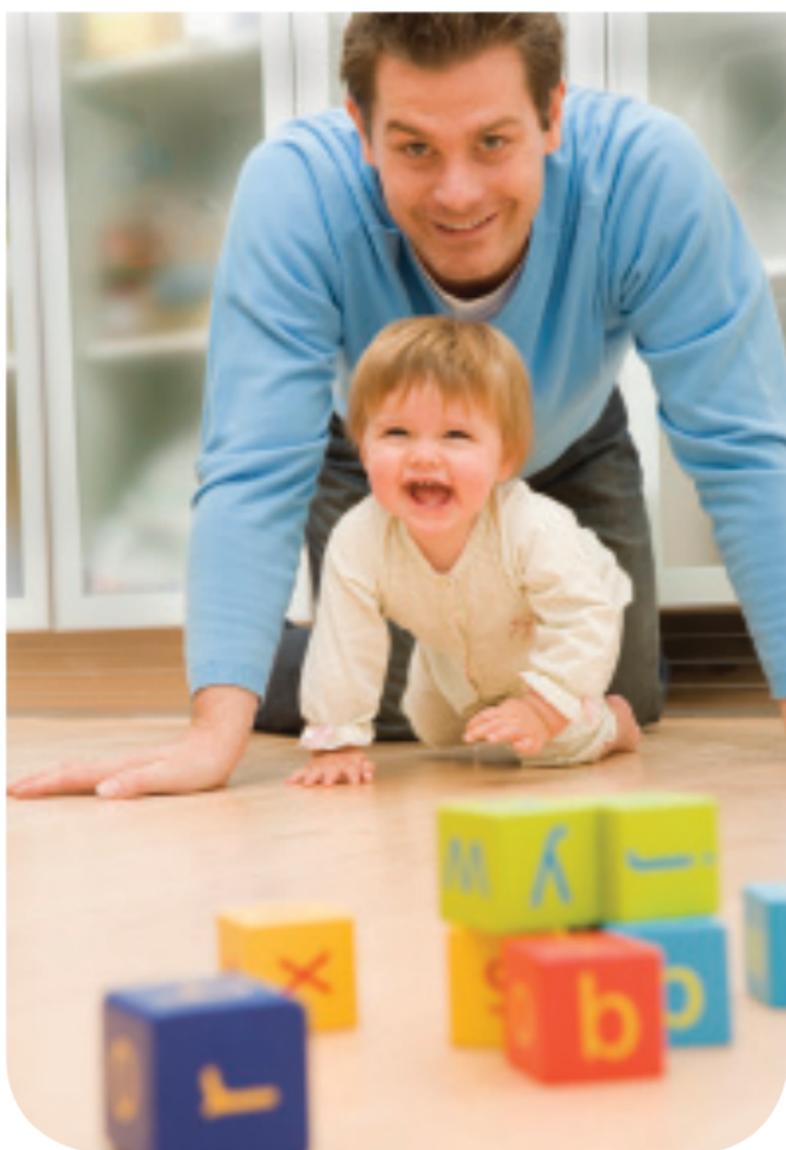


Planning your estate

A general guide to
estate planning



Policies issued by:

American General Life Insurance Company

**The United States Life Insurance Company
in the City of New York**

What is estate planning?

In its simplest terms, estate planning is planning for the accumulation, conservation and distribution of wealth. An effective estate plan will facilitate the ultimate distribution of a person's assets—when, how and to whom he or she desires – as well as minimize taxes and other estate settlement costs.

Who needs estate planning?

The need for estate planning increases with the size of a person's estate, but almost everyone has a need for some type of estate plan. Careful planning is necessary to help ensure that your assets pass to your heirs in the manner you desire while minimizing estate settlement costs.

Estate settlement costs, which include funeral costs, probate administration fees and possibly estate taxes, can significantly reduce the amount of your estate before it is passed to your intended heirs. The method of property ownership and the provisions of— or lack of— a will can also affect how and to whom your property is distributed.

The estate planning team

Estate planning requires a team of professionals working together with you to achieve your goals.

Team captain (you) – sets the goals of the estate plan.

Attorney – provides legal counsel and drafts documents (such as wills, trusts and powers of attorney) that are necessary to accomplish your goals.

