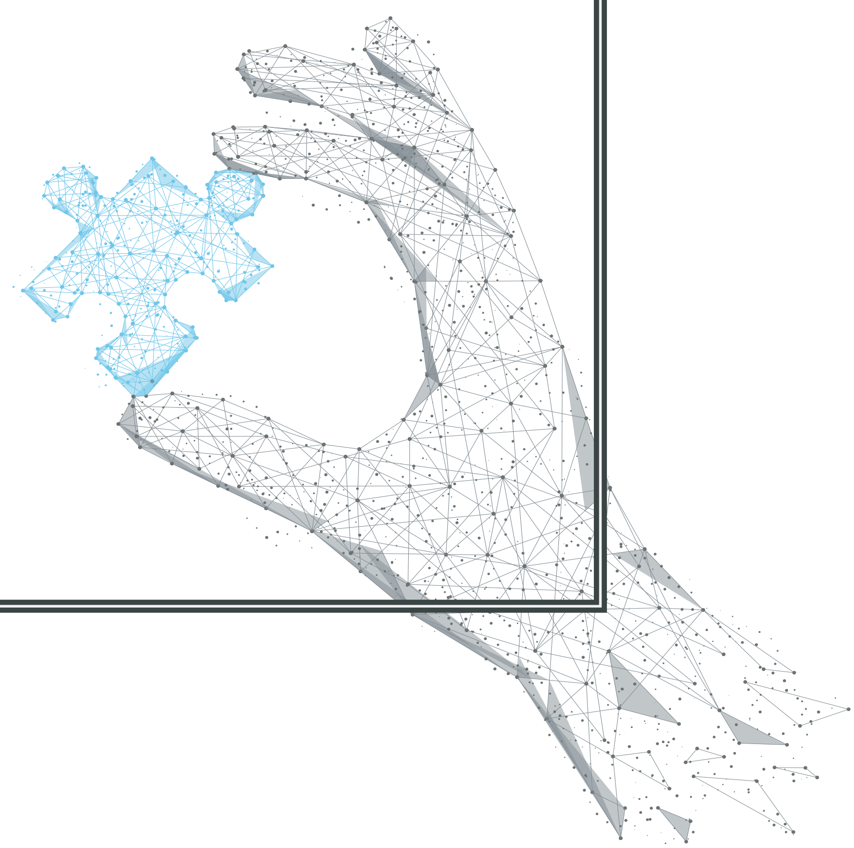
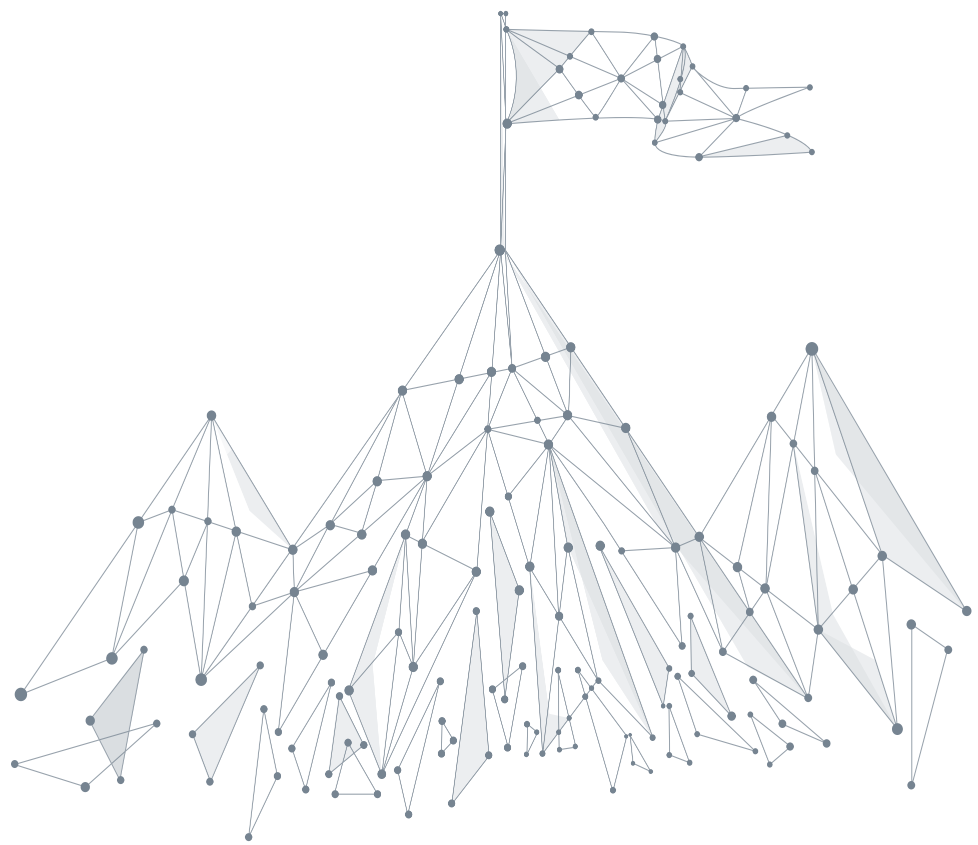
MANAGING SIGNIFICANT WEALTH EVENTS



