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Dear Friends,

I hope that you all had a wonderful summer season with family & friends.

In this issue, we cover the important topic of wealth management, which includes planning for retirement, and/ or leaving a legacy. The articles within, address at a high level, ways to preserve your wealth as well as wealth transfer strategies to keep your wealth in your family.

If you have any questions, please feel free to contact me.

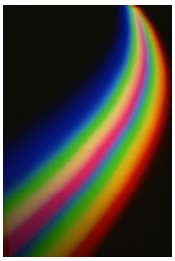
Sincerely,
Randhir S. Judge

In this issue:

The Full Spectrum of Wealth Management

Perhaps you're fortunate enough to be considered wealthy--maybe even very wealthy. If so, you know that wealth alone doesn't fulfill all your dreams; in fact, it may create a few challenges of its own. Where can you turn for advice tailored to your level of wealth? The answer may be wealth management.

What is wealth management?



Wealth management offers an individually customized array of sophisticated financial planning services to high-net-worth clients. These services may include banking, investment portfolio management, asset and trust management, legal services, taxation advice, protection planning, and estate planning. Services may be provided by a team of professionals under one roof; alternatively, a wealth manager may coordinate the efforts of a customized network of professionals who specialize in the areas relating to your needs.

Wealth managers work with you to articulate and understand the hopes, dreams, and goals you really want to fulfill with your wealth, then craft solutions to help. These plans focus not only on accumulating wealth, but also on protecting and distributing it, both during your lifetime and after your death.

Managing what you have

You've already been successful at accumulating wealth; now you need to optimize the degree that your dollars work for you. Wealth managers may ask probing questions to help paint a picture of your fundamental desires, and then recommend investment vehicles, asset allocations, and even borrowing strategies designed to help you most effectively obtain all you'll need to fulfill those dreams at a level of risk you're comfortable with.

Minimizing your risk

As you accumulate your wealth, you'll need to have measures in place to protect it. What if the market changes--will your investments still be allocated appropriately? Are your assets structured in the best possible way to minimize taxes, not only as you accumulate them, but also as you distribute them during your lifetime and after your death? And what would happen to your plan if you were to fall ill, become disabled, need long-term medical care, or die?

A wealth manager may recommend adjustments to your investment portfolio as the financial weather changes, structure tax-advantaged investment vehicles most congruent with your goals and timetable, and suggest life, health, disability, and long-term care insurance products appropriate for your situation.

Deciding what to take when

In most cases, you'll have accumulated your wealth to provide (at least in part) for your own retirement needs. But what will your needs be? Wealth managers help you assess your anticipated retirement lifestyle and its cost, the assets you'll have to meet that cost, and the best ways to "cash in" those assets--everything from when to start collecting your pension payments to how much and in what order to draw against your investments.

Leaving a legacy

Perhaps you want to help your heirs get a "leg up" in life, or maybe you want to engage in philanthropy, or both. Wealth managers can help you explore what's most important to you when it comes to leaving a legacy, and can devise strategies (e.g., trusts, beneficiary designations, and leveraging transfer tax allowances and gift tax exclusions) to help you make your dreams a reality.

Don't just dream about what you want--reach for it. A wealth management team can help you find creative solutions to fit all your financial needs.

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The Power of a Dynasty Trust

Why was the dynasty trust created?

The dynasty trust came into being in the early twentieth century. During this time, the great industrialists, such as Rockefeller, Carnegie, and Ford, who had amassed enormous fortunes, sought a way to preserve their wealth and keep it in their families.

Income taxation of trust income

Federal and state income taxes may be owed on income generated inside the trust. Depending on how the trust is structured, the grantor, the beneficiaries, or the trust entity may be liable for the taxes.

Early in the twentieth century, the United States began taxing wealth transfers under the gift and estate tax system. This system was designed to impose tax on each and every generation (father to son, son to grandson, etc.). The very rich soon began to thwart this system by transferring wealth directly to grandchildren, thus skipping a level of taxation. Congress eventually caught on to this strategy and responded with the generation-skipping transfer tax (GSTT). GSTT is an additional tax that's imposed whenever transfers are made to persons who are more than one generation below the taxpayer (e.g., grandfather to grandson). GSTT is a flat tax imposed at the highest gift and estate tax rate in effect at the time of the transfer (45% in 2007).

