transferred at death.
- > At the spouse's death there is a second tax funnel and the projected tax at second death in this example is listed – \$21,379,000.

After the second tax funnel there are three boxes that represent the children's assets (G2).

Of the \$579,427,810 of net worth that G2 has available to them, 81% is GST exempt.

The **GREEN NUMBERS** represent assets that are GST exempt.

The third tax funnel shows the taxes due when the assets move from G2 to G3 – \$42,950,000 in this example. Not a lot of estate tax on \$579,427,810 of G2 assets moving to G3.

The last line on the chart shows the assets available to G3 after estate tax – \$1,035,578,810: 93% of this amount is GST exempt.



READING AND DEVELOPING THE TRUST MAP *continued*

On one page, here is a sample list of some of the information that is illustrated:

- > TOTAL NET WORTH BY DOLLAR AMOUNT AND PERCENTAGE FOR EACH GENERATION
- > TAXABLE NET WORTH FOR EACH GENERATION
- > HOW MUCH TAX IS DUE AT EACH GENERATION BASED ON CURRENT ESTATE TAX LAW
- > THE VALUE OF ASSETS WHICH ARE GENERATION SKIPPING TAX (GST) EXEMPT
- > AMOUNT OF LIFE INSURANCE CURRENTLY IN FORCE
- > WHICH ASSETS ARE CURRENTLY AVAILABLE (**GOLD BOXES**) AND WHICH ONES WILL BE AVAILABLE IN THE FUTURE (**BLUE BOXES**)
- > WHICH ASSETS WILL BE TAXED AT EVERY GENERATION (**BLACK NUMBERS**)
- > WHICH ASSETS WILL SKIP ONE GENERATION OF ESTATE TAX (**BLUE NUMBERS**)
- > WHICH ASSETS WILL BE GENERATION SKIPPING AND SKIP MULTIPLE GENERATIONS OF TAX (**GREEN NUMBERS**)

In the simplified Estate Distribution Summary one can see that a family with a 10-figure net worth has reduced its total estate tax down to \$64,329,000 and positioned 93% of the assets into GST trusts.



