
September 20, 2009

Mr. and Mrs. Paul Rivers
2007 Countryside Road
Bloomington, IN 46992

Re: Your Estate Plan

Dear Paul and Angela:

In the following memorandum, I have made a review of the information you shared with David Duncan concerning your estate. I have listed the estate data and then presented some ideas for consideration in working with your legal and tax counsel. It is our objective that your plan express your present desires for the management and distribution of your estate, and do so in the most efficient and cost effective manner.

The information provided in this memorandum is presented as an educational guideline for the design of the estate plan, and should not be interpreted as legal advice. You will want to consult your own legal and tax advisers to verify its applicability to your specific circumstances.

In the following pages, we will

Personalized Estate Design
Prepared for:

Mr. and Mrs. Paul Rivers

Presented by:
David Duncan

for
Sherwood Oaks Christian Church



- Present a spiritual framework for the estate design,
- Create a summary, in diagram form, of the proposed estate design,
- Review the distribution and tax savings which result from the planning,
- Provide a more complete discussion of each planning step, and
- Outline the steps which are necessary to implement the plan.

After you have reviewed this memorandum, we welcome the opportunity to discuss it with you and to answer any questions you may have.

However, if this memorandum correctly expresses your desires, you may take it directly to your attorney for review, recommendations, and the drafting of the estate instruments.

Thank you for allowing me this opportunity to be of service on behalf of Sherwood Oaks Christian Church.

Your friend,

Ray Lyne
Estate Design Services

RL:g

NOTES



SPIRITUAL PARADIGM

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SPIRITUAL PARADIGM

We are committed to the concept that *Estate planning is spiritual before it becomes mechanical.*

It is not just wills, trusts, property ownership and taxes.

The mechanics are important, but only when built on the foundation of God's (as owner) plan of stewardship (our responsibility to Him) for the estate which He has entrusted to us.

The second spiritual commitment is that *People are more important than dollars.* The protection of family relationships should be secondary only to God's plan of distribution.

The following parable is our attempt to set the spiritual framework for our estate design. It is followed by a series of questions related to paradigm changes and spiritual considerations.

We trust you will find this to be a valuable pre-design exercise.

NOTES



THE PARABLE OF THE APPLE ORCHARD

In the beginning, God created the apple tree. He said to man, “This is my tree. I’m going to teach you how to fertilize it. I’ll teach you how to prune it. I’ll send the sunshine and the rain, and together we will grow a beautiful apple tree.

“When the tree matures, it will produce red, shiny apples. When you take your first bite, you’ll say, ‘Wow. That is a delicious apple.’ Inside, you’ll find seeds. I will teach you to take those seeds and plant them. And it won’t be long until you will have a beautiful apple orchard producing red, shiny delicious apples.”

And man did as God had instructed. He pruned, fertilized, and God sent sunshine, rain and His blessing.

You and I know that as stewardship.

I grew up believing that stewardship was what I gave. I was 47 years of age before I

realized that stewardship is not giving. Please don’t misunderstand, giving is something a steward does. But giving will never make us a steward. We only become a steward when we realize who owns the apple tree, and what our relationship is to that tree.

Man and woman had children, and they disciplined their children to grow their own apple trees. It wasn’t long until they had a country of beautiful apple orchards producing red, shiny delicious apples.

But man began to argue with other men about whose trees would be picked by whom. And other nations became jealous of the way God had blessed the country. And they began to build armies to take over the country.

And God said, “It’s not good that man should operate this way.” So He sent kings and judges to be in charge.

We call that government.

NOTES



THE PARABLE OF THE APPLE ORCHARD

The kings did their jobs. . .they built armies to protect their country.

The judges did their jobs. . .they decided whose trees would be picked by whom.

And peace returned to their country.

When peace had returned, the kings and judges came to man and said, “Man, we need some apples to finance our operation.”

We call this income tax.

And man didn’t like it any more than we do today. But man understood that it took government money to operate.

