

# WEALTH STRATEGIES



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## Leave Gifts in Trust Instead of Outright to Protect Your Children's Inheritance

**G**ood Estate Planning requires careful consideration of how to distribute assets to loved ones. In most trusts, distributions are staggered upon children reaching certain ages. Commonly, one-third of trust assets are distributed at 25 years, one-third at 30 years and the remainder of trust assets are distributed at 35 years. Is there any significance to these ages, and is this really what the parent or child wants? The simple answer is no!

When distributions are made to a beneficiary outright, like in the example above, the beneficiary receives no asset protection and is forced to take title outright whether they are ready, competent or have creditors. Assets passed to beneficiaries in a properly structured trusts have many advantages including asset protection, control, generational dynastic planning and tax planning.

As a parent of two boys, I created a trust-based plan that will protect my children's inheritance from the possibility of a failed marriage and other creditors, but which also gives them the ability to control their trust some day, if and when they develop into capable adults. In the meantime, my chosen Trustee has complete discretion to provide for my children's needs.



If you have capable beneficiaries, consider allowing your loved ones to be Trustees of their own separate, fully discretionary, dynasty trusts. Once your beneficiaries reach an age that you select, then the beneficiary can take over full control of their inheritance. By leaving a gift to your beneficiaries in trust, instead of forcing out distributions at a certain age, you provide your beneficiaries with the asset protection and control benefits of leaving assets in trust that could otherwise not be achieved in an outright distribution plan.

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# Bottom Line Up Front

by Chief Investment Officer Dryden Pence III, CPM®, AIF® & Analyst Ali Arik, Ph.D.

The Federal Reserve still signals a rate hike in 2015 but at a gradual pace. We are maintaining our opinion in our April newsletter. The first rate hike will be between September and December. There is a 50% chance for one rate hike and another 50% for two rate hikes before the year end. The outcome will depend on economic activities in the second and third quarters.

Due to transitory factors in the first quarter, we now expect the US economy to grow slightly below 2% in 2015. But the fundamentals underlying the strength of household spending appear favorable and we expect economic growth to pick up in the second half of the year.

Looking ahead, we continue to remain US-centric and favor US-based companies.

In addition, we see opportunities on the other side of the Atlantic Ocean as the cheaper euro and a pick-up in economic growth help Europe's biggest multinational corporations export and sell more.

With regards to Grexit – Greece defaulting on its debt payments, and subsequently being pushed out of the euro currency union, we say, "Who cares!" The US grows the equivalent of a new Greece in every 8 months.

## The Way We See It The Fed Rates Hike

Depicted in **Chart 1**, and consistent with the March Fed meeting, 15 of 17 Fed officials said they expected to start raising the federal funds rate before the end of 2015.

Currently, the effective funds rate is at 0.125 percent. The general consensus is that one rate hike is equivalent to 0.25 percentage point.

Seven out of 17 want one or no rate hike in 2015, whereas ten want two or more rate hikes. We believe five Fed participants with 0.625 percent year-end forecast will be the swing voters in determining whether we'll see one or two hikes by the end of this year.

Chairwoman Janet Yellen said the importance of the initial rate increase "should not be overstated." What should matter is the entire expected trajectory of policy, which is likely to shift as the economic data evolves. She emphasized that even after the first move higher, the Fed's policy will still be broadly accommodative.

In Yellen's view, economic conditions are currently anticipated to evolve in a manner that will warrant only **gradual** increases.

Nonetheless, the chairwoman has no plan to follow any type of mechanical approach to raising the rates. In the past, the Fed increased funds rate at a *quarter* percentage point.

It is our opinion that the Fed officials will evaluate incoming conditions and move in the manner that they regard as appropriate. This means smaller 0.10 or 0.15 percentage point incremental increases are on the table as well.



## US Economy & US Markets

Consistent with our view in April, we continue to believe 2015 will be a single-digit year for the US equity market (S&P 500 Index).

We still believe the second half of the year will be more volatile than the first half as we get closer to the Fed rate hike. For this reason, we continue to favor relatively larger cash positions, 5% to 15%, than a normal 2% to 5% in order to dampen portfolio volatility and to buy on dips.

In the disappointing first quarter, net exports were a substantial drag on the US economy because of the surging dollar and West Coast port issues.

In line with the soft data for the first quarter, we reduced US gross domestic product (GDP) growth projections for this year. But we expect a stronger growth in the second half of the year. Our forecast for 2015 is now around 2%, down 0.5% point from our April projection (**Chart 2**).

We continue to believe the fundamentals underlying household spending accounting for 70% of US GDP because they appear strong. Both consumer and business sentiment remain solid.

