Sage Hill…the *Clark & Barbara* story…

Clark is 67 years old…Barbara is 66. They are still active in their real estate operating business and have accumulated net worth of ~ $60mm. Their *overarching* challenges include:

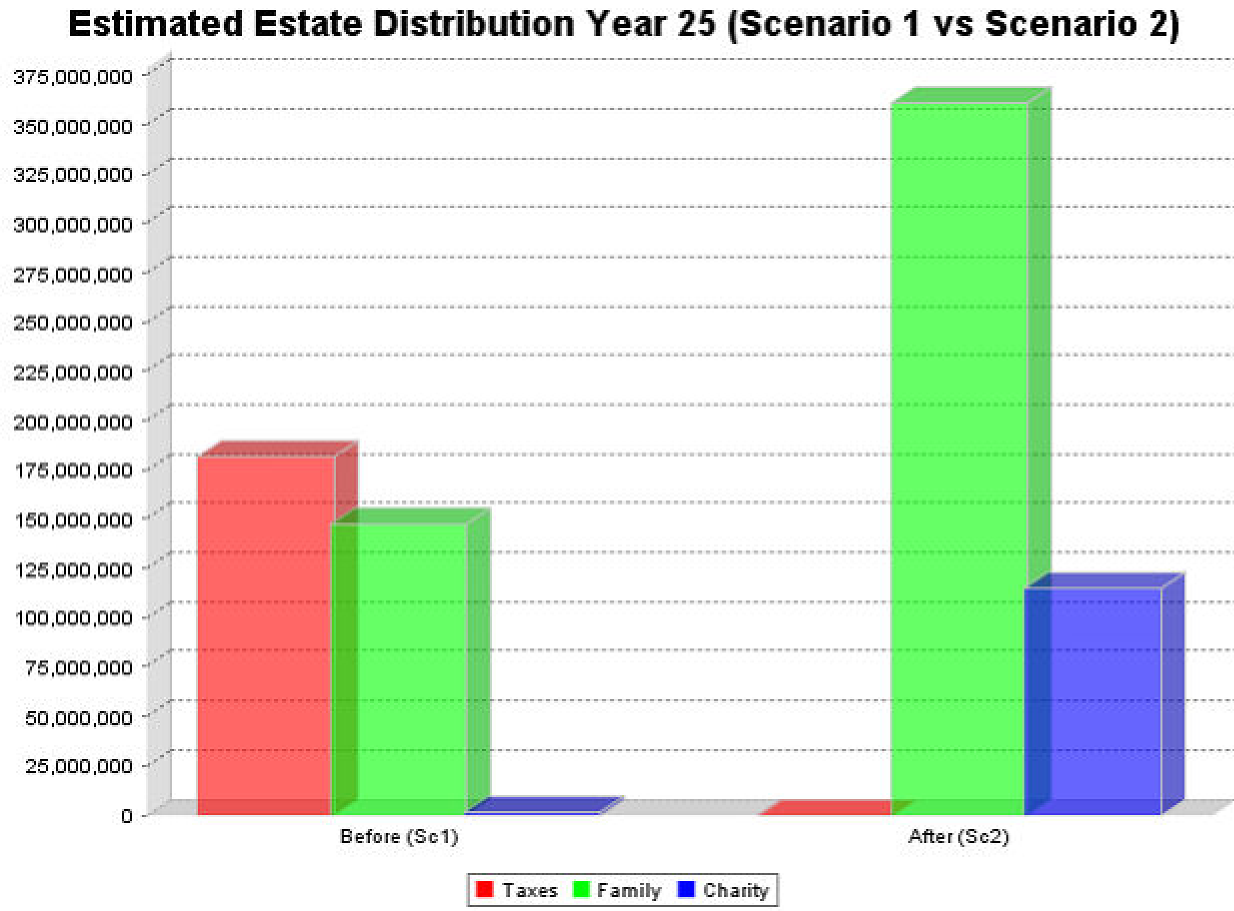
- No knowledge of their Financial Independence requirements
- A 10 year-old estate plan….they have a draft of a “new” plan, which they don’t understand….the draft was done in 2008
- They have been aggressively pursued by a well-known life insurance agent whom they know through their church
- They want to truly understand where they are headed financially to protect and maximize their wealth for their family and perhaps others

Clark & Barbara were referred to Sage Hill after Clark spent the day fishing with his good friend, Tom. Tom and Mary have been Sage Hill clients for 15 years.

