Modeling the accumulation and tax-effective gifting of legacy assets

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ABSTRACT

Accumulating abundant wealth and then transferring a portion at or before death to beneficiaries without excessive federal transfer tax burdens remain desired goals of many individuals. Effective long-term investment strategy and transfer taxation planning constitute key considerations in achieving those goals.

This paper purposes to present a computerized projector model to facilitate sound investment strategy formulation for wealth accumulation and a feature to tax effectively transfer wealth by utilizing the annual gift tax exclusion. The model permits professional planners to "test drive" different portfolios over different time periods to evaluate resulting portfolio outcomes and to assess available gifting opportunities.

The model uses actual (not average) annual returns to permit the user to develop legacy portfolio investing and gifting strategies. The program tests scenarios such as target asset accumulations, portfolio mixes, income (payout) targets to donees, annual savings rates, allowable gift tax exclusions and valuation discount rates. These provide "personalized" results which would have actually occurred over selected historical periods during their unique market environments. The authors demonstrate the model assuming a married couple accumulating a stock-oriented portfolio in a LLC (limited liability company) and gifting membership interests at valuation discounts. After experiencing steep portfolio losses in a recent bear market (2007-09), they seek professional advice. A series of model test drives applying the couples' personal goals and constraints permit the advisor to develop subjective probabilities of meeting the outcomes sought.

Keywords: Modeling, Investing, Legacy Gifting, Transfer Taxation

INTRODUCTION

Most individuals strive to earn and accumulate wealth during their lifetimes to afford comfortable lifestyles, raise and educate their children, provide financial legacies, and for other reasons. As death remains inevitable and wealth does not accompany the individual to the grave, any residual assets must pass on to beneficiaries after applicable estate expenses and wealth transfer taxes, especially federal estate and perhaps generation skipping transfer (GST) taxes. Under tax law cited later, both of these taxes phase out for 2010 (a one-year respite), but both will resume at marginal rates as high as 55% (plus an additional 5% surcharge on certain large estates) on high-wealth individuals starting in 2011. Even if individuals transfer their wealth before death, gift taxes still apply in 2010, albeit at lower rates than in 2009. However, they too will increase to the same top marginal rates as estate and GST taxes in 2011. Thus, unless an individual dies during the current year, careful transfer tax planning remains necessary to minimize tax liabilities on wealth transfers.

Just as individuals seeking to accumulate substantial sums of wealth typically employ long-term investment strategies, they should likewise implement protracted planning strategies to minimize wealth transfer taxes. One long-term tax planning strategy consists of systematically reducing assets subject to transfer taxation before death utilizing the annual gift tax exclusion, sometimes known as a systematic annual gifting program. Under tax code cited later, the exclusion currently (2010) permits gifting of $26,000 annually for married couples split gifting ($13,000 for individuals), free of all federal transfer taxes. (This paper includes modified elements of a published case study (Anthony and McKinney, n.d.), which addressed organizational and transfer taxation issues in utilizing a LLC to leverage the annual gift tax exclusion.)

This paper purposes to present and demonstrate a computerized legacy planner to facilitate sound wealth accumulation strategy and a companion feature to tax effectively gift the assets under the annual gift tax exclusion. The Historic Legacy Planner Model (HLPM) consists of a modified income projector program, originally designed to evaluate alternative investment strategies to produce desired retirement income. The authors will provide an overview of the model, explain how to input the data and how to read and interpret the output.

OVERVIEW OF THE MODEL

In formulating strategy for accumulating and gifting wealth, HLPM should prove useful in assessing returns and risk (volatility) of portfolios under consideration. The model allows the user to develop subjective probabilities, or impressions, about outcomes of portfolio strategies over the past. While no one can accurately predict the future, one can gain valuable insights into plausible, best- and worst-case future portfolio behavior and risk by conducting HLPM trial runs during different market environments of the past.