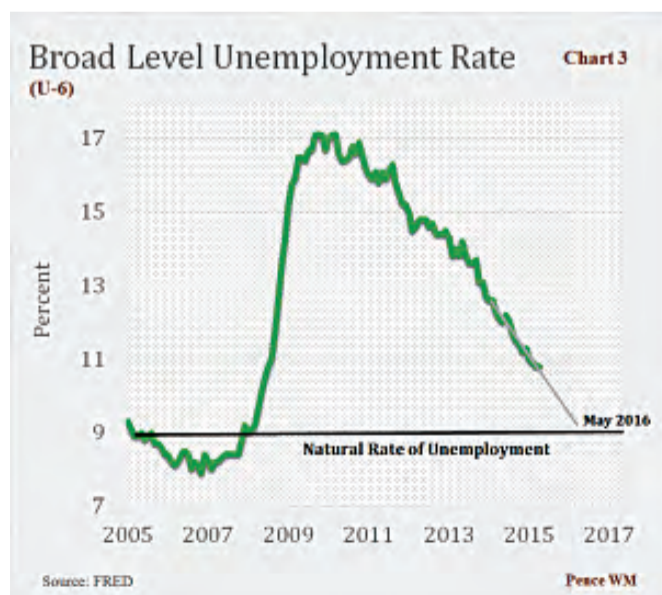
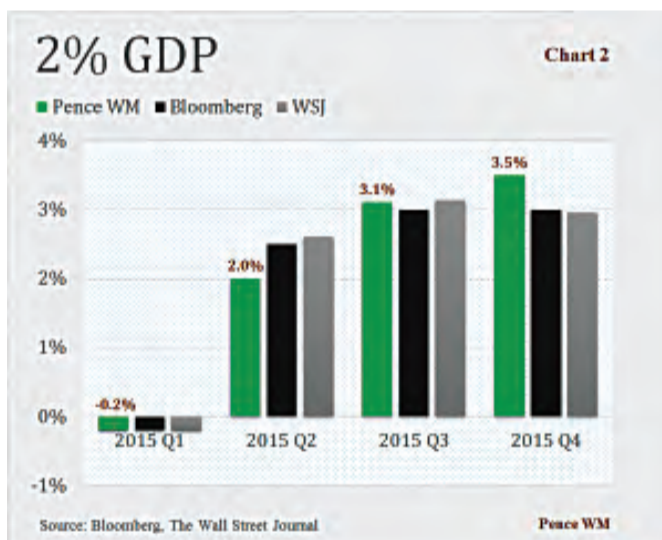
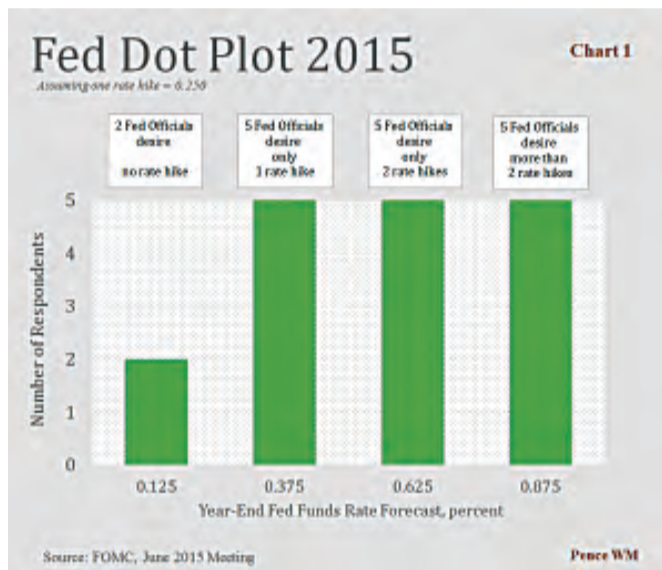
Looking ahead, we still expect a moderate pace of GDP growth (around 2.5%) with strengthening labor market and lower energy prices that are supporting consumer spending.

The labor market data so far this year shows further progress toward a maximum level of full employment.

The US **jobless rate** (U-3) stood at 5.5% in May, down from 6.3% a year earlier. We've seen 63 consecutive months of private job creation and the economy has created an average of 217,000 jobs per month so far this year.

Looking at a broader measure of unemployment (U-6) that includes individuals who want and are

*continued on page C-66*



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For our clients with Strategic Asset Management (SAM) accounts where we manage with full discretion, depending on your individual situation and account, we expect to hold slightly higher cash positions as opposed to bonds, as they may become more volatile. We will deploy excess cash positions opportunistically as we evaluate both volatility and value. In short, we will remain tactical in a market we expect to be volatile.