After speaking introductorily with Clark & Barbara, they provided us with sufficient information to enable us to discuss personally and establish their core ***objectives***:

- Determine their overarching wealth philosophy re their lifetime needs, their wishes for their family, and their potential contributions for non-family
- Quantify their financial independence requirements for their life expectancy
    - Provide annual cash flow of $400,000 / year plus inflation
    - Provide for specified asset acquisitions
- Update their legal documents
- Anticipate sale of 3 real estate properties…reduction of capital gains taxes on sale
- Retain 4 real estate properties…one is a cash cow; one is exploding in value; one (the vacation home) should be held for future generations with $ support for maintenance
- Begin making gifts to their children. The gifts “*should not be harmful to our children’s financial development or maturation process…we will oversee this while we are alive and well and would like a continuation of our philosophy with regard to future generations*…”
- Begin to make gifts during our lifetimes to charities of our choice for both personal reasons, as well as an alternative to paying these amounts in taxes
- Reduce estate taxes legally and efficiently. If possible, “*we would rather devote the portion that would go to estate taxes be devoted to family and charity*”.
- Upon death, “*we generally would like ~ 70-80% to go for the benefit of our children and future generations, with the balance to charities. We may want to establish a ‘Clark & Barbara Foundation*’”.

From a quantitative point of view, the bottom line on our extensive process resulted in the following:



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For those who want to know some detail, our ***<u>Diagnosis</u>*** of Clark & Barbara's current "plan" found:

- With the current relatively *Simple* Wills and no health care directive nor philosophy, they are:
    - Losing the Federal and State(s) estate tax reduction opportunities
    - Exposing significant future growth to 35-55% tax
    - Allowing for immediate post-death confusion re burial wishes and deathbed decisions re life support
    - In a common disaster resulting in death of both Clark and Barbara, the children are set up for acrimony and massive probate & estate tax administration….with significant legal fees
    - Overpaying for Life Insurance policies which do not reflect their needs
- Current documents do not reflect their stated wishes as expressed to us

- Annual cash flow requirements are significantly exceeded by cash inflow each year. The excess cash flow continues to increase their ultimate estate tax liability @ 35-55% tax.
- If the desired real estate properties are sold as desired, they will experience ~ $2mm in capital gains taxes upon sale.
- If both Clark & Barbara died near term, illiquid assets would need to be sold (at likely fire sale pricing) to pay estate taxes.
- Overpaying life insurance premiums by an ~ $70,000 / year
- Current estate *plan* not only experiences tax at Clark & Barbara's deaths, but then again at their children's deaths
- Currently are making cash charitable gifts…very inefficient, given other appreciated assets available for this purpose….no charitable giving ***plan***
- No actual thoughtful plan nor governance to implement their stated philosophy for ongoing use of the wealth created by Clark & Barbara.

Remedies:

- Family Revocable Trust
    - Avoid Probate process, expense, burden on spouse
    - Provides benefits in event of incapacity
- Family Limited Partnership(s)
    - 20-30% Discount off estate tax value, yet no loss of control over asset (for a $10mm asset, this saves ~ $1,250,000 in estate tax)
- Qualified Personal Residence Trust
    - Split trusts for Clark's and Barbara's interests in the vacation home
    - Home passes outside of the estate
- Grantor Retained Income Trust
    - Real Estate gifted to the trust at a fraction of economic value…thus utilizing less of their lifetime combined $5mm gift tax exemption
    - Income = efficient means of funding Clark & Barbara's financial independence needs
- Founder Charitable Trust
    - Income to Clark & Barbara
    - Income-producing real estate + life insurance = finding sources
    - Remainder to charities upon deaths of Clark / Barbara
    - Reduced income tax upon sale of real estate by trust
    - Life insurance provides tax efficient source for multi-generation trust
- Grantor Deemed Ownership Trust
    - Highly appreciating company shares = funding source
    - Shares sold to trust in exchange for low interest promissory note
    - Appreciation removed from estate
    - Note provides tax efficient funding of financial independence
    - Very efficient means of transitioning business ownership
    - **Sage Hill able to negotiate share transfers with other interested parties (e.g. bank regulators; franchisors of franchised businesses; lenders)
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- Charitable Lead Trust
    - Income to charity
    - Remainder to Trust for future generations
- Testamentary Charitable Lead Trust
    - Most of the remaining assets pass to the trust, with the estate receiving a tax deduction, thus eliminating estate tax on the remainder.
    - At termination of the trust, the assets pass in trust for future generations
- Multi-Generational Trust
    - Designed to last through many generations
    - Founder provides guidance to trustee for future distributions' standards
    - Can protect family business assets from attack from creditors…including estranged spouses of future generations
- Family Council
    - This entity provides mentoring to future generations and guidance to the trustee re how to apply its discretionary distributions for beneficiaries
    - Provides for functionality of the family as designed by the Founder of the trust
    - Discretionary distributions *reward* rather than *enable* younger generations

<u>Results</u>:

- *<u>Understanding</u>* by Clark & Barbara of the *Estate Business Plan*
- *<u>Repositioning</u>* Income / *<u>Estate Tax</u>* $ *<u>to Family and Charities</u>*
- Keeping the *<u>business in the family</u>* (away from the IRS, estranged spouses, frivolous lawsuits)
- *<u>Functional</u>* future *<u>family</u>* members (not *trust fund babies*)
- A succession plan for *<u>furtherance of the family business</u>* without infighting by family
- *<u>Avoidance</u>* of leaving family with *<u>burden of an unplanned estate</u>*