Man understood that he could live with any income tax system put in place by government, so long as he had enough apples left over to eat. That didn’t mean he would like it, but he could live with it.

Man goes into the apple orchard and picks a hundred bushels of apples. Even though the government takes thirty bushels of apples, he still has seventy bushels left over. And as long as that is enough apples to eat, man can live with that system. Because next year, when he goes back into the apple orchard, he will pick another one hundred bushels of apples.

But there came a government that did not know that God owned the apple trees. We will call that government Caesar. Caesar became more aggressive in demanding apples. And man went back to God and said, “*Please tell me the rules again.*”

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ESTATE DATA



ESTATE DATA - PEOPLE

The people of the estate include both personal and charitable beneficiaries. The following individuals are considered in the planning of the estate:

Paul Rivers

Birth date 10/04/60

Angela Rivers

Birth date 04/06/68

Andrew

Age 11

Son

Tamera

Age 8

Daughter

Nieces and nephews

In addition, the following charitable organizations may be named as beneficiaries of the estate:

- Sherwood Oaks Christian Church
- Christian College
- Foreign Missions

NOTES



ESTATE DATA - PROPERTY

In listing the estate property, I have used current values as provided to me.

These values are used only to make tax projections. Since the actual valuation of the estate will be made at the time of death, the planning options we will consider are presented with the understanding that values will change from time-to-time.

Cash Accounts	\$1,000,000
Home	\$2,000,000
Life Insurance	1,000,000
Stocks, Bonds, Mutual Funds	132,000
Retirement Accounts	200,000
Personal Property	<u>80,000</u>
Totals	\$4,412,000
Less Liabilities	<u>600,000</u>
Net Estate Value	\$3,812,000

NOTES



ESTATE DATA - PLANS

In this memorandum, we will consider the following estate objectives.

- To determine and implement God's plan of stewardship for distribution of the estate.
- To accomplish the estate distribution with the least possibility of interpersonal conflicts within the family.
- To provide protection for the surviving spouse at the death of the first spouse.
- To minimize the costs of estate settlement and taxation.
- To provide for management of the estate in case of mental or physical disability prior to death.
- To protect the estate for beneficiaries named during the lifetimes of both spouses.

- Should death occur prematurely to both parents, to provide for guardianship and administration of property for children.
- To plan for the avoidance of income tax on retirement assets remaining in the estate at death.
- To distribute the estate among your personal and charitable beneficiaries

Your Distribution Plans

The first step in planning is to determine how you wish to divide your estate among your personal and charitable beneficiaries at death, or when all of your beneficiaries have reached an age of financial maturity.

I have found that people are able to plan more clearly if they think in terms of reducing all property to cash and distributing the money among their beneficiaries.

NOTES



ESTATE DATA - PLANS

If death had occurred last night, and your family beneficiaries were financially independent, how would you want your property (cash) distributed among your people (personal and charitable beneficiaries)?

Then, you need to consider how the people and property of your estate may change in the coming years, and how those changes will affect your desires for distribution.

Once distribution decisions have been made, they can probably best be expressed as percentages. By expressing gifts as percentages, the relationship between personal and charitable beneficiaries is maintained, even though the value of the estate may vary.

Typically, percentage distributions will be made at the death of the surviving spouse, allowing the entire estate to be maintained at the first death for the benefit of the survivor.

It is my understanding that you wish for your entire estate to be available to the surviving spouse, at the death of the first spouse.

However, you are giving careful consideration to how you wish to distribute the remainder of your estate at the death of the surviving spouse, or when your children have reached an age of financial maturity.

Your Current Estate Design

Your current estate design relies upon wills to make distribution of assets at the time of death.

There was indication in the information provided to me that your existing documents may not express your current desires for the distribution of your estate.

NOTES



SUMMARY OF PROPOSED ESTATE DESIGN

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SUMMARY PROPOSED ESTATE DESIGN

Since you have not clearly indicated your current desires for distribution of your estate, in the *Proposed Design* we have included discussions to help you make wise decisions.