Accountant/tax advisor – provides tax advice and assists in preparation of tax returns and other financial transactions.

Trust officer – provides trust administration services.

Investment advisor – offers advice for wealth accumulation and may sell securities.



Life insurance agent – often the catalyst that brings the team together; provides insurance products to fund many of your estate planning objectives, such as estate liquidity or survivor income.

Your estate

Your gross estate generally consists of all property you own. This includes financial assets such as bank accounts, securities, life insurance and retirement accounts. It also includes real estate and personal property such as automobiles, clothing and collectibles. An ownership interest in a business can be a significant estate asset that often requires specialized planning.

How is property distributed at death?

Estate property is generally distributed at death by one of four methods:

1. **By deed** – jointly owned property with survivorship rights passes to the surviving owner.
2. **By contract** – a life insurance beneficiary designation is an example of a contractual method for estate property distribution.
3. **By will** – you specify in writing to whom and in what amount and manner your remaining assets are to be distributed. This may involve trust arrangements.
4. **By law** – state intestacy laws dictate how the property of a decedent is to be distributed if he or she does not have a will.

Estate settlement costs

The costs associated with settling an estate generally include funeral expenses, probate and administration fees, income and property taxes, state death taxes and possibly federal estate taxes. Depending on the size of your estate, these settlement costs may exceed 50 percent of the estate value.

Every estate is eligible for a unified credit that excludes a specific amount from gift or estate taxes. The applicable exclusion amount was \$3,500,000 in 2009. Estates valued less than the applicable exclusion amount would have no estate taxes due. As scheduled under current law, the estate tax is repealed during 2010 only, and it will reappear in 2011 at pre-2001 rates if no further legislation is enacted by Congress.

Estates large enough to be subject to estate taxes are taxed at rates as high as 45 percent (in 2009) of the estate value. Estate taxes are due within nine months of death. Transfers of property prior to the owner's death are subject to gift taxes at the same schedule and rates. However, the maximum exclusion for gifts is capped at \$1,000,000 for 2010.



Ways to reduce estate settlement costs

Transferring property outside the estate can lower costs by reducing the amount of the estate that will be subject to fees and taxes. In some cases, this means giving up all control of the property. Planning opportunities are also available to reduce estate taxes:

1. **Marital deduction** – in most instances, an individual can pass an unlimited amount of wealth to his or her spouse during his or her lifetime or at death without incurring gift or estate taxes. This strategy often only delays the estate tax until the death of the surviving spouse.
2. **Gift and Estate Tax Credit** – every estate has a credit that can be applied toward gift and estate taxes. In 2009, the amount of this credit was the equivalent of \$1,000,000 for gifting purposes or \$3,500,000 for estate tax purposes. In 2010, the amount of the credit is the equivalent of \$1,000,000 for gifting purposes only. In 2011, the exclusion equivalent amount returns to \$1,000,000 for both gift and estate tax purposes.
3. **Annual exclusion gifts** – an individual can give up to \$13,000 per recipient in 2010 without reducing the unified credit.
4. **Charitable gifts** – gifts to a charity are free of gift and estate taxes and may be income tax-deductible.
5. **Trusts** – transferring assets to a trust can help reduce the amount of the estate that will be subject to probate expenses. A revocable trust allows you to remain in control but offers no tax benefits. Estate taxes may be reduced if the trust is irrevocable. Properly established, trusts also offer effective asset management.



Ways to pay estate settlement costs

Even after employing various estate reduction techniques, some estate transfer costs will eventually be due. These costs must be paid before the balance of the estate is passed on to heirs. A common problem with many estates is a lack of liquid assets (cash) to pay estate settlement costs. What are some of the options?

1. **Cash reserves** – there is no guarantee that there will be sufficient funds available when needed.
2. **Borrowed funds** – this may delay the solution and increase the costs.
3. **Internal Revenue Code Section 6166** – a special tax law provision provides an option for the estate of some business owners to pay estate taxes in installments. Again, this may delay the solution and increase the cost (interest).
4. **Sell some of the estate property** – this may not be desirable because it often results in selling at a loss, or it might mean selling a business or other property that the heirs desire to keep. In addition, capital gains taxes could result to the estate.
5. **Life insurance** – life insurance provides *discounted dollars* in the amount needed, exactly when they are needed. **Discounted dollars** means that the amount of the insurance proceeds usually exceeds the amount of premiums paid. Life insurance proceeds are typically income tax-free and may be estate tax-free if owned outside the insured's estate.