One conversation can change everything . . .



Beginning with the end in mind . . .

Congratulations!

A significant wealth event often represents an opportunity for new choices, experiences and privileges. At the same time, there can often be challenges from added layers of complexity connected to the legal, tax and potential family dynamics elements.

Fortunately, if properly addressed and anticipated, the negative impact of these challenges can often be minimized or eliminated altogether with planning.

The great thing about engaging the planning process early, with the right team, is that the process will create more time and choices. Time to adjust, fine tune each element of the plan or time to change your mind. Ultimately, the earlier the planning process begins, the greater the options there are to consider.

The following is a summary of helpful tips on preparing for the event, deciding what is important to you, assembling your professional team, and creating a wealth management plan all leading to enjoying your wealth in a manner that works best for you, your family and the things you care about.

THE FIRST STEPS

THINK BIG PICTURE & TAKE CONTROL

The first step is to pause and take a breathe. Take a step back, think about the big picture. Will this be life changing? If so, why? Who will you share it with? What can you change? What do you care about? What do you want to accomplish with your wealth?

This is the time to dream, not act. Make a wish-list. If you think it, write it down. Get it all down on paper. Consider the short term (immediate needs/toys), medium term (where do I want to be in three years) and long-term goals (can I create a legacy.)

Also, learn the phrase "No." This is the time for taking control not taking action. Although, there may be decisions you will need to make shortly, there will be plenty of others that can be delayed.

Every journey begins with a single step . . .

DRIVER VS. PASSENGER

It is your wealth and your life; your advisors work for you. You are in charge, and you call the shots; you are the driver. On the other hand, most individuals are not comfortable or knowledgeable with the tax code, laws and/or the planning strategies to make smart decisions. In this instance, you need to rely on your team to guide you; you are the passenger.

Be the driver when it comes to your goals, wishes and vision. Sometimes, well-meaning professionals may place a higher emphasis on form over function. A sophisticated strategy may result in the best mathematical solution to a tax or financial issue, but if it compromises your vision then it does not work. There should always be balance between an academic solution and reality. Wealth Management can be both sophisticated and simple. (One conversation can change everything . . .)

Likewise, as the driver, setting expectations and being vocal about what you want matters. How often to meet, best ways to communicate and establishing the level of detail should all be part of the process.

Equally, there are times where you should be the passenger. There is a reason why you are hiring talented professionals. They have decades (or should) of applied knowledge and experience in their respective field. As the passenger, your part is to focus on the destination while your team's role is to figure out the best way to get you there.

