Estate Planning

Estimated Estate Tax Exposure

Presented to:
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Principal® Financial Group

Estimating Federal Estate Tax Liability

Estate planning is important in order to ensure that your estate is distributed the way that you choose. With uncertainty due to economic conditions or longevity, this important planning can become paralyzed. Unfortunately, this could jeopardize your ability to achieve your property distribution wishes.

The challenge

Many wealthy individuals with substantial estates face similar concerns. When attempting to estimate future federal estate tax liability, there are two primary variables that seem difficult to project.

- Rate of growth on estate assets
- Longevity

Determining a reasonable rate of growth, and trying to anticipate one's own passing, can lead to inaction.

A solution

The Principal Financial Group® can help you visualize the impact these two important variables can have on your projected federal estate tax liability.

The following pages project estimated estate tax liabilities for three different scenarios.

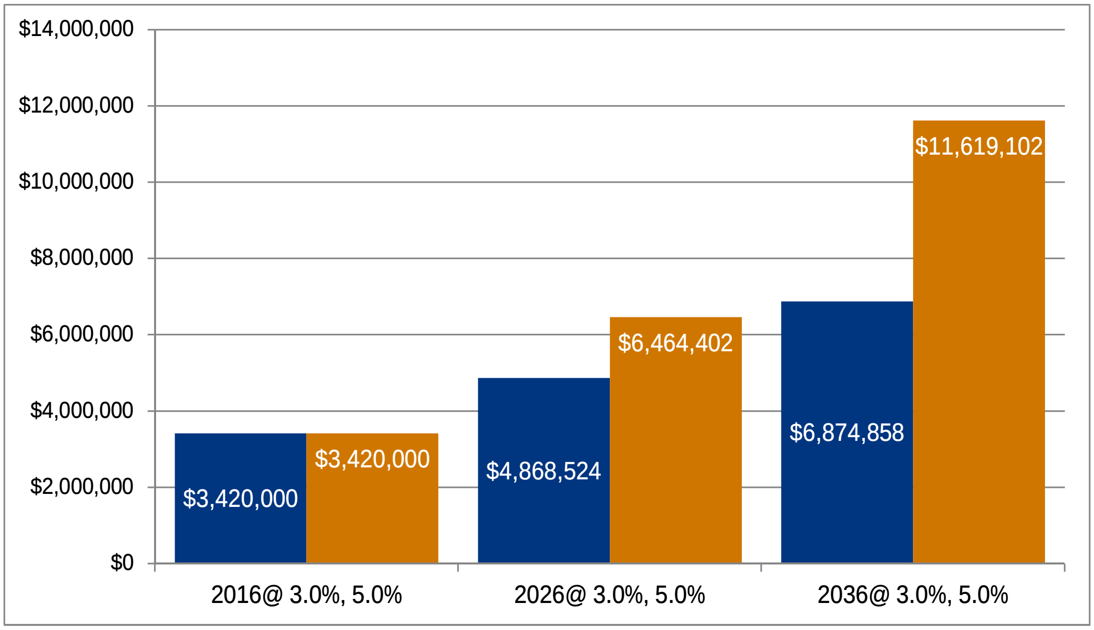
2016	For this scenario, we have assumed the current tax based on American Taxpayer Relief Act of 2012 (ATRA 2012), with an estate tax exemption at $5,450,000 (Indexed for 2016) and an estate tax rate of 40 percent will be in effect in 2016 and beyond.
2026	Assumes you die in 10 years. ATRA 2012 estate tax assumptions are included.
2036	Assumes you die in 20 years. ATRA 2012 estate assumptions are included.

For each scenario, two different growth rates are shown to apply to the current fair market value* of the estate.

* Fair market value for estate tax purposes generally means the price at which property would change hands between a willing buyer and a willing seller, with neither under any compulsion to buy or to sell and where both have reasonable knowledge of the relevant facts.

Doe Estimated Federal Estate Tax Exposure

2016 Fair Market Value: $14,000,000



	Passes in 2016		Passes in 2026		Passes in 2036	
	Estate Fair Market Value	Projected Estate Tax	Estate Fair Market Value	Projected Estate Tax	Estate Fair Market Value	Projected Estate Tax
Growth Rate is 3%	$14,000,000	$3,420,000	$18,814,829	$4,868,524	$25,285,557	$6,874,858
Growth Rate is 5%	$14,000,000	$3,420,000	$22,804,525	$6,464,402	$37,146,168	$11,619,102

Assumptions:
(1) Values do not reflect increase in equity due to repayment of loans.
(2) No unspent, after-tax annual income is reinvested for growth.
(3) Values do not reflect future inheritance(s).
(4) Estate tax exemption indexed based on the CPI @ 2%.
(5) Higher investment returns typically involve greater investment risk.

Additional factors to consider

Growth rates and longevity are two of the key variables that need to be considered. Depending on your state of residence, you may also need to consider the impact of estate or inheritance tax at the state level. Other variables also could impact the amount of estate taxes owed at death. For example, planning strategies adopted to reduce estate taxes, or family changes such as marriage, divorce or inheritance can also play a major role. In addition, debt reduction and unspent income may also impact estate growth and your resulting estate tax liability.

Those, however, are variables over which you generally have some control. So, for calculation purposes, we have assumed:

Single Individuals

- Single person
- Use of one estate tax exemption

Consider Your Needs

A single person who becomes married, may need either a single life policy (if a pre-nuptial agreement between spouses is executed) or a survivorship policy (pays a death benefit when the second insured passes) if full marital property rights are provided in a second marriage. Single individuals with a significant estate should visit with local counsel to review the range of available options, before making any final decisions.

Projections of future estate tax exposure demonstrate a range of possible outcomes. These outcomes may present a dilemma for clients considering life insurance to help protect their estate from shrinkage due to estate taxes, or to provide liquidity to an estate.

Recent legislative activity has given many clients and financial professionals reason to think the estate tax is not going away any time soon. From an insurance funding perspective, this suggests a preference for permanent coverage, instead of term insurance.

Younger insureds, with potentially a longer period of time to live and with many economic ups and downs in their future, may see term insurance as a reasonable alternative. A term policy could be acquired now and converted later to a permanent policy when the time is right.

Older clients with more predictable estate growth and a generally shorter life expectancy, often select permanent coverage, instead of term insurance. This allows them to lock-in their mortality pricing at a current age before a change in health occurs.

The decision regarding how much face amount to purchase may be based on either of the three calculation scenarios provided. Many other factors also influence that decision such as cost and premium paying strategies. It is perhaps more important to fund the estate tax at some level, rather than leave it completely unfunded.

Give your estate plan an edge

The charts above outline your potential tax exposure. This is the starting point for discussions with your attorney and your representative of The Principal. They can help you develop a plan that accomplishes your estate distribution and liquidity funding objectives in the most tax-efficient way possible.

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