



Estate Planning: It's Not Only for the Affluent

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If you think estate planning is only necessary for those select individuals who appear in "Lifestyles of the Rich and Famous," this misconception could be costly to your heirs. Under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), estate taxes are gradually reduced, then repealed for one year, 2010. Then, pre-EGTRRA law will be reinstated on January 1, 2011, under a "sunset" provision.



Even with the change in estate tax law, estate taxes remain a consideration. That means if you own assets, there's a good chance you'll need to plan for their future disposition. You may be worth more than you think. All of these assets are included in your gross estate:

- Cash
- Stocks, bonds and annuities
- Certain life insurance proceeds
- Real estate, including your family home and vacation home
- Property held in a trust you control outright
- Art and other collectibles
- Qualified retirement plan accounts, such as 401(k)s and profit-sharing plans
- Your business

Fortunately, strategies have been designed to help minimize the impact of estate taxes. The following sections focus on some of the most fundamental estate planning techniques — the unlimited marital deduction, the unified credit, the credit bypass trust, the irrevocable life insurance trust, and the gift tax annual exclusion.

children — with the burden of paying what could be a sizable estate tax bill.

The Unified Credit

The estate tax unified credit allows a decedent's estate to transfer the amounts listed in the chart below at death without paying any estate tax. If you're married, you and your spouse are each entitled to the unified credit. Married or not, when you take advantage of the unified credit, you can reduce your estate tax liability.

By gifting money or property while you're alive, the income and appreciation on the gifted assets generally are not part of your estate when you die and, therefore, are not subject to federal estate taxes.

The Unlimited Marital Deduction

The Internal Revenue Code allows an unlimited amount of property to be transferred — tax-free — to the surviving spouse¹ when the first spouse dies. Therefore, if you're willing to pass all of your assets to your surviving spouse, there will be no federal estate tax exposure at that time.

This can be an effective strategy. But it's not a complete solution to your estate planning needs. Yes, a surviving spouse will receive the assets estate tax-free, but when he or she dies, the estate may still be subject to estate taxes. Accordingly, using the unlimited marital deduction does not eliminate estate taxes. It merely defers them. This will leave your heirs — in most cases, your

Estate, GST & Gift Tax Rates and Unified Credit Exemption Amount

Calendar Year	Estate and GST Tax Deathtime Transfer Exemption	Lifetime Gift Tax Exemption	Highest Estate, GST and Gift Tax Rates
2005	\$1.5 million	\$1 million	47%
2006	\$2 million	\$1 million	46%
2007	\$2 million	\$1 million	45%
2008	\$2 million	\$1 million	45%
2009	\$3.5 million	\$1 million	45%
2010	N/A (taxes repealed)	\$1 million	35%
			(top individual income tax rate)
2011 ("sunset")	\$1 million*	\$1 million	55%

* In 2011, the GST tax exemption will be \$1,120,000, plus increases for indexing for inflation after 2003.

The Credit Bypass Trust

A very effective strategy is to use a combination of the unified credit and the unlimited marital deduction to reduce your estate tax exposure. Here's how it works: You and your spouse establish a trust that allows the first-to-die spouse the right to leave assets up to the then current unified credit exemption amount to heirs. (See chart below.) This trust is called a credit bypass trust. The estate tax attributable to the assets placed in this trust is offset by the estate tax unified credit.

Estate Tax Unified Credit

Year	Unified Credit Exemption Amount	Estate Tax Unified Credit
2005	\$1,500,000	\$555,800
2006, 07 & 08	\$2,000,000	\$780,800
2009	\$3,500,000	\$1,455,800
2010	N/A	N/A
2011 & Thereafter	\$1,000,000	\$345,800

If properly structured, any remaining assets should qualify for the unlimited marital deduction. The surviving spouse can be an income beneficiary of the credit bypass trust, with the right to income from the trust for life. At the death of the second spouse, the assets in the trust can pass to your beneficiaries without being subject to estate taxes in the second spouse's estate. In addition, any appreciation of the assets in the trust will pass to your heirs tax-free.

The Irrevocable Life Insurance Trust

An Irrevocable Life Insurance Trust (ILIT) can be a powerful tool in estate planning.

Your heirs may use the life insurance proceeds to pay the estate tax bill, thus preventing depletion of the estate's assets. However, if you² own a life insurance policy at death, the proceeds will be included in your gross estate. To avoid this, you must be sure you do not own the policy or have any incidents of ownership in the policy when you die, or within three years of your death. You must also be sure your estate is not the beneficiary of your life insurance proceeds.

This is where an ILIT can help. The

trust applies for and owns the policy, and it also pays the premiums. You could gift cash to the trust so the trust could make the necessary premium payments.³ At death,² the insurance proceeds are not subject to estate taxes. If properly structured, the trust can also provide benefits to a surviving spouse and/or any other beneficiaries.

It is important to note that if you were to transfer an existing life insurance policy to an ILIT, the policy proceeds will be brought back into your estate should you pass away prior to three years from the date of transfer. To avoid this "three-year rule," you must have an irrevocable trust or other third-party owner apply for and purchase a new policy on your life.

The Gift Tax Annual Exclusion

By gifting money or property to your loved ones while you're alive, you may significantly reduce the size of your taxable estate. The gift tax annual exclusion permits you to give up to \$12,000⁴ (in 2007) each year (\$24,000 for a married couple) to as many individuals as you wish. Most people choose to give such gifts to their children and grandchildren, or to a favorite charity.

Your gifts will be income tax-free to your recipients, and each gift may decrease the amount your heirs will have to pay in estate taxes.

Make Your New York Life Agent a Member of Your Estate Planning Team

At New York Life, we believe in and practice the team concept of estate planning. A New York Life agent can arrange a meeting with you to evaluate your specific needs. Then, with other members of your team, he/she can suggest estate conservation solutions that are best suited for you. New York Life and its subsidiaries offer a variety of products to help meet your estate planning needs. Together, we can help you take steps to ensure your heirs will receive the proceeds of your estate.

Note: Neither New York Life nor its agents offer tax, legal or accounting advice. Consult your advisors for tax, legal and accounting advice.

¹ The surviving spouse must be a U.S. citizen. Different rules apply to surviving spouses who are resident aliens.

² For second-to-die policies, this refers to the death of the last surviving insured.

³ Gifts may be subject to gift tax.

⁴ Indexed for inflation.



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