

Maine Values



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Estate Tax Law Changes Heighten Interest in Estate Planning

Time to Address Your Estate Plan

"In this world nothing can be said to be certain, except death and taxes."

– Benjamin Franklin, 1789

Actually, when it comes to death and taxes, the other clear-cut certainty is change, particularly now that a new federal administration has assumed office. As a result, expect changes to current federal estate tax law. If you have a substantial estate, now may be a good time to review – and potentially change – your estate plans.

Post-2001 Estate Tax Law

The 2001 tax act progressively raised the estate tax exemption, from \$1 million in 2002 to \$3.5 million in 2009, sharply reducing the number of estates that need to pay taxes. For example, only about 38,000 estate-tax returns were filed in 2007, compared with 49,050 in 2006, according to the IRS.

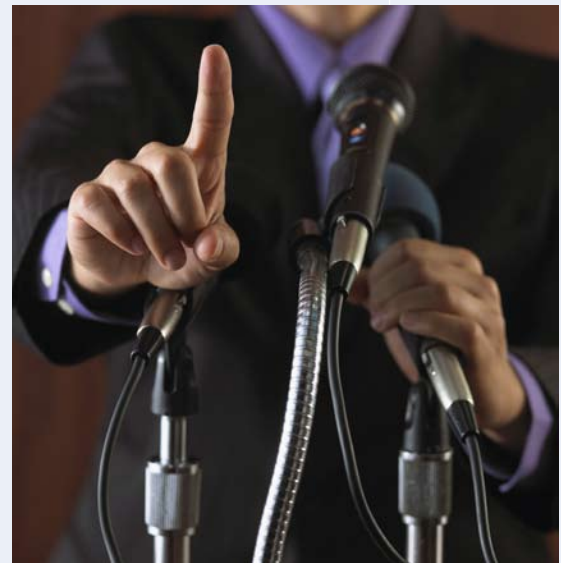
In 2010, the federal estate tax is repealed for a single year before reverting in 2011 to pre-2001 levels: a \$1 million exemption and 55% maximum tax rate. While some individuals jokingly suggest that their "estate plan" is to pass away during 2010, the more plausible scenario is to prepare a plan that meets the needs of your heirs, and is based on current and future estate tax law.

Obama and Estate Taxes

During his campaign, President Obama supported permanently keeping the estate tax at 2009 levels: a 45% maximum tax rate on estates valued at more than \$3.5 million. He also favored making the estate tax exemption transferable from one spouse to another, essentially doubling the tax-exempt amount for the surviving spouse.

As the president and Congress determine future estate tax law changes, consider the following:

- **Start defining your estate plans now.** Following the 2001 tax act, many people delayed long-range estate planning under the false hope that estate taxes might disappear altogether. That's highly unlikely.



- **Don't count on zero estate taxes in 2010.** With the size of the current budget deficit, the 2009 Congress will likely not allow billions in potential revenue to go uncollected.
- **Prepare for a revised estate tax exemption.** Whatever the future level of the estate tax exemption, you should be prepared accordingly. For example, if you believe your estate will be taxable, consider setting up an irrevocable life insurance trust to provide cash for taxes.
- **Consider making gifts out of your estate.** With stock and real estate prices depressed, now may be an ideal time to make gifts of these assets. Any future appreciation will then fall to the next generation.

Plan with an Expert

Given the probable complexity of new estate tax laws, you'll want to be sure your needs are professionally addressed. Jen Schumacher has the estate-planning and tax expertise you need. Contact her today.

Passing on Values or Ruling from the Grave?

Affluent parents, especially those who earned rather than inherited their wealth, may be concerned about how a large inheritance could affect their children's future. Will they squander the money? Will it remove the motivation to work and contribute to society?

An incentive trust may ease those worries by directing that money be disbursed from the trust only if the beneficiaries meet certain goals. However, it could also cause bitter feelings on the part of the heirs.