Determining the amount of estate settlement costs

The amount of estate settlement costs depends upon the value of your estate. Estate valuation is a complex task and should be done with the assistance of an attorney or an accountant. However, the following charts can help approximate the potential estate settlement costs.

The Economic Growth and Tax Relief Reconciliation Act of 2001, Federal Estate Tax Numbers

Year	Exemption	Maximum Tax Bracket	Estate Credit
2009	\$ 3,500,000	45%	\$ 1,455,800
2010	N/A	N/A	N/A
2011	1,000,000*	55%*	345,800*

* Numbers from the Taxpayer Relief Act of 1997 will be reinstated provided The Economic Growth and Tax Relief Reconciliation Act of 2001 is not extended. Under current law, the federal estate tax is cancelled only for year 2010.

Typical Statutory Attorney's Fees and Executor's Commissions for Probating an Estate

Probate Assets	Fee to Each	Probate Assets	Fee to Each
\$ 10,000	\$ 400	\$ 700,000	\$ 15,150
40,000	1,350	725,000	15,650
80,000	2,550	750,000	16,150
100,000	3,150	775,000	16,650
120,000	3,550	800,000	17,150
160,000	4,350	850,000	18,150
200,000	5,150	900,000	19,150
250,000	6,150	925,000	19,650
300,000	7,150	950,000	20,150
350,000	8,150	1,000,000	21,150
400,000	9,150	1,200,000	23,150
450,000	10,150	1,400,000	25,150
500,000	11,150	1,600,000	27,150
550,000	12,150	1,800,000	29,150
575,000	12,650	2,000,000	31,150
600,000	13,150	3,000,000	41,150
625,000	13,650	4,000,000	51,150
650,000	14,150	5,000,000	61,150
675,000	14,650	10,000,000	111,150

Typical Statutory Formula

4% on the 1st	\$15,000
3% on the next	\$85,000
2% on the next	\$900,000
1% on amount over	\$1,000,000

Source: *The Backroom Technician* software, Kettley Publishing Company, 2005

Estate planning strategies involving trusts

A common estate planning strategy involves a bypass or credit shelter trust arrangement. This strategy makes maximum use of the unified credit and marital deduction and delays estate taxes until after the deaths of both spouses.