GET HELP

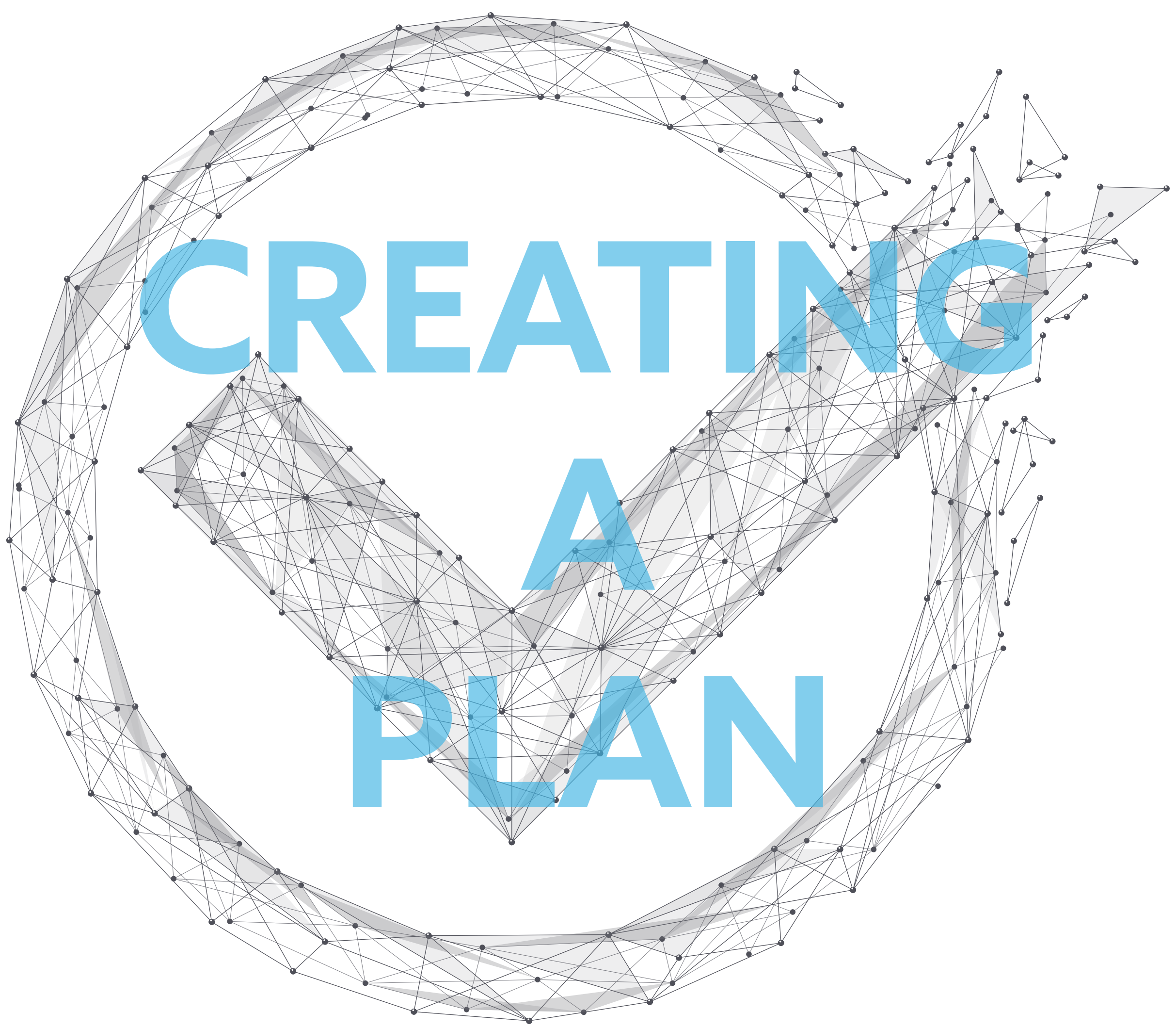
By definition, wealth management is not one dimensional. It is a team sport. It requires multiple interdependent professionals and services that need to be coordinated. (e.g., Wealth Managers, CPAs & Tax Attorney, Estate Planning Attorney and/or Asset Protection Attorney)

The best ingredients do not always make the best meal. You can have the best advisors in their respected field, but if they do not communicate, play well together or have a clear leader it can be a mess. Together, wealth management, risk management, legal counsel, and tax professionals can provide multiple perspectives. One team . . . one focus.