About Incentive Trusts

An incentive trust is a trust that requires the beneficiary to achieve a goal or avoid certain behaviors in order to receive a distribution from the trust. The grantor sets up the distribution guidelines, and the trustee is responsible for following them. According to one survey, about 30% of wealthy Americans include incentives in their estate planning strategies.*

An incentive trust can be based on almost any requirement, as long as it isn't illegal. It can be as simple as stating that the beneficiary must reach a certain age before receiving any money, or it could:

- **Promote education.** The trust may direct that the beneficiary complete a college degree. *Caution:* A trust that is too restrictive in terms of education and/or grades may not take into account an heir's unique talents and abilities.
- **Encourage a specific career.** The trust could stipulate that the beneficiary choose a career in the family business or a profession such as attorney or doctor. *Caution:* Forcing a role in the family business could hinder a child's initiative in pursuing his or her own professional interests. Focusing on high-paying careers could punish heirs who choose less-lucrative but altruistic lines of work, such as teaching, social work or nursing.
- **Discourage certain behaviors.** Trusts can be structured to deny payments to a beneficiary who exhibits unhealthy or destructive behaviors, such as smoking or abusing alcohol or drugs. *Caution:* It may be wiser to reward desirable behavior rather than punish poor judgment.

Creating a Balance

If you do choose to create an incentive trust, it's best to anticipate life's inevitable changes and allow the trustee some discretion. An overly rigid trust could deny an inheritance to a child who fails to complete college due to illness or injury, or one who chooses to be an at-home parent rather than pursue a paying job.

Consider allowing the beneficiary to petition the trustee for distributions in special circumstances, such as to help finance a new business venture, pay for uncovered healthcare



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expenses or cover living costs during an involuntary layoff. By including some flexibility in the trust documents, you can help foster your values without ruling from the grave.

Put Your Trust in Us

Crafting an estate plan that achieves your goals for your heirs without creating resentment can be a challenge. Jen Schumacher can work with you and your estate planning attorney to develop a plan that is appropriate for you and your family. Call us today at **1-888-725-2207**.

* Source: PNC Wealth Management, press release, May 14, 2007, www.pnc.mediaroom.com.



Test Your Estate Planning Knowledge

Estate plans aren't just for the rich and famous. If you own any assets, it's important to develop an estate plan to ensure they are distributed according to your wishes. Take this quiz to see how much you know.

1. A will is required to:

- a. Name guardians for your minor children.
- b. Pass along real estate.
- c. Determine who gets your life insurance proceeds.

2. In order for a will to be legally binding, it must be:

- a. Drawn up by an attorney.
- b. Signed and witnessed.
- c. Registered in your state.

3. If you leave your retirement plan to your son in your will, but your daughter is the beneficiary of record with your employer, who inherits the account balance upon your death?

- a. Your son.
- b. Your daughter.
- c. It's split between the two.

4. What is the total amount of assets that you can leave to your spouse without triggering estate taxes?

- a. \$1 million
- b. \$3 million
- c. Unlimited.

5. What is the estate tax exclusion amount for 2009?

- a. \$3.5 million.
- b. \$5 million.
- c. There is no estate tax in 2009.

6. In order to assure that your wishes regarding your medical care are followed if you are incapacitated, you should:

- a. Include instructions in your will.
- b. Complete advance directives.
- c. Tell your doctor.

7. What are some of the advantages of a trust as an estate planning tool?

- a. Avoids probate.
- b. In some cases, can minimize or eliminate estate taxes.
- c. Both a and b.

We'll Help You Get a Passing Grade

Our trust professionals can work with your attorney to help you craft an appropriate estate planning strategy. For more information, call 1-888-725-2207, stop by your local branch or visit www.norwaysavingsbank.com.

Note that neither this financial institution nor any of its affiliates give tax advice. Consult your tax advisor or attorney for information specific to your situation.