The model uses input data series consisting of yearly historical investment returns covering the past 83 years. Users may “test run” different scenarios, including target asset accumulations, portfolio mixes, income (payout) targets for donees, annual savings rates, allowable gift tax exclusions and valuation discount rates to determine outcomes that would have actually resulted over various historical periods. Multiple trial runs allow professional advisors to better craft strategies which meet clients’ needs while managing investment risk

Compared to most available projector models, HLPM offers at least two advantages. First, it uses actual (not average) yearly historical returns to better aid users in formulating investment and gifting strategies. Arithmetic or geometric means over generalize and thus obscure the realities of short-term portfolio fluctuations and their gifting implications in highly volatile market environments. Second, commercially available models marketed specifically for estate and gift planning remain costly (a copy of HLPM remains available free from the authors).

The authors constructed HLPM from Microsoft Excel spreadsheet software. Using selected spreadsheet functions and formulas, HLPM accumulates portfolio market values and gifting opportunities for each year which a client's portfolio would have provided. Moreover, the program calculates standard deviations of both portfolio returns and income (payouts) as measures of portfolio risk. The program will accumulate legacy assets for a period of up to 20 years and calculate income (payouts) those assets provide for a comparable. The model generates real, inflation-adjusted portfolio outcomes, adjusts for portfolio management fees, and subtracts income taxes if applicable during the asset accumulation period. The model, however, does not deduct applicable income taxes due upon asset payouts because of excessive complexities.

The model's historical returns for the individual asset classes or types run from 1927 through 2009 and reside in tabs at the bottom of the spreadsheet. The returns for U. S. stocks (both Large and Small Companies), bonds (20-year U.S. Treasuries), money (3-month U.S Treasury bills) and the Consumer Price Index—All Urban Consumers, come from Ibbotson Associates, 2010. Real estate returns come from the National Association of Real Estate Investment Trusts (equity category) data (FTSE NAREIT U.S. Real Estate Index, 2010) from 1972 through 2009. General references from the finance literature were used to estimate earlier returns. Global Financial Data, 2009 supplied returns on gold bullion through 2008. Foreign stock returns (World-ex U.S.) through 2008 likewise come from Global Financial Data and measure performance corresponding to developed foreign country markets. The authors obtained returns for 2009 for both gold bullion and developed foreign stocks from Internet financial sites.

FEDERAL ASSET TRANSFER TAXATION

During 2009, individuals' assets were subject to three separate federal transfer tax systems: the gift tax, estate tax, and the generation skipping transfer (GST) tax. The gift and estate taxes had a maximum tax rate of 45% (IRC §§ 2001(c) (2)(B)), along with GST taxes (IRC § 2641(a)(1)). The estate and GST taxes provided an exemption equivalent of $3,500,000 (IRC § 2010 (c)), while the gift tax allowed a $1,000,000 lifetime exemption (IRC § 2505 (a)). Married couples could effectively double the gift tax lifetime exemption by splitting their gifts (IRC § 2513 (a)). Variations of these taxation policies apply at the state level as well.

For the current year (2010) the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), 2001 repealed the estate (IRC § 2210) and GST taxes (IRC § 2664). The gift tax, however, will remain intact at the reduced maximum rate of 35% (IRC § 2502 (a) and EGTRRA § 511), in 2010, for transfers in excess of $500,000, and still retain the $1,000,000 (IRC § 2505 (a) and EGTRRA § 521) lifetime exemption.

Beginning in 2011, the three taxes will essentially revert to law existing prior to EGTRRA (EGTRRA § 901) levels without Congressional intervention, which appears unlikely because of soaring federal budget deficits and national debt. (The Congressional Budget Office

2010 reported recently that projected cumulative budget deficits will increase by more than $6 trillion over the period 2011-2020 while publicly held national debt will rise from $9.8 to $15 trillion, or by more than 53%. This means, most likely, Congress will retain the scheduled wealth transfer tax increases in 2011, or perhaps even increase wealth transfer taxes after 2010.) Maximum marginal rates, starting in 2011, for all three transfer taxes will go as high as 55% (60% for certain large estates). Moreover, the estate tax exemption will decline to $1,000,000, the GST tax exemption will revert back to $1,000,000 adjusted for inflation after 1997 (estimated to equal $1,350,000 in 2011), and the gift tax exemption will remain unchanged at $1,000,000. Thus, short of dying and escaping asset transfer taxes during 2010, prudent estate planning remains compelling now and in future years.