A good advisor team eliminates blind-spots and helps the client make highly informed and balanced decisions about the most important things in their life. Solutions to complex challenges are often simplified when all of a clients' advisors are all working together sharing a common goal for their client.

Advisors Types		
Asset Manager	Financial Advisor/Planner	Wealth Manager
An asset manager focuses on investments which are the best-suited to your financial situation. They will help you with things like asset allocation or choosing how to divide your investable assets among different asset classes. Namely, this entails determining what percentage of your portfolio should be growth products, like stocks, and what percentage should be fixed-income products, like bonds.	A financial advisor helps clients with a wide range of financial services. Advisors typically do financial planning and investment (asset)management.	Wealth managers are a subset of financial advisors. Their clientele are one of the things that set them apart from other advisors. Wealth managers primarily serve high-net-worth and ultra-high-net-worth individuals. They offer services/solutions beyond investment (asset) management and financial planning.

"Talent wins games, but teamwork and intelligence wins championships." - Michael Jordan



A goal without a plan is just a wish. - Antonine de Saint-Exupéry

Once the team is set and you have outlined what is important to you, it is time to create a wealth management plan. A qualified Wealth Manager can often lead the charge by quarterbacking the team in identifying, clarifying and mapping out your plan. (See Page 9)

A comprehensive wealth management plan should start with three questions: (1) who you are, (2) what you care about and (3) what you want to accomplish. From there, a comprehensive plan will balance all the other aspects of wealth:

- ☑ ***Legal documents** (wills/trust) – The foundation of every plan. They need to be current and reflect your wishes.*
- ☑ ***Taxes** – It is not what you earn, it is what you keep that matters most. (Tax aware vs. Tax Driven)*
- ☑ ***Asset Inventory** – How they are owned/titled, located and making sure they are aligned with your goals &objectives.*
- ☑ ***Cash flow needs for today and tomorrow** - Lines of credit, liabilities and obligations & all income sources.*
- ☑ ***Wealth Transfer and Coordination** – The process of understanding, planning, building & sustaining wealth while maintaining family harmony with the added benefit of minimizing the effect of taxes.*
- ☑ ***Family Dynamics** – Are there any special issues/concerns, health issues and/or dependents.*
- ☑ ***Risk Management** – Protecting your family and what you own.*
- ☑ ***Social and Philanthropy** – What impact do you want to have today and tomorrow?*
- ☑ ***Wealth Fortification** – Structuring assets in such a way they are less desirable to creditors.*

However, in most significant wealth events, generally, the first immediate hurdle in the planning process following an event is dealing with TAXES.

In nearly most situations, TAXES represent the largest financial impact on a significant wealth event. (See Below) During the period approaching and immediately after the event, there are multiple tax and wealth planning opportunities that may result in significant tax savings.

- » Capital preservation and future growth on proceeds
- » Maintaining ongoing tax efficiencies (Income and Estate/Transfer)
- » Effective and efficient transfer of Wealth to heirs and causes
- » Wealth fortification from lawsuits, creditors and fraud
- » Comfort and Well Being

Again, actions taken before the event can not only enhance the net proceeds received from the deal, but limit possible dissatisfaction, stress and other issues associated with the event.

THE LAUNDRY LIST OF TAXES*

Top Federal Marginal Rate for Ordinary Income	*37%*
Top Federal Capital Gains Tax Rate	*20%*
Federal Medicare Tax on Net Unearned Income	*3.8%*
Additional Federal Medicare Tax on Wages and Self Employment Income	*0.9%*
Real Estate Depreciation Recapture on Real Estate used in a Trade/Business	*25%*
State Income Tax Rate	*TBD*
Federal Estate/Gift Tax	*40%*

* - Under Tax Cuts and Jobs Act (TCJA) of 2017, expiring 2025

An hour of planning can save you ten hours of doing. - Dale Carnegie

An hour of planning can save you ten hours of doing. - Dale Carnegie

THE PLANNING PROCESS

Providing comprehensive wealth management service and guidance for you, your family and/or your causes requires a very orderly approach. It incorporates a number of steps that have been refined over time that helps provide a clear path to achieving your goals and objectives.