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## Exit Strategies for Entrepreneurs

by Loreen M. Gilbert, CIMA®, AIF®, CRC®, CLTC®, President, WealthWise Financial Services

**Y**our exit strategy may be one of the most important, yet least thought-out, elements of your business plan. Among the important decisions — what you might want to do after you leave the business, what the ongoing roles of your children or other family members might be, and how the sale proceeds will be deployed. The development of an exit strategy also opens the door for a wide range of tax management, philanthropic, and estate planning activities and opportunities. However, since effective strategies balance complex legal, financial, tax planning, and contractual issues, cross-disciplinary professional advice is virtually required.

If you are like many of your peers, the road into your business was more clearly laid out than your exit route from involvement. However, a well-drawn roadmap for the endgame can be the difference between achieving success and missing the target on important life goals. As a result, preparing an effective exit plan should be a central part of your overall game plan.

### Laying the Groundwork

A viable entrepreneurial exit strategy must take account of where you are today or where you would like to be in the future and provide for contingencies in the event of unforeseen circumstances. As a result, your exit planning should start with a comprehensive appraisal of your business and personal finances. Many entrepreneurs have found it valuable to start by developing a comprehensive net-worth assessment with their financial advisor. This not only helps to identify all available resources, but also to help match those resources against specific goals.



Perhaps less objective but no less key to a successful exit strategy is values clarification. For example, if some or all of your children are involved in the business, do you want them to continue in their current roles or expect that all will move on when the business is sold? You might have a clear choice for a successor, and so might wish to consider how that choice will impact other family relationships. Keep in mind that many exit plans have floundered because of internal family conflicts.

A related area of concern that will form a backdrop for the exit strategy is your vision for life after the event. Are you planning to retire? To remain involved as a consultant or part-time executive? To start a new venture in another field? Also, what might happen to your business if you were to suffer an untimely disability or even death? How each of these questions is addressed will impact your exit strategy.

Finally, a successful exit process should be based on a sound understanding of existing business relationships and provisions. You should identify the key professional and executive talent in your firm and then formulate appropriate reward and retention strategies for them.

### Potential Deal Forms to Consider

The various choices of deal structure each offer unique cost/benefit trade-offs. Here is an overview of the options:

**Buy-Sell agreement** — This arrangement is designed to permit business co-owners to terminate their business relationship by setting the parameters for some participants to buy out others. It enables one or more associates to maintain involvement in a business when others might wish to sever their ties to it. It can also provide funding for a buyout in the event of the disability or death of a co-owner. A buy-sell agreement requires careful design to ensure that its execution does not work at cross-purposes with other estate and succession planning tools.

**Cash sale to a third party** — A pure cash transaction may create the greatest immediate liquidity for the seller, but other financing structures may have the potential to generate greater net yield over time. A cash sale may also be the simplest means to execute a complete and immediate separation from the business. However, keep in mind that one of the challenges of seeking a third-party buyer is that it can take time and money to find the most profitable deal.

**Buyout or recapitalization** — In leveraged transactions, partners, managers,

or the business as a corporate entity borrow the funds to purchase the stock of the exiting entrepreneur. These deals may be especially useful for dissolving a multiple ownership arrangement while otherwise maintaining the business as a going concern. They are also often used for transferring business responsibility to children or other heirs while creating financial independence from them. Recapitalizations can also be used to finance an annuity for a business owner who might wish to combine financial independence with limited business involvement.

**Employee Stock Ownership Plan** — An ESOP is a form of leveraged buyout designed specifically to give control of the business to a broad base of its current employees. ESOPs may have higher transaction costs than ordinary cash sales, but in many cases these costs are not out of line with the costs of other more complex deals. There are also specific tax benefits for ESOP transactions that may improve their net value significantly.

### Managing the Proceeds

A key part of any exit strategy is the financial plan for managing the proceeds of the deal in a manner consistent with the client's post-sale goals. Such plans typically include a blueprint for investing sale proceeds in a diversified portfolio. They also typically include an estate plan crafted to take advantage of the trust structures and tax-code features that allow you to preserve wealth and protect the future interests of heirs. Among the favored devices may be family limited partnerships and grantor retained annuity trusts, which can reduce the estate value of shares passed on to heirs. In addition, many entrepreneurs are interested in charitable remainder trusts and/or charitable lead trusts. These may be used to fund philanthropic programs that realize specific charitable goals while maximizing tax benefits, minimizing costs, and creating an income stream.

### Professional Guidance a Must

Just as you likely rely on key advisors when making significant business decisions, you'll need to assemble a team of legal, tax and finance professionals to help you analyze your current and future objectives and planning needs.