One basic, yet effective, tax planning strategy available to reduce an individual's potential transfer taxes consists of utilizing the annual gift tax exclusion. This feature has no counterpart in estate and GST taxation and offered a maximum exclusion in 2009 of $13,000, per donee per year (IRC § 2503 (b) and Rev. Proc. 2009-50, 2009). Under split gifting provisions (IRC § 2513 (a)), married individuals could exclude up to $26,000 (the sum of each spouse's $13,000 annual exclusion) from their transfer tax base. These annual gift tax exclusion limits, also indexed for inflation, remain unchanged for transfers made during calendar year 2010. Gifting wealth may also shift income to family members with lower marginal personal income tax rates, thus lowering the overall family personal income tax burden.

MODEL APPLICATION

To demonstrate an application of the model for accumulating and gifting legacy assets, the authors assume a hypothetical married couple, Jim and Judy Saver, who co-manage Savers Investments, LLC, a family entity or FLLC. The Savers--both successful physicians--founded the assumed FLLC seven years ago primarily as an investment business entity. Secondarily, the Savers organized the FLLC as a complementary legacy planning tool to their strategy for gifting assets to their descendants. Specific non-tax reasons for forming the entity include protection of family assets from creditors, facilitating equal gifting to descendants, maintaining family assets in one pool to achieve investing efficiencies and perpetuating their version of a buy-and-hold investment philosophy. Rather than simply buy and hold, they rebalance the portfolio annually, actively strive to minimize investing costs and intensively pursue maximum returns on safe cash equivalents, e.g., certificates of deposit, money market funds and short-term U. S. treasury bills. The Savers fully fund their business with cash flow from their professions.

Two years ago the Savers began planned annual gifting of FLLC membership interests equally to their descendants--three children and three grandchildren. They establish valuation discounts for these gifts through a qualified professional appraisal (IRC § 2512 and Treas. Reg. § 25.2512-1). While many different types of valuation discounts may apply, minority and lack of marketability discounts remain commonplace. The former applies because the donee receives diminished ownership influence, and the latter because of illiquidity, with no actively traded market in membership interests. Assuming a 40% valuation discount rate, the Savers can "leverage" the annual amount of wealth removed from their combined estates per descendant under split gifting to $43,333 ($26,000/.60). This compares to only $26,000 absent the discounts.

In the interest of brevity, the authors assume that the Savers have closely followed all of the legal, financial, tax, accounting and reporting formalities required to justify their gifting of

FLLC membership interests. The IRS realizes the potential for taxpayer abuse in leveraged gifting strategies and has responded with challenges to these arrangements. One of their most effective attack tools in recent years is IRC §2036, the "retained interest" provision under estate tax law. Under this provision, the IRS may attempt to disregard transfers of property (funding) to the LLC for membership interests and return the property to the decedent's gross estate, thus nullifying the lifetime gifting strategy. The IRS may also argue that the decedent retained "possession, enjoyment or rights in the property (IRC §§ 2036 (a) (1) & (2))." Moreover, the IRS may attempt to apply comparable treatment to LLC assets underlying gifted membership interests (Mirowski v. Commissioner, 2008). In short, the IRS penalizes a taxpayer for a failure to honor the validity of the LLC or deal with it at arm's length. Thus, professional legacy planners and taxpayers must exercise care in crafting wealth transfer strategies using a LLC or, similarly, structuring a family limited partnership.