Furthermore, most states impose their own transfer taxes. Together, these taxes can take an enormous bite whenever substantial wealth is being handed down, and over time they can erode a family's fortune. This can be troublesome to individuals who would prefer to have their legacies benefit their own family members. It's from these circumstances that the dynasty trust evolved.

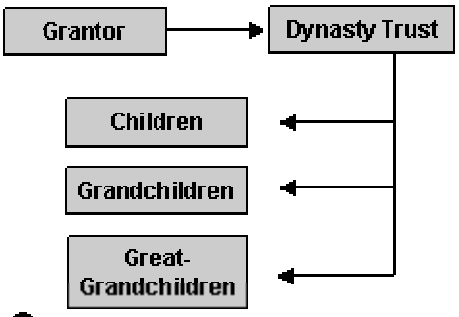
How does a dynasty trust work?

The law allows generation-skipping transfers to go untaxed up to a certain amount by providing a lifetime exemption (currently $2 million per taxpayer, or $4 million per married couple). Typically, a dynasty trust is funded with amounts that take full advantage of the GSTT tax exemption. The trust then provides for future generations for as long as it exists. Although the trust assets effectively move from generation to generation, there are no corresponding transfer tax consequences.

To enjoy this tax benefit, access to trust property by the beneficiaries must be limited. You can decide how narrow or broad a beneficiary's access will be within those limits. For example, if you wish to give a beneficiary as much control as possible, you can name the beneficiary as trustee, and give the beneficiary the right to all income and the right to consume principal limited by "ascertainable standards" (i.e., health, education, maintenance and support). The beneficiary can be given even more control by granting a special (or limited) testamentary power of appointment (i.e., the power to name successive beneficiaries).

On the other hand, if you want to restrict access to the trust as much as possible, you can name an independent trustee who has sole discretion over distributions coupled with a spendthrift provision. The trustee will have full authority to distribute or not distribute income or principal to the beneficiary as the trustee deems appropriate. The spendthrift provision will prevent the beneficiary from voluntarily or involuntarily transferring his or her interest to another before actually receiving a distribution. The greater the restrictions, the less likely creditors or other claimants will be able to reach trust property.

How a dynasty trust works



❶ Assets transferred to trust. Taxpayer exemptions may shield transfer from transfer tax.

❷
- Trust provides for beneficiaries according to trust document until trust terminates
- Trust may be liable for income tax on taxable income
- Although assets may effectively pass from generation to generation, no transfer taxes apply

How long can a dynasty trust last?

A dynasty trust can last as long as state law allows. In states that still have a "rule against perpetuities," the life of a trust is limited to 21 years after the death of the last beneficiary to die (which conceivably could be 100 or more years). Trusts in the states that have abolished their rules against perpetuities can, in theory, last forever.

The bottom line

A dynasty trust can meet the objectives of high-net-worth individuals concerned about intergenerational planning.

A dynasty trust is not a do-it-yourself project. See an experienced estate planning attorney for more information.

Premium Financing of Life Insurance

Most of us pay the premiums on our life insurance policies by simply writing checks to the insurer. But if you're a high-net-worth individual, you may need a large amount of life insurance, requiring significant premium payments, and it may not make the most sense to pay those high premiums with cash. Premium financing may be an appropriate alternate strategy, allowing you to borrow the money from a third party to pay the premiums for the life insurance you need.

Suitable candidates

The concept of borrowing money to pay life insurance premiums may sound simple in theory. However, the practical application can be complex and challenging. That's why premium financing should only be used in particular situations. Generally, you're a candidate if you:

- Are affluent (at least $5 million net worth)
- Are older (perhaps age 65 or above)
- Are insurable
- Are creditworthy
- Require a substantial amount of life insurance (with premiums in the 6- or 7-figure range)
- Meet the lender's requirements (e.g., minimum collateral)
- Are knowledgeable of and comfortable with risk and leverage

How does premium financing work?

First, you apply to an insurer for a life insurance policy indicating that the premium will be financed. If the insurer offers a policy with financed premiums, you apply for a loan from a third party lender. The insurance policy and the loan are separate and distinct transactions--the insurer is not a party to the loan. You'll generally be required to make a down payment, and the lender will make the remaining premium payments to the insurer. You agree to repay the lender the principal, interest, and other fees. You also must pledge collateral for the loan, which may include the cash surrender value of the policy plus additional collateral and/or a personal guarantee.