After discovering your who and what, the plan's goal is to balance the appropriate techniques and customize them for your specific goals & objectives.

PERSONALIZED GOAL PLANNING	**1**	It all starts with three questions: (1) Who you are; (2) What do you care about; and, (3) What do you want to accomplish? From here, we visually map out and test that the plan will work for both today & tomorrow.
LIVING & COMPLETE BALANCE SHEET	**2**	Establish a current Asset Inventory statement reflecting all assets, liabilities and cash flows making sure nothing is left on the table or ignored.
THOUGHTFUL PLANNING	**3**	Confirming that your personal legal documents (Will/Trusts) will do what you want and truly reflect who you are today. A second set of eyes to confirm the math, tax and people issues. Including charity as warranted.
APPROPRIATE ASSET ALLOCATION	**4**	Portfolio reviews to ensure your asset allocation aligns with your short, medium and long term goals.
STRATEGIC TAX PLANNING	**5**	Are all deductions and gifting strategies being used? It is not about what you earn, it is about what you keep. Remaining tax aware not tax driven.
PROPER RISK MANAGEMENT	**6**	Reviewing what you own, how you own it and how it is titled. Evaluating insurance policies and coverages.
EFFECTIVE BUSINESS PLANNING	**7**	If you own a business, exploring ways to build, expand or even monetize the business. Review who and what's next and testing the planning.
TEAM COORDINATION	**8**	Making sure all professionals (CPA & Attorneys) are working on the same page in pursuit of the same goals: yours and your families. Periodic meetings for all.

"Plan for the future because that's where you are going to spend the rest of your life" - Mark Twain

POST EVENT PLANNING - BLUNTING THE IMPACT OF INCOME TAXES (SAMPLE)

A Charitable Lead Trust is an effective planning technique for an individual to leverage their generosity while producing tax savings that benefit both the individual's favorite charity and their heirs.

A Charitable Lead Trust is a split-interest trust that provides a guaranteed annuity payment to one or more charitable beneficiaries, like a public charity or private family foundation, chosen by you during your life (inter vivos). The payments to the charitable beneficiary (the "Lead") are made for a specified period of time, and at the end of that time, the remaining principal will be paid/held for a named non-charitable beneficiary such as yourself, your children, grandchildren or trust for their benefit.

HERE'S HOW THE STRATEGY WORKS:

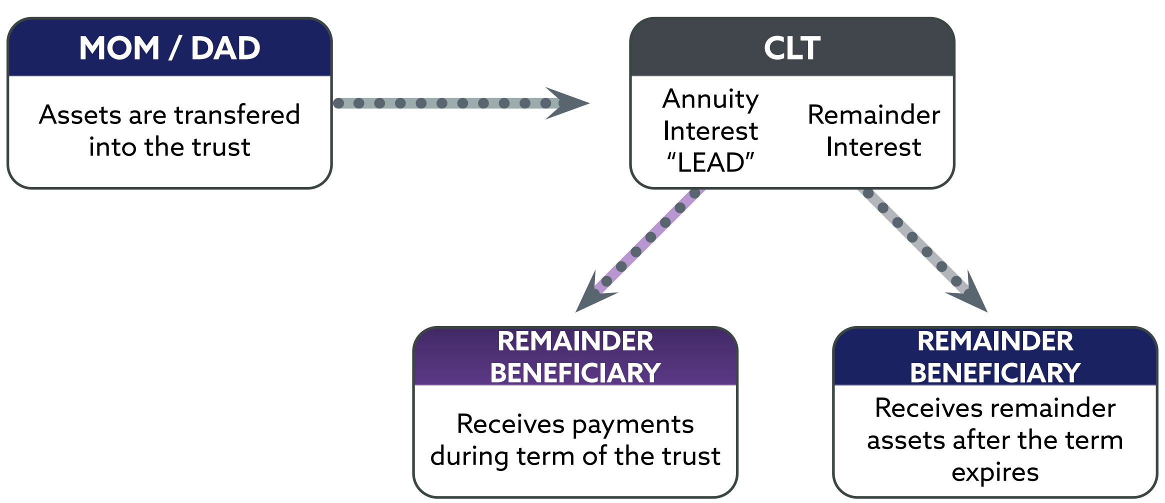
1. Establish Trust: Donor(s), with the assistance of an attorney, established a charitable lead trust (CLT).