The Savers' transfers of membership interests provide descendants with gifts of "present interests" (IRC § 2503 (b) (1) and (Hackl v. Commissioner, 2002) rather than "future interests" because the interests have immediate economic value to the donee. To ensure immediate value, donees may, once in possession of the interest, sell or otherwise dispose of that interest. According to the FLLC operating agreement, donees must first offer to sell, or otherwise dispose of their interests to other family members, or, if that fails, to return them to the FLLC for redemption at fair value. This provision also allows the Savers to retain at least some control over family wealth in gifting FLLC interests. The Savers, however, anticipate no sales or other disposals or redemptions by their chosen donees.

The Savers plan to continue co-managing the FLLC indefinitely and to bequeath any retained FLLC interests to their children and grandchildren. They only demand that their descendants follow their buy-and-hold investment philosophy. Moreover, the Savers remain indifferent about continuing the business indefinitely and, in fact, expect their descendants to liquidate the business over a period of 5 to 10 years of receiving the interests at death. (An installment liquidation strategy would potentially allow family members to benefit from the income tax advantages associated with "income smoothing.")

At the Savers' present ages of 65, their life expectancy equals 19 years, using the "combined sex and all race" life expectancy tables (Heron, Hoyert, Xu, Scott and Tejada-Vera, (2008). Against this backdrop, it is assumed the FLLC will accumulate and invest cash and gift descendants for 19 more years from today and then liquidate over a period of 7 years.

The Savers remain committed to providing their descendants with ample financial resources to sustain their current upper, middle-income lifestyles. They plan to provide a legacy of either (a) a FLLC portfolio valued at $8,000,000 (in today's dollars of purchasing power) at their (the Savers') deaths or (b) a FLLC portfolio that will generate $1,500,000 income (payouts) per year (again in today's dollars) during the assumed FLLC installment liquidation period. Finally, the Savers plan to maximize the annual federal gift tax exclusion allowable until their deaths.

When the FLLC was formed in 2003, the Savers invested the FLLC assets in a moderately aggressive way. Their stock-dominated portfolio experienced excellent overall returns from 2003 through 2007. With the large losses experienced in the bear market in stocks in 2008 (e.g., the S&P 500 Index declined around 37% in real terms) and in other asset classes, however, they lost most of their accumulated returns. After a partial portfolio recovery in 2009 and early 2010, the Savers began to fear the prospects of a "double-dip" recession, and another reversal of their portfolio gains and sought independent advice about the suitability of their

present portfolio strategy. Therefore, they decided to engage a professional planner to address the advisability of shifting to a more conservative portfolio strategy.

In any event, the Savers plan to continue investing in index mutual funds and to apply their personal version of the buy-and-hold investment strategy, which includes annual portfolio rebalancing to maintain a fixed percentage asset allocation or mix. Finally, they value the sound investing principles of portfolio diversification and risk control. To prudently advise them on possible changes in portfolio strategy, their portfolio planner applied HLPM--complimentary copy obtained from one of the authors--to evaluate alternative portfolio risk/return profiles and their associated gifting implications.

MODEL INPUT

The upper part of the "Input-Output" worksheet, reproduced in part as Table 1 (Appendix), requires inputting some basic portfolio parameters. While many of these inputs remain self explanatory, others may need clarification. For example, the professional planner enters the current market value of the FLLC portfolio of $2,000,000, assumed deposited at the beginning of this 26-year trial, to test the competing portfolios under consideration. Then, the planned annual cash investments in the FLLC in today's dollars of purchasing power are entered at $150,000, and assumed averaged in over each year. The advisor then enters "65" (the Savers' current ages) to signify the start of the assumed accumulation period and "84," (the Savers' ages at death actuarially) to mark the end of the 19-year accumulation period. Income payouts will begin at the start of year 20, the assumed date the FLLC will begin liquidating, and run for each of "7" years, for a total planning period of 26 years (including the 19 years of accumulation).