With some premium financing arrangements, you pay off the loan in installments over the original loan term. More commonly, however, the loan is continually renewed at the end of each term, and is repaid at your death out of the insurance proceeds. With the latter type of arrangement, you either pay the interest and fees to the lender annually (a noncapitalized loan), or the interest and fees are added to the loan principal (a capitalized loan).

The risks

There are significant risks associated with premium financing, as there are with any leveraging strategy. These risks include:

Loan interest rate and requalification risk--Lenders usually require that you requalify for the loan at each loan renewal, and that the collateral be reevaluated. If your financial position has deteriorated, or the value of the collateral has declined, there is the risk that the loan will not be renewed or that it will be offered at a higher rate than the original loan. If rising interest rates cause the loan balance to exceed the value of the collateral, you may be required to post additional collateral. It's also possible that the loan could be called for default.

Policy earnings risk--If the insurance policy cash values do not increase as expected, the loan balance may exceed the value of the collateral. If this happens, you may be required to post additional collateral. Also, if the policy values fail to keep pace with the loan, more of the death benefit will be needed to repay the loan, reducing the ultimate death benefit that will be available to meet your objectives, which may include providing for loved ones.

Plan design risk--The insurance policy and the loan are separate and distinct transactions, and they operate independently. The lender may decline to renew the loan at the end of the term (if, for example, you fail to requalify). This would put the insurance policy in jeopardy of cancellation for nonpayment of premiums if alternate funding can't be found.

Because of these and other risks, and the complexities involved, be sure to consult your financial professional before entering into any premium financing arrangement.

Premium financing allows high-net-worth individuals to borrow money from a third party to pay the high premiums for the large amounts of life insurance they need.

Common reasons to arrange premium financing

You don't want to:

- *Disrupt normal cash flow*
- *Liquidate high-performing investments*
- *Sell assets that would result in capital gains tax liabilities*

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Ask the Experts

Two-career couples--who should retire first?

You and your spouse are both employed and nearing retirement age. Even if you've accumulated enough assets to allow you both to retire at the same time, however, you might not want to do so. The transition into retirement can often be difficult, and doubly so if you're both struggling through that phase simultaneously. So, who should retire first?

If one spouse is earning significantly more than the other, then it usually makes sense for that spouse to continue to work in order to maximize current income, ease the financial transition into retirement, and perhaps even increase your retirement nest egg.

But what if your incomes are relatively equal? Here are some other factors to consider:

- *Pensions*: If only one of you is covered by an employer pension plan, it may make sense for that person to continue to work if he or she hasn't yet maximized that pension benefit. Similarly, consider how continuing to work would impact your Social Security benefits.
- *Insurance*: Are either of you eligible for retiree health insurance? If so, are you required to work to a certain age to get that important coverage?
- *Plans*: Does one of you have specific plans for your retirement years? Perhaps you'd like to concentrate on a hobby, or spend time volunteering, or even learn a new skill? If so, consider whether that person should retire first in order to pursue those goals.
- *Job satisfaction*: Does one of you find working more self-fulfilling than the other? Would one of you feel more lost without your current routine?

One thing is clear--you'll need to discuss this with your spouse, preferably well ahead of time.

Are online retirement planning calculators useful?

The answer is an unqualified "maybe." Online retirement calculators are designed to help you determine whether or not you've saved enough for retirement, and if not, how much you'll need to save each year in order to eliminate the shortfall.

But the output of a retirement calculator is only as good as the data that goes in, and it's here that the various online calculators differ greatly. Some ask you only a few simple questions, and base their results on a large number of assumptions. These are easy to use, but the results can be suspect. Other, more sophisticated, calculators require more effort on your part, but may (or may not) come up with more meaningful results.

In many cases, online calculators fall short because you can't override their built-in assumptions, even though they clearly don't apply to you. Some specific items to consider:

- Can you insert your own life expectancy? If a calculator is using standard life expectancy tables, it could significantly understate the amount of retirement assets you'll need.
- Can you input your own expected rates of return? Does the calculator take inflation into account? At what rate?
- Can you specify your anticipated expenses during retirement?
- Are amounts you've already saved taken into account?
- Can you input your expected income during retirement (for example, from a part-time job, Social Security, a retirement plan, or an annuity contract)?

All retirement calculators, sophisticated or not, have one good trait in common--they get you thinking about your retirement. But in most cases, the results should be considered a ballpark estimate, and a starting point for a more detailed discussion with a seasoned financial professional.