Without knowing your final distribution desires, in this *Summary* we have illustrated a design to maximize the distribution to your personal and charitable beneficiaries.

We have looked at the specific planning which should be accomplished:

- During your lifetimes,
- At the death of the first spouse, and
- At death of the surviving spouse.

The following chart illustrates the proposed estate design as we begin with the end in mind.

In the following pages we have illustrated a single revocable living trust. If your attorney recommends that each spouse establish a

separate trust, you would have two charts similar to the following, with assets of each spouse used to fund the separate trusts.

NOTES



SUMMARY PROPOSED ESTATE DESIGN

During Lifetime of Both Spouses

- A revocable living trust is established, funded with all property which can be conveniently placed in the trust.
- You establish a will which transfers any individually owned property to the trust at the time of death.
- You establish a durable power of attorney to transfer any property owned in your name only to the trust in the event of disability prior to death.

At Death of First Spouse

- One-half of the estate value, up to the amount offset by the federal estate tax credit is placed in a family trust.

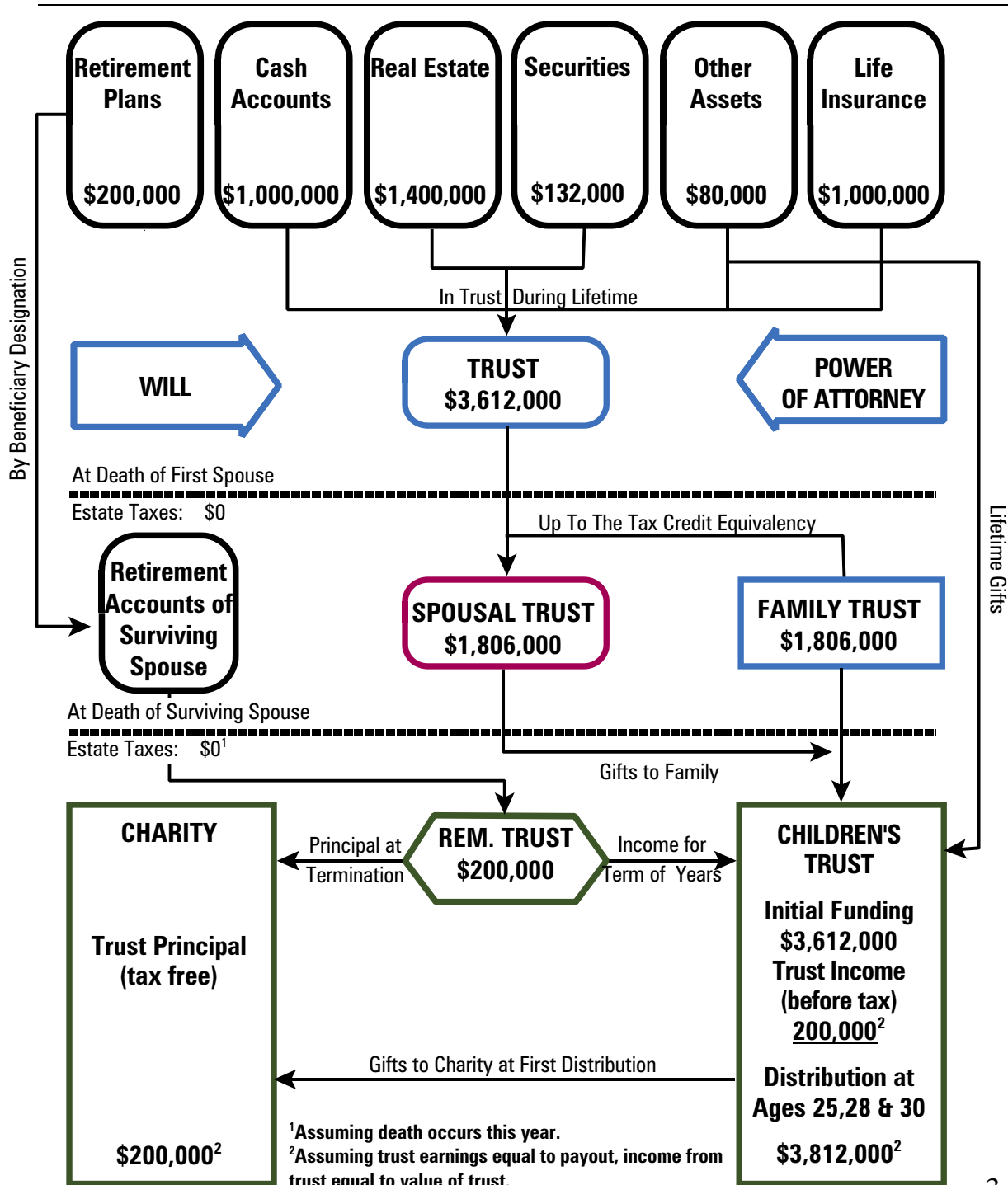
- Remaining property is placed into the spousal trust for the benefit of the survivor.