In the middle of Table 1, the user enters information to reflect the Savers' legacy income (payout) target and the income tax rate. To establish the annual legacy income target of $1,500,000 during the assumed FLLC liquidation period, the planner enters that amount in the embedded payout calculator. Since the target equals $1,500,000 for each of the seven years in today's dollars of real purchasing power, a "0" is entered for the planned real, annual income percentage increase. Then, the advisor enters $8,000,000 as the total portfolio value target, the alternative legacy target, needed at the end of the accumulation period. The annual income tax rate assumed was 30%. (The advisor chose the year 1974 to begin the run to assess how competing portfolios (described below) behaved during some of the worst and best of modern U.S economic history, that is., most of the horrific 1973-75 recession through the largely expansionary period of the 1980s and 1990s.)

At the bottom of Table 1, the advisor enters the portfolios under consideration and information to derive the allowable annual gift tax exclusion. In this particular trial run the Current stock-dominated portfolio and the Experimental bond-dominated portfolio represent the competing portfolios, with their related asset mixes and investing fees and expenses. Then, the model provides a calculator to derive the annual gift tax exclusion, in real, price-adjusted terms, over the 19-year planned accumulation and thus gifting period. The user inputs the current maximum individual annual gift tax exclusion of $13,000, and in the case of the Savers, signifies "split gifting," "6" donees, and an assumed 40% rate for valuation discounts for interests gifted. Using these variables, the calculator returns an annual maximum exclusion of $260,000.

The advisor may now "test drive" these and other competing portfolios over different "road conditions," from the normal to the abnormal and the best to the worst markets, to get impressions of how different portfolios may perform and the gifting opportunities they offer.

With the model's 83 years of historical performance data at their disposal, users may experience the portfolio effects of great bull markets, e.g., 1943 to 1946 and 1984 to 1987, and long bear markets, e.g., 1929 to 1932 and 1968 to 1970.

While not demonstrated here because of space limitations, the model also possesses limited capability to evaluate nonmarketable legacy assets for gifting and donee income other than from gifts. For example, the model accommodates nonmarketable real estate (such as a personal residence or farmland), antiques and artwork, and similar assets that an owner may distribute to donees. Moreover, in planning target income streams for donees, the model will factor in wages, salaries, pensions, Social Security and other anticipated donee income which may supplement income projected from gifts.

MODEL OUTPUT

Table 2 (Appendix), "Model Output" shows the results of the Savers' initial test run (1974-1999) using the input data described above after assumed investing fees and expenses and in today's dollars of purchasing power. To highlight some of the results (top of Table 2), note that the Current stock-dominated portfolio handily outperformed the Experimental bond-dominated portfolio. First, the Current portfolio average annual pre-tax income (payouts) outperformed by $674,453 annually ($1,813,336 vs. $1,138,883), thus slightly exceeding the Savers' $1,500,000 legacy target income during the assumed FLLC liquidation period, 1993-99, in this trial run. Second, during this trial period, the Current portfolio provided full realization of the maximum annual gift tax exclusion in all years of the accumulation period (middle of Table 2) to 74% of the years for the Experimental portfolio. Consequently, the Experimental portfolio resulted in the forfeiture of $1,108,937, or around 4.25 full years' equivalent annual gift tax exclusions for the Savers. Third, the Current portfolio market value at the date of the Savers' actuarial death exceeded the Savers' alternative legacy target of $8,000,000 (bottom of Table 2) by almost $1,685,000. Meanwhile, the Experimental portfolio fell short of this target value by more than $1,356,000. Finally, average annual returns of the Current portfolio outperformed those of the Experimental portfolio by 3.79% (6.64 % vs. 2.85 %).

Nevertheless, the superior returns and gifting advantages of the Current portfolio did not come without the cost of additional volatility and, thus, risk. The standard deviation of the Current portfolio income (payouts) exceeded that of the Experimental portfolio by $160,404 ($529,165 vs. $368,761) and, similarly, Current portfolio returns standard deviations outpaced by 1.64% (12.33% vs. 10.69%). The count of "Down" year performances, however, for the Current portfolio annual returns was 3 years fewer than that of the Experimental portfolio as the latter's returns suffered from inflation rates at or near double digits over many of the years from 1974 to the early 1980s.