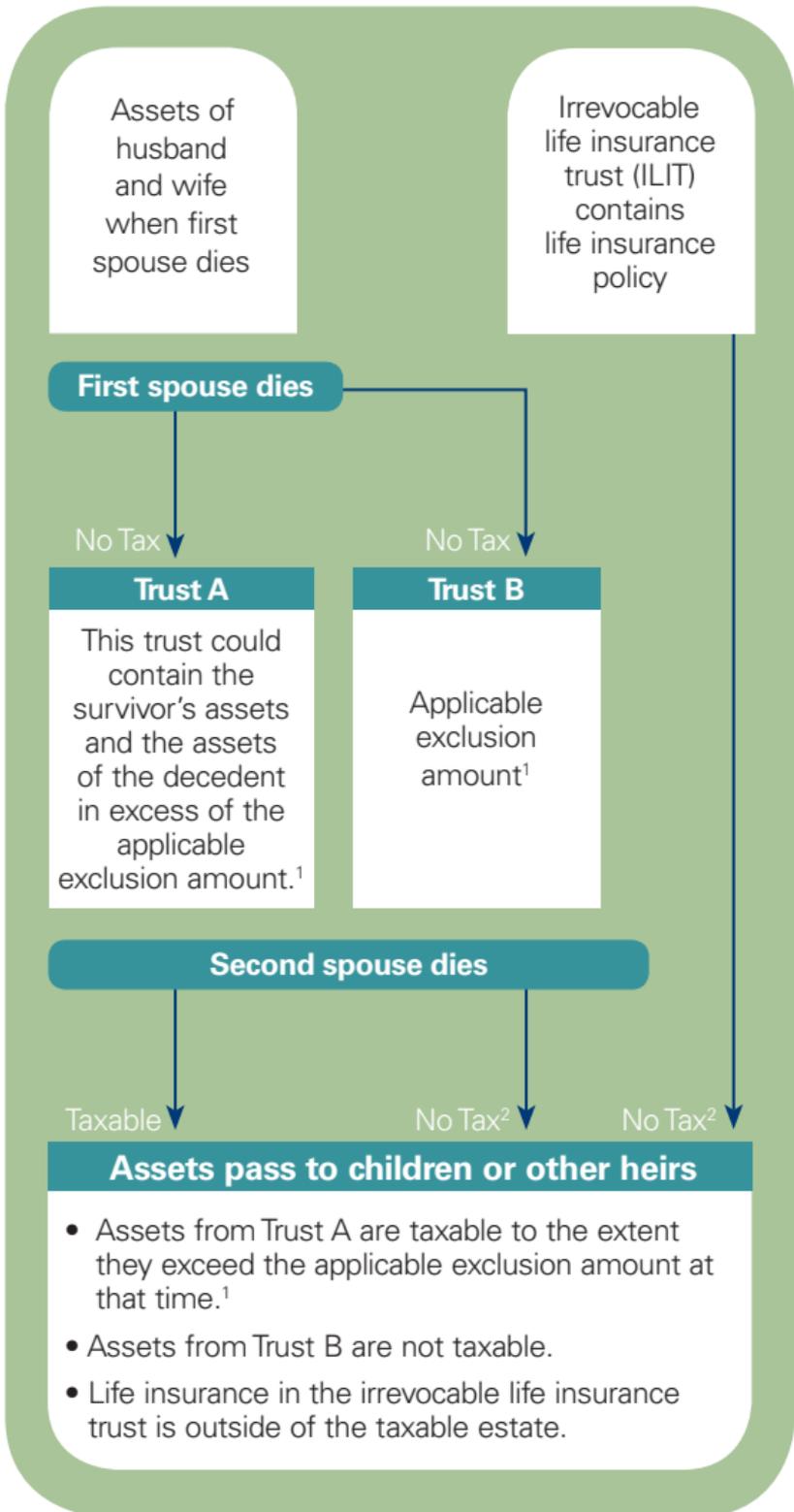
For example, upon your death, an amount up to the applicable equivalent estate tax exemption can be transferred to an irrevocable trust, with the balance of your estate going to your spouse tax-free at your death under the marital deduction. The marital deduction amount can be transferred outright or through another trust.

If trusts are properly arranged, your spouse can receive income from them during his or her lifetime. The remaining assets pass to the children or other heirs upon the death of the surviving spouse.

At the surviving spouse's death, their estate tax exclusion amount passes to the heirs' estate tax-free. Thus, at the death of the surviving spouse, the assets in both credit shelter trusts pass to the heirs' estate tax-free. The balance of the estate would be subject to estate taxes. These arrangements normally result in less estate tax being paid. However, some estates may pay less total tax if some of the first estate is subject to the tax and paid at the first death. You should seek the advice of your attorney before deciding on any estate planning strategy.

Adding an irrevocable life insurance trust (ILIT) to the plan can help provide liquidity to pay estate settlement costs. Life insurance owned by an ILIT is not included in the insured's estate if the trust was the original policyowner or the policy was transferred more than three years prior to death. Also, gifts of premium dollars to a properly arranged trust can qualify for the annual gift tax exclusion. If the plan is to delay paying estate taxes until after the death of both spouses, a joint second-to-die life insurance policy could be used to fund the ILIT.

A/B Trust and Irrevocable Life Insurance Trust



¹ For 2009, \$3,500,000 is the maximum amount of assets protected by an individual's unified credit. The amount of assets protected by the unified credit is termed the *applicable exclusion amount*. The estate tax is repealed in 2010 but returns in 2011 unless new legislation is passed by Congress.

² The tax savings from either the B trust or the irrevocable life insurance trust can be substantial.

Source: *The Backroom Technician* software, Kettley Publishing Company, 2005

Is a last will and testament necessary?

A last will and testament is the starting point of every estate plan. With a last will and testament, you direct how, to whom and in what manner your assets are to be distributed after you die. It also enables you to name guardians for your minor children, as well as the executor of your estate. Without a will, you forfeit control – state law and the courts determine how your estate is to be distributed, including the appointment of guardians and executors.