Answers

1. **a)** You need a will to name guardians for your minor children. You may also use your will to name beneficiaries for your property, but it is not necessary if the property is titled properly. Life insurance proceeds go to the named beneficiary on the policy, regardless of the contents of the will.
2. **b)** You do not need an attorney to draw up your will. You can do it yourself or with the aid of online software. However, if you have a complicated estate or significant assets, it may be wise to enlist a professional. Wills do not need to be registered. Once your will is signed and witnessed (your state may have specific rules about who can witness the will), simply keep a copy in a safe and accessible place. You may also want to give copies to your executor (personal representative) and attorney.
3. **b)** Beneficiary designations on retirement plans, annuities and life insurance policies supersede will instructions, so it is important to make sure that your documents are consistent and reflect your current wishes.
4. **c)** You can leave an unlimited amount to your spouse as long as he or she is a U.S. citizen.
5. **a)** The estate tax exclusion in 2009 is \$3.5 million. Estate taxes will be repealed in 2010. However, unless new legislation is passed, estate taxes will be reinstated in 2011 with an exclusion of \$1 million.
6. **b)** It's too late to include wishes for medical care in your will, since your will goes into effect only after your death. To ensure that you receive the kind of care you want, complete a living will and a health care power of attorney. State-specific forms generally are available free from your state's department of aging, your doctor or your local hospital.
7. **c)** A trust can allow you to pass along assets without going through probate (the legal process of proving a will, which can be lengthy and expensive). Depending on the type of trust, you may also be able to minimize estate taxes, control the disbursement of assets to beneficiaries and even draw income from the trust while you are alive.

Your score:

- 6-7 correct** You're an estate planning whiz!
- 4-5 correct** You may want to review your estate plan and beneficiary designations soon.
- 3 or fewer** Meet with an estate planning professional today.

Keeping a Level Head

Don't Let Financial Anxiety Throw You Off Course

Volatile markets, government bailouts and rising unemployment headline the news. It's no wonder even the most stalwart investor may have a challenging time preventing financial anxiety from setting in. However, it's exactly the time not to make hasty, major decisions.

Avoid overreacting. Panic rarely makes a situation better – especially when it concerns money. Take a deep breath and this opportunity to re-evaluate your own circumstances. Investors who sell now are only locking in losses. If your investments are diversified across a wide range of industries and sectors and different asset classes, your portfolio may weather the market's volatility more readily.*

Add to your emergency fund. A rainy day, unfortunately, is in the forecast. Investors may be recovering from 2008 for some time. If you don't already have an emergency fund of three to six months of living expenses in a cash account, start one. If you have one, consider beefing it up.

Reassess your tolerance for risk. If you haven't evaluated your risk tolerance in more than a year, now would be a good time – especially if you are not sleeping at night. Consider taking a risk tolerance quiz available from your retirement plan sponsor or on many financial web sites, such as <http://moneycentral.msn.com>.** If you feel you have taken on too much risk (or, in some cases, not enough) for your financial goals, consider rebalancing your portfolio.

Review asset allocation. Dividing your money among the major asset classes of stocks, bonds and cash equivalents helps to balance risk and reward. If you originally selected investments to weight your portfolio in certain percentages – for example, 75% in stocks, 20% in bonds and 5% in cash – the market's recent volatility may have upset your original intentions. Consider rebalancing as necessary.

Keep on investing. Look at your investment timeline. If you have at least a five-year time horizon or longer until you need to start tapping your retirement funds, you should continue investing. Ongoing participation in your employer-sponsored retirement plan is an excellent strategy for staying the course. This practice of systematic investing, or



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dollar-cost averaging, can help you make market lows work in your favor because you are buying more shares when prices are down.***

We're Here to Help

Keep in mind that historically markets do recover over time and if you are able to have a long-term financial outlook, your investments are likely to come back.[†] Contact an investment professional from Norway Savings Bank for a free portfolio review.

* Diversification does not guarantee a profit or protect against loss in a declining market.

** Web site provided for information only; no endorsement is implied.

*** Dollar-cost averaging does not guarantee a profit and cannot protect against a loss in a declining market. You should consider your ability to continue investing through prolonged periods of fluctuating price levels.

† Past performance is not an indication of future results.

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