In short, the Current portfolio met the Savers' legacy portfolio income (payout) target, their alternative portfolio market value target, and the gift tax exclusion maximization target, while the Experimental portfolio fell short in all instances. The decisively better performance of the Current portfolio over this planning period stems primarily from the excellent overall performance stocks experienced during the roaring bull markets of the 1980s and 1990s. Notably, the Current portfolio overcame the severe stock bear market of 1973-74 and milder down markets thereafter to validate the admonition to invest in stocks for the long run (Siegel, 2008) at least over the Savers' initial 26-year trial run, 1974 through 1999.

In addition to the tabular data in Table 2, HLPM provides charts to show portfolio outcomes so the user may quickly identify essential differences. The charts portray annually by portfolio pre-tax income (payouts) available, market values, percentage returns and gift tax exclusion forfeitures (illustrated in Figure 1, Appendix). The chart shows that forfeitures occurred from 1981-85 (inclusive) for the Experimental portfolio, mainly stemming from its poor performance during the inflationary period of the mid 1970s and early 1980s. Meanwhile, the chart shows no forfeitures for the Current Portfolio over the planning period even with its greater volatility.

MULTIPLE TRIAL RUNS

To obtain more reliable long-term perspectives of competing portfolio outcomes, planners should conduct runs of different portfolios over different historical periods under varying economic and market conditions. These multiple trial runs enable the user to better understand portfolio risk/return tradeoffs and gifting opportunities and thus avoid costly planning mistakes. In fact, the Savers' professional advisor's staff conducted a series of 26-year rolling trial runs of various portfolios over the period 1927-1984 (inclusive), or 58 years, using Table 1 basic input data.

Will the Savers ultimately continue with their Current portfolio strategy or switch to a more conservative portfolio, such as the Experimental alternative? As alluring as the long-term average returns of stock portfolios remain, however, many investors cannot emotionally tolerate the short-term volatility; they become frightened, sell out at or near market bottoms, and never again invest in volatile asset classes. Ultimately, the Savers did decide to remain with the Current portfolio strategy, embracing stocks for the long run. Their decision resulted mainly from the portfolio risk/return tradeoff and gift tax effectiveness profiles of alternative portfolios over the long term provided to them by their recently engaged professional planner.

SUMMARY AND CONCLUSIONS

Accumulating abundant wealth and then transferring a portion to beneficiaries of choice at minimal transfer taxation costs remain life-long goals of many individuals. The authors have presented a computerized planner (HLPM) to aid professional advisors in formulating sound long-run investment strategy for wealth accumulation and in implementing a tax-effective wealth transfer strategy. The model was demonstrated assuming a high-wealth married couple accumulating assets in a FLLC and then gifting its membership interests to their descendants.

To develop sound investing and gifting strategy, the model allows professional advisors to test drive different strategies over different historical periods to provide insights (subjective probability distributions) into plausible and worst- and best-case outcomes. The user may test scenarios such as target asset accumulations, portfolio mixes (including nonmarketable asset classes), income (payout) targets for donees, annual savings rates, allowable gift tax exclusions, and different valuation discounts**.** Outcomes are based on actual (not average) annual real returns during different historical periods to prevent masking of short-term portfolio fluctuations in highly volatile markets. These fluctuations may influence strategy decisions in emotionally charged markets.

To the authors' knowledge HLPM remains unique in its capability of running scenarios of gifting LLC membership interests at valuation discounts. Professional advisors with basic

EXCEL skills may realistically use the model to accommodate their individual clients' planning needs. Lay individuals with comparable software skills and a basic knowledge of wealth transfer taxation and investing principles should find the model equally beneficial. Users may also find the program useful in planning to fund retirement, a child's college education, and other planning projects.