At Death of Surviving Spouse

- If children have not reached the designated ages for distribution, the revocable living trust continues for their benefit. When children reach the designated ages, the trust distributes assets among your personal and charitable beneficiaries.
- Tax-deferred retirement accounts which exceed your desired outright gifts to charity are transferred to a charitable remainder trust, paying income to children for a period of years, distributing the remainder to charity at termination.

NOTES





Boxes on this chart are identified both by color and by shape

Color Identification

During lifetime of both spouses

At death of first spouse

At death of surviving spouse

Shape Identification

Property

Will and Power of Attorney

Revocable Trust

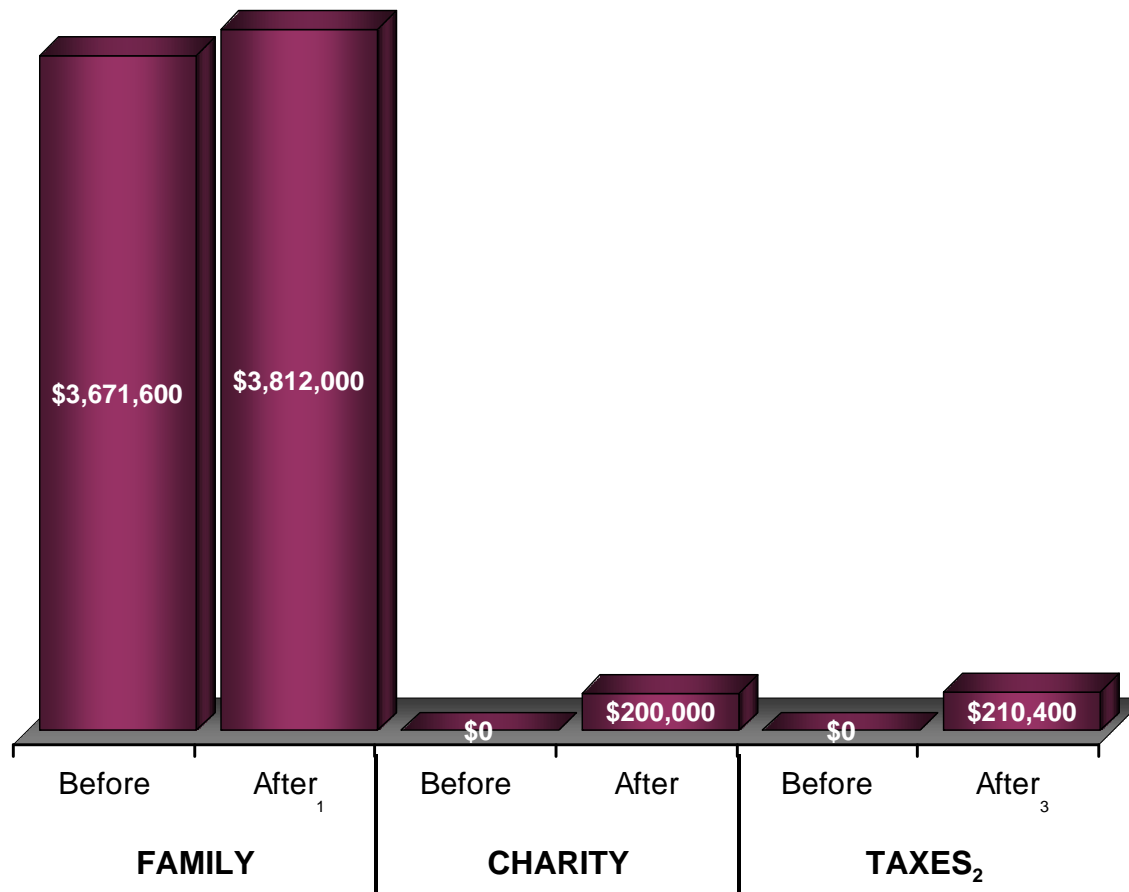
Charitable Trust

Irrevocable Trust



¹Assuming death occurs this year.
²Assuming trust earnings equal to payout, income from trust equal to value of trust.

BEFORE AND AFTER PLANNING



PRE-TAX TO FAMILY

Before	After ₁
\$3,671,600	\$3,812,000

POTENTIAL CHARITABLE GIFT

Before	After
\$0	\$200,000

POTENTIAL TAX SAVINGS

Before	After ₂
\$0	\$210,400

¹ Not considering time value of money

² Illustrating the maximum potential tax savings, assuming a 35% federal income tax rate. Additional state income taxes may also be avoided.



PROPOSED ESTATE DESIGN

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BASIC ESTATE TAXATION

We have presented the estate design in summary form. Now, we want to present a more thorough discussion of some of the planning tools you will want to consider.

While we do not want taxes to drive our plans, we do need to look at taxation of the estate as a part of the process. Some of the discussion in the following design may have an estate tax impact.

The federal tax law taxes an individual's estate at the time of death, with the following exceptions:

- At the death of the first spouse, there is an unlimited marital deduction for qualifying property left to the surviving spouse.
- The law grants a full deduction from the estate for any amount distributed to a charitable beneficiary.

- Technically, the remainder of the estate is taxable. But that does not mean that you will have to pay a federal estate tax on the full value of the estate, because the law allows you a credit against taxes payable.

The current federal estate tax credit allows each individual tax-free distribution to personal beneficiaries as illustrated in the following table. The estate tax is eliminated in 2010. However, unless the law is reinstated by Congress prior to 2011, it will revert to a \$1 million exclusion value.

Year	Exclusion	Tax Rate
2009	\$3.5 million	45%
2010	Tax repealed	0
2011	\$1 million	55%

For illustration purposes, we have not assumed probate and transfer costs at the time

NOTES



BASIC ESTATE TAXATION

of death. This will normally be between 4% and 8% of the estate value.

Tax Impact

Realizing that the values will change, we have chosen to illustrate estate tax savings of each planning tool, based upon a net transfer value of \$3,812,000.

With no tax planning there would be an estate tax payable as follows:

If death occurs in:	
Year	Tax Payable
2009	\$140,400
2010	0
2011	1,391,600

We will use current estate value and this year's tax credit equivalency to illustrate the

effectiveness of the planning options considered in this memorandum.

We have not projected future growth of the estate. It should be noted that a significant change in the assets of your estate, in your desires for distribution, or a change in tax law may require modification of your planning.

State Inheritance or Estate Taxes

We have not given consideration in our discussion to state inheritance or estate taxes. This should be discussed with local counsel, as each state law is peculiar in its treatment of property for tax purposes.