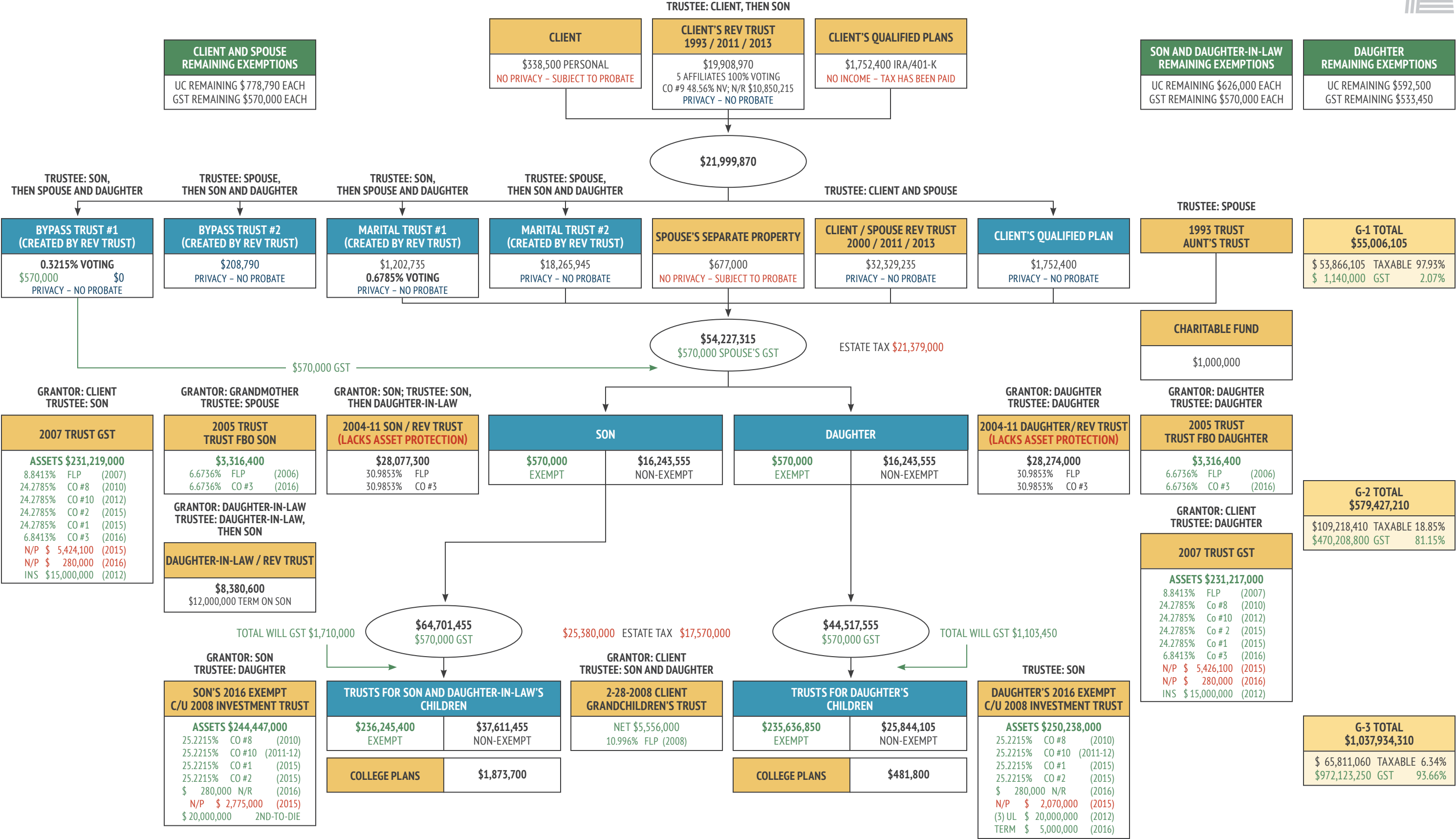
READING AND DEVELOPING THE TRUST MAP *continued*

For some meetings it is helpful to have more detailed information. In the expanded trust mapping chart, the following information has been added to the information already available from the simplified format:

- > Each trust broken out and displayed
- > For each trust you can find the following information on one page:
 - The name of the grantor, trustee, and beneficiary
 - The year was the trust created/modified
 - The specific assets in the trust not just to the total value of the trust
 - The year the assets were added to the trust
 - How each trust is taxed, the tax status of the trust (grantor/non-grantor)
 - Cash flow needs for trusts when appropriate (servicing notes or life insurance payments)
 - Which trusts are revocable and which ones are irrevocable
- > Which assets are subject to probate and which ones are exempt from probate
- > The value of assets protected from divorce, creditors, liens, etc. vs. which assets are unprotected
- > How much Estate Tax Exemption and Generation Skipping Tax (GST) exemptions are available to use for future planning (**GREEN BOXES**)
- > On the right side of the chart (**YELLOW BOXES**), we have generational totals of net worth and how they are taxed and what percentage is subject to future transfer tax

This additional information can aide the family's advisors as they look for future planning opportunities and can help the family see how trusts are different from each other and what role they play in the overall plan.

SAMPLE MULTI-FAMILY ESTATE DISTRIBUTION





SUMMARY

The goal is to have one-page picture that gives as much information as is needed for a review of what is currently in place, or for a meeting to discuss what future planning makes sense to consider.

Having everything on one page makes it easy to compare a current situation to a revised situation when deciding if you want to implement new ideas into the current plan.

The expanded chart has the ability to give a family a great one-page summary of the family's trusts and also a tool to identify future planning opportunities.

Once you understand the flow and what the colors mean, these are easy charts to understand, but you have to take it one box at a time and make sure you understand the flow of information and how the chart is set up.

Once the flow is understood, this becomes an invaluable tool for identifying new planning opportunities and also understanding what your current situation is with respect to asset protection, potential taxes due, and who gets what and when they get it.

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