2. Transfer Asset: Donor(s) transfers/gifts property to the CLT and the Charity (can be multiple charitable organizations including a Donor Advised Fund) is entitled to receive a stream of income payments equal to a fixed percentage based on the asset contributed for a specified term.

   When structured as a Grantor Trust, the donor(s) is entitled to receive an income tax deduction equal to the net present value of the annual income stream that the Charity(ies) will receive over the term of the trust while factoring in the prevailing IRS rate (AFR). The donor will also be taxed on the annual trust income recognized.

   If the trust is established as a Non-Grantor trust, the trust is entitled to an annual income tax deduction equal to the amount paid out to the charitable beneficiary each year, and will be taxed on the annual trust income.

3. Termination: When the CLT term ends, the remaining assets inside the trust will go back to the donor(s) or to the donor's designated heirs.



"Helping people doesn't have to be an unsound financial strategy." - Melinda Gates

CHARITABLE LEAD TRUST (Post Event)

Following the sale of their business and not needing all the proceeds to live on, the Grantor(s) transfer $2MM into a Charitable Lead Trust. The Grantor(s) decide to establish the trust with a 6.5% payout rate and a term of 7years. Based on the Government's rate (AFR), the Grantor(s) will be entitled to a deduction of ~$768,862 in the year the CLT is established.

Over the next 7 years, the CLT will make annual $130,000 contributions to a Donor Advised Fund. (The DAF will be required to benefit the Grantor(s) multiple charitable organizations)

At the end of the 7th year, the remaining CLT assets, ~$2MM, will revert back to the Grantor(s). (The Grantor(s) will be responsible for the income tax inside the CLT)

CHARITABLE LEAD ANNUITY TRUST (Grantor Trust)

Sample Payout & Remainder Interest

Type of Calculation:	Term	Total Assets Value:	$ 2,000,000
Section § 7520 Rate (120%):	4.40%	Length of CLAT:	7 Years
Section § 7520 Rate Date:	May-2023	Total Number of Payments:	7
Annual Growth Rate:	3.25%	Increase Rate:	0%
Annual Income Rate:	3.25%	Annuity Payout Rate (Increasing):	6.50%
Total Return on Principal:	6.50%		
Type of Payment:	Fixed	Annuity/Charitable Payment:	$ 130,000
Payment Timing:	EOY / Annual	NPV (Deduction)	$ 768,862

HYPOTHETICAL GROWTH

Year	Age(s)	Nominal Principal (BOY)	Estimated Income 3.25%	Estimated Growth 3.25%	Asset Values (EOY)	Required Gross Annual Payout for Chartable Purpose
1	56 - 51	2,000,000	65,000	65,000	2,000,000	130,000
2	57 - 52	2,000,000	65,000	65,000	2,000,000	130,000
3	58 - 53	2,000,000	65,000	65,000	2,000,000	130,000
4	59 - 54	2,000,000	65,000	65,000	2,000,000	130,000
5	60 - 55	2,000,000	65,000	65,000	2,000,000	130,000
6	61 - 56	2,000,000	65,900	65,000	2,000,900	130,000
7	62 - 57	2,000,900	65,930	65,029	2,001,859	130,000