NOTES



Planning During Lifetime

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THE ESTATE PLAN

There are basically two ways in which your estate can be designed to carry out your desires for management and distribution of property. You can:

- Establish and fund a revocable living trust, or
- Establish a will, incorporated with the use of durable powers of attorney for management of property and health care decisions in the event of disability prior to death.

A trust is applicable for all estates, but whether or not it is financially feasible depends upon the laws and estate settlement costs in your state of residence.

Let's explore each of these options in further detail.

NOTES



REVOCABLE LIVING TRUST

Based upon the nature and values of the estate assets, I would suggest that you give consideration to establishing a revocable living trust as the basic instrument of your estate plan.

When a trust is established and funded during your lifetimes, you can serve as your own trustees, and you can name your successor trustee. The successor trustee would assume responsibility at the time of death, during any period of mental or physical disability preventing you from managing the estate, or simply if you desire to relinquish the responsibility of management.

The revocable living trust should be combined with durable powers of attorney, to allow the transfer of any property to the trust by the holder of the power of attorney, should there be property outside of the trust at the time the successor trustee would assume responsibility, due to mental or physical disability.

The trust should also be combined with wills, to transfer any individually owned property to the trust at the time of death, for unified management and distribution.

The following is a review of some of the advantages of a revocable living trust.

■ Certainty

When a living trust is established and funded during lifetime, it is difficult to contend at the time of death, that the trust does not express the individual's desires, especially when there has been opportunity to change the terms of the trust during lifetime.

This may be compared to a will which must be proven to the Court to be the desires of the individual, with proof taking place after death, removing the individual's ability to confirm those

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IMPLEMENTATION



IMPLEMENTATION

The finest of estate designs has no value without implementation. Therefore, we request that you make the following commitments.

Commitment #1:

Set a time frame for review of the design and the summary of questions which it raises.

Yes, I will complete the review by

(Date)

The first step in implementation of your plan is to start to work with your legal counsel. For your convenience, beginning on page 5.7, we have reproduced the “decisions to be made” raised throughout this memorandum.

If you have answered the questions in the body of the presentation, and are presenting this to your legal counsel for review, there is no need to deal with these again.

However, if you have not made these decisions, they are presented here in summary form for you.

NOTES



IMPLEMENTATION

Commitment #2:

Arrange for an appointment with members of your estate planning team, coordinated by your attorney.

Yes, I will arrange this appointment by

(Date)

The following are individuals I will rely upon for implementation of my plan:

Attorney:

Financial Planner:

Accountant:

Insurance Professional:

NOTES



GLOSSARY OF TERMS

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GLOSSARY OF ESTATE PLANNING TERMS

Adjusted Gross Estate: Also known as the taxable estate, the gross estate less estate settlement costs.

Administrator: An individual appointed by a court to settle the financial and legal affairs of a person who dies without a will.

Administratrix: A female administrator.

Ancillary Administration: Administration of a decedent's estate in a state other than the state of residence, where the decedent owned real property.

Ante-nuptial Agreement: Contract or agreement between a man and a woman before, but in contemplation of marriage. Property rights and interests of the prospective husband, wife, or both, are determined, and property is secured to either or both of them, or to their family and charitable beneficiaries.

Attestation Clause: That clause in a will in which the witnesses certify that the will has been signed before them and describes how all parties signed the will.

Beneficiary: One named in a will or trust to receive or use estate assets.

Bequest: A transfer of personal property by will. Distinguished from a devise which is a transfer of real property by will.

Bond: An insurance agreement under which one party becomes surety to pay, within stated limits, financial loss caused to another by specified acts or defaults of a third party.

Codicil: The only legal document that can change a will. It is a supplement to a will, adding, taking from, or altering the will's provisions. It must be executed with the same formalities as a will.

NOTES



GLOSSARY OF ESTATE PLANNING TERMS

Common Disaster: When two or more persons (usually husband and wife) die as a result of the same accident, when the death of each follows in a relatively short period of time.