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APPENDIX

Table 1
User Inputs--General

Historic Legacy Projector Model (HLPM)					
This projector model allows the user to run different investment portfolios over different historical time periods to see what actual pre-tax income (payouts), asset accumulations, and gifting opportunities would result in today's dollars with their current purchasing power.					
General Model Application					
Enter 1 for Retirement Planning or 2 for Legacy Planning					2
Enter input data here (yellow cells=required; orange cells=optional; green cells=output cells					
Name of individual or entity for whom you are conducting trial run					Savers FLLC
Present fair value of individual's or entity's financial assets of all types					$2,000,000
Amount individual or entity plans to contribute each year in today's dollars before payouts begin					$150,000
Beginning year of the accumulation period (Note: Model handles 1 to 20 years before payouts begin.)					65
Year individual or entity expects first income or payout					84
Years individual or entity expects income or payouts (Note: Model handles 1 to 20 year payout periods.)					7
Individual's or entity's total, before tax, projected income or payouts needed in today's dollars					
Annual needs now	$1,500,000	At expected real yearly growth rate of	0.0%	Equals	$1,500,000
(Note that this equals a real purchasing power income (payouts) into the future given inflation-adjusted investment returns.)					
Individual's expected marginal tax rate					30%
Start year for trial run (Note: User can start in 1927 or later; but, if a trial period exceeds 2009, the program uses average 1927-2009 returns for the years past 2009					1974

Table 1 (continued)

Table 1 (continued)

Asset Classes or Types (use decimals)	Taxable current (%)	Non-taxable current (%)	Taxable experimental (%)	Non-taxable experimental (%)	Fees (%)
Money (3 mo. Treas. bill)	5	0	5	0	.25
Long-term bonds (20 yr. U.S. Treasury)	20	0	60	0	.50
Real estate broadly diversified	15	0	15	0	.75
Large cap stocks (S&P 500 index)	40	0	15	0	.65
Foreign stocks (World-ex U.S.)	0	0	10	0	.85
Gold bullion	0	0	5	0	.75
Small cap stocks	10	0	0	0	.75
Column totals should equal 100%	100	0	100	0	
How would you categorize your portfolio mix or emphasis?	Stock		Bond		

Annual Gift Tax Exclusion

Annual gift exclusion	FLLC discount* (%)	Single (1) or split (2) gifts	No. of domes	Annual exclusion	Cumulative exclusion taken to date
$13,000	40	2	6	$260,000	$520,000

*Valuation discounts

Table 2
Model Outputs--Legacy Funding

Note: If your trial period runs beyond 2009, the program will apply average returns from 1927-2009 for years beyond 2009.

Client	The Savers	Trial starts	1974	Trial ends	1999	Target income needs	$1,500,000
Portfolio strategy			Current	Experimental	Difference	Initial portfolio assets	$2,000,000
			Stocks	Bonds		Target	$8,000,000

				portfolio needs	
Portfolio income data					
Average annual pre-tax income	$1,813,336	$1,138,883	($674,453)	Planned annual savings	$150,000
Standard deviation of portfolio income	$529,165	$368,761	($160,404)		
Target annual income needs	$1,500,000	$1,500,000	$0		
Annual excess (deficiency)	$313,336	($361,117)	($674,453)		
Percentage of times full gift tax exclusion realized	100%	74%			
Total gift tax exclusion forfeited	$0	$1,108,937			

Table 2 (continued)

Table 2 (continued)

Securities portfolio--other data			
Actual market value of portfolio for estate	$9,684,845	$6,643,440	($3,041,404)
Target securities portfolio for estate	$8,000,000	$8,000,000	
Excess (deficiency)	$1,684,845	($1,356,560)	($3,041,404)
Average annual real returns (%)	6.64	2.85	(3.79)
Standard deviation of returns (%)	12.33	10.69	(1.64)
Number of up years	19.00	16.00	+3
Number of down years	7.00	10.00	-3

Figure 1
Gift Tax Exclusions Forfeited