NPV on Total Payments ≈ Charitable Deduction $768k

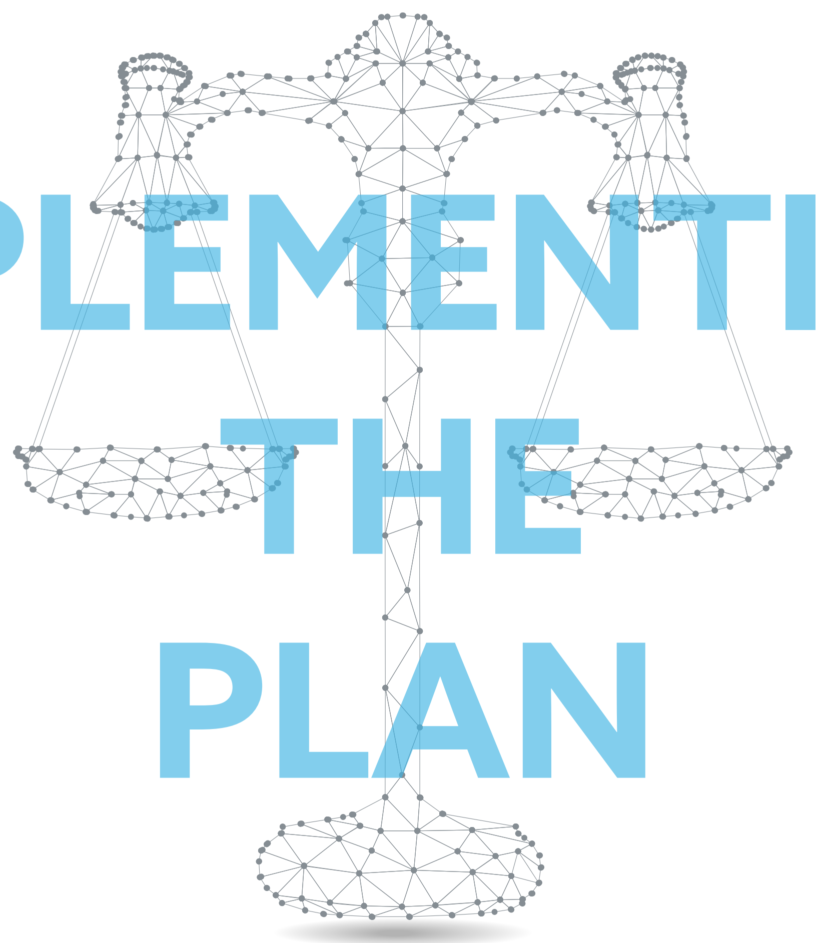
Amount to revert back to Grantor

Maximum Deduction

To Charity $910,000

"No act of kindness, no matter how small, is ever wasted. - Aesop

IMPLEMENTING THE PLAN



"A good plan is like a road map: it shows the final destination and usually the best way to get there." H. Stanley Judd

SPEND WISELY & STAY ON TRACK

The most important item to remember in staying a "winner," is to ensure the event proceeds are put to good use. That they are employed to provide for your individual needs and goals for both today and tomorrow.

From there, the fun can begin (still within limits and still not saying "yes" to everything and everyone.)

THINGS CHANGE, PEOPLE CHANGE & TAX LAWS CHANGE

Periodic team meetings, tweaking planning documents (wills/trusts), investment strategies, tax mitigation planning are all required elements an nothing is truly set it and forget it when it comes to managing wealth. As the saying goes: "even the best laid plans . . ."

In the end, it is about balancing all of what you have, how you own it and what you can accomplish with your wealth.

DISCLOSURES

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ed Funds: Donors are urged to consult their attorneys, accountants or tax advisors with respect to elating to the deductibility of various types of contributions to a Donor-Advised Fund for federal and state ses.

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The best way to predict the future . . . is to create it! - Abraham Lincoln & Peter Drucker