Community Property: In some states property acquired by the efforts of either husband or wife forms a common fund in which each has an equal interest.

Conservator: One who is appointed by the court to protect the interests of an incompetent.

Corporate Fiduciary: A bank or trust company exercising fiduciary powers under statutory authorization.

Credit Estate Tax: State death tax added to basic levies to bring state taxes up to the total maximum credit available under federal tax law.

Domicile: The location of a person's home or principal residence although he may also have living quarters in another location.

Durable Power of Attorney: A written instrument by which one person authorizes another to take specific actions for him, as stated in the instrument; authority is extended to periods of disability and incompetency.

Estate: The property of an individual, both real and personal, in the process of administration.

Estate Plan: An arrangement for the management and disposition of a person's property during lifetime and at death. This can be accomplished by a will, trusts, gifts made during life, or a combination of these.

Estate Tax: A tax on the transfer of property at death.

NOTES



GLOSSARY OF ESTATE PLANNING TERMS

Executor: A person or agency named in a will to administer the estate of a deceased person. (Synonymous with personal representative.)

Executrix: Feminine form of executor.

Guardian: A person who has the legal duty and power to take care of the person and property of another who because of some disability (usually age or incompetence) is considered incapable of administering his or her own affairs.

Gift Tax: A tax on the transfer of property during lifetime.

Holographic Will: One that is written entirely in the maker's own handwriting, not attested by subscribing witnesses.

Incompetent: A person judicially declared to be incapable of managing his or her affairs.

Inheritance Tax: A tax levied on the right to receive property from a deceased person. This tax should be distinguished from the estate tax that is levied on the right to transfer property, not the right to receive it.

Inter Vivos: Term used in law to describe agreements made while living.

Intestate: Death without leaving a valid will.

Irrevocable: An irrevocable agreement cannot be changed once it is completed, except as authorized by the agreement or by court action.

Joint Tenancy: Where two or more persons own property, either real or personal, according to a separate agreement. The property does not pass to heirs and cannot be disposed of by will. It passes only to a survivor (or survivors) of the tenancy.

NOTES



GLOSSARY OF ESTATE PLANNING TERMS

Marital Deduction: A provision under the federal tax law by which a qualified estate of an unlimited amount may be transferred to a spouse, exempt from estate or gift tax.

Mutual Wills (Reciprocal): Two documents that have the same provisions but are executed separately by husband and wife.

Nuncupative Will: One that is given orally, in the presence of witnesses, usually during one's last illness under circumstances that make it impossible to prepare a written will.

Per Capita Distribution: Distribution of property among descendants as individuals and not by right of representation.

Per Stirpes Distribution: Where the children of a decedent receive only that share of property which the parent would have received if living.

Personal Representative: A person or agency named in a will to administer the estate of a deceased person. (Also executor/executrix.)

Power of Attorney: The power given another to transact the responsibilities of the giver of the power; may be limited (specific action or event) or general (all power of the individual).

Probate: The action of proving before a competent judicial authority that a document offered for official recognition and registration as the last will and testament of a deceased person is genuine.

Property: Anything that may be the subject of ownership, real and personal, tangible and intangible. It is that which belongs exclusively to a person, with full rights to enjoy and dispose of it.

NOTES



GLOSSARY OF ESTATE PLANNING TERMS

Real property is land, or any estate in land. It generally includes whatever is built or growing upon the land. It may be defined to include anything that is immovable.

Personal property is all property other than real property. It generally refers to property that is movable.

Revocable: An agreement in which you reserve the right to change or terminate it either in part or in whole.

Successor Trustee: A trustee who follows the original or prior trustee.

Trust: A legal relationship when one party (the trustee) holds legal title to property for the benefit of another (the beneficiary).

Trustee: A person holding a right or power and property for another person (the beneficiary).

Will: A legal declaration that makes provisions for the distribution of property at death.

Witness: One who personally sees or perceives a thing, and testifies to what he has seen, heard, or otherwise observed or learned.

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