What is probate?

Probate is the court-supervised administration of a deceased's estate. It involves the transfer of assets in accordance with a written will. If there is no will, the disposition of property is dictated by state intestacy laws. Probate can be a lengthy and expensive process. Some estate plans involve techniques to avoid or limit the probate process.

Summary

- Planning will help ensure that your estate will pass to the person(s) you want, when and how you desire.
- Planning can reduce the amount of estate settlement costs.
- Planning provides funds to pay estate taxes and other estate settlement costs.
- Planning protects and preserves your hard-earned wealth.

You should seek the advice of an attorney before implementing an estate plan. Your attorney, working with the other professionals who are part of your estate planning team, can help you achieve your financial goals. These financial goals may involve life insurance products offered by American General Life Companies insurers. A representative can assist you in determining the right type and amount of insurance for your situation.

Glossary of estate planning terms

Annual exclusion – the amount that can be given each year, per donee, by an individual without gift tax implications. The annual exclusion is \$13,000 in 2010.

Applicable exclusion amount – the amount of an estate that is exempt from estate or gift taxes. The amount was \$3,500,000 in 2009 for estate purposes and \$1,000,000 for gift tax purposes. In 2010, the exclusion amount for gift tax purposes is \$1,000,000 and the exclusion amount for estate tax purposes is unlimited. For 2011, the amount of the exclusion for both estate and gift tax purposes returns to \$1,000,000.

Bequest – a transfer of property made under the provisions of a last will and testament.

Bypass trust – an estate planning tool (also called a credit shelter trust) that is used to minimize the combined estate taxes of spouses by taking advantage of the unified credit and marital deduction.

Charitable deduction – a tax deduction available for gifts to qualified charities.

Charitable remainder trust (CRT) – an estate reduction device whereby a donor transfers property to a trust and receives lifetime income from the trust, with the trust property passing to a designated charity at the donor's death.

Codicil – a change or an addition to an existing will.





Crummey power – a special provision included in some irrevocable trusts that gives limited withdrawal rights to trust beneficiaries. This ensures that gifts to the trust are considered gifts of a present interest and, therefore, qualify for the annual gift tax exclusion.

Durable power of attorney – a written document by which a person authorizes another to act on his or her behalf in regard to certain decisions.

Executor – the person named in a will to carry out the terms of the will, may be supervised by the probate court.

Federal estate tax – a federal excise tax imposed on the transfer of property at death.

Federal gift tax – a federal tax imposed on the transfer of property during lifetime.

Generation-skipping tax – an excise tax on transfers of property to someone who is at least two generations below the grantor.

Gift splitting – a planning technique whereby a husband and wife agree to join in making a gift, effectively doubling the per donee exclusion.

Gross estate – generally includes all property or property rights an individual owns at the time of his or her death.

Intestacy laws – state laws that govern the disposition of the estate of an individual who dies without a valid last will and testament.

Intestate – dying without a valid last will and testament.

Joint tenancy – a form of property ownership where two or more individuals own property jointly. It usually includes rights of survivorship, which means the surviving owner or owners succeed to the ownership interest of a deceased co-owner.

Last will and testament – a written declaration by an individual describing how his or her assets are to be distributed at his or her death. A will can also name the executor of the estate as well as guardians for dependents.

Marital deduction – generally, individuals may transfer an unlimited amount of assets to their surviving spouse during their lifetime or at death without gift or estate taxes.

Probate – the court-supervised administration of a decedent's estate.

Tenancy by the entirety – joint property ownership by spouses in which the surviving spouse becomes full owner of the property at the death of his or her spouse.

Tenancy in common – a type of property ownership where two or more individuals own property together (in equal or unequal amounts), normally without rights of survivorship.

Testator – a person who executes a will.

Trust – a legally created arrangement whereby a Grantor (an individual or individuals) transfers property to be held and managed by another person or entity (Trustee) for the benefit of a third party (Beneficiary). A trust may be revocable or irrevocable and may take effect either during the life (living trust) or upon the death (testamentary trust) of the Grantor.



This guide is a general summary of estate planning and is not intended to be tax or legal advice. Individuals should consult their tax and legal advisors concerning their specific situations.

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