### Points to Remember

1. The sale of a business is only one small transaction at the center of a larger plan often referred to as an exit strategy.
2. The most successful exit strategies are those that give the business owners the greatest probability of comfort with the results as seen in their financial security, family dynamics and long-range goals.
3. There are many options for structuring the sale of the business, and each had different implications for other elements of the broader strategy. Buy-sell agreements can help maintain continuity for remaining owners in a wide range of circumstances. Pure cash transactions typically yield the greatest immediate liquidity. Leveraged transactions may enable managers, partners or family to take over and maintain continuity for the business. ESOPs can provide tax benefits and empower employees.
4. Trusts can be valuable tools for managing the income tax and estate planning implications of the wealth derived from a business sale.

*Loreen M. Gilbert is a registered representative with and securities offered through LPL Financial, Member FINRA/SIPC.*

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## LAW OFFICES

## Estate Planning in 2015

by Timothy J. Kay, Partner and Steffi Gascón Hafen, Associate

### Gift and Estate Tax Exemptions and Rates

Over two years have passed since the American Taxpayer Relief Act of 2012 (ATRA) was passed, setting the unified Federal gift and estate tax exemption and the generation-skipping transfer tax (GST tax) exemption at \$5 million, indexed for inflation. Estate and gift taxes and GST taxes are all set at a flat 40% rate. For 2015, the gift and estate tax exempt amounts and GST tax exempt amount equal \$5.43 million (\$10.86 million for married couples). These amounts are indexed for inflation and will likely increase by \$90,000 or more every year.

### Portability - Simplifying Estate Planning?

ATRA also made "portability" permanent – a great benefit to married couples. If a spouse dies without exhausting his or her lifetime gift and estate tax exemption, so long as the decedent's executor makes the proper election on an estate tax return, the unused exemption is credited to the surviving spouse for use during life or at death. The deceased spouse's unused exemption at the survivor's death will be combined with the survivor's own estate tax exemption to offset any estate tax liability in the survivor's estate. However, unused GST exemption is *not* portable; if it is not used by the decedent, it is lost.

The combined gift and estate tax exemption, along with portability, allow many married couples to simplify their estate plan and still avoid estate taxation at the second death. For couples with less than \$10.86 million in net worth, an "all to the other" approach, which relies on portability to cover any estate tax at the second death, may be the simplest way to meet the couple's estate planning objectives (assuming the spouses do not wish to provide directly for children or other family members, friends, or charities). This provides the surviving spouse with the greatest flexibility and a second stepped-up income tax basis in assets held at the surviving spouse's death. Careful thought is still required to determine how assets should ultimately pass to the next generation after the surviving spouse's death.

### When "All to the Other" May Be All Wrong

Although portability offers an easier option for married couples, there are many instances in which this approach may not be recommended:

► **Blended Family or Other Intended Beneficiaries.** For couples with children from a prior partner, the traditional "QTIP" Trust or Bypass Trust may still be a better strategy to ensure that the children of the first-to-die are remainder beneficiaries at the second death. The survivor may not change the final beneficiaries of the trusts. Both the QTIP and Bypass Trust can also be used to provide for other family members, friends, or charities chosen by the first-to-die. While the Bypass Trust allows all appreciation between the deaths of the two spouses to pass free of estate tax at the second death, the use of the Bypass Trust will prevent a step-up in income tax basis at the second death.

► **Creditor Issues.** The "all to the other" approach provides that the assets of the first-to-die will be allocated to the survivor. Because the survivor has full control over the assets, the survivor's creditors can also reach the assets. If there is concern about creditors of the surviving spouse, use of a QTIP Trust or Bypass Trust may still be ideal.

► **Dynasty Planning.** Because portability does not apply to the GST tax exemption, the GST tax exemption of the first-to-die is lost with "all to the other." If a couple wishes to engage in multi-generational planning, then dynasty trusts designed to fully utilize the GST tax exemption of each spouse should be used.

### Income Tax: The Unexpected Estate Planning Focus

ATRA increased the top federal individual income tax rate to 39.6% and the top capital gains rate to 20%. The Affordable Health Care Act added the 3.8%

net investment income tax. For California taxpayers, the top state individual income tax rate has increased to 13.3%.

What do these increases in income taxes mean for estate planning? Previously, the focus for estate planning had been on reducing the taxable estate, as top estate tax rates significantly exceeded income tax rates. However, the current environment has made income taxes a new focal point for estate planning. High net worth individuals may prefer to engage in strategies during life that both reduce their total income tax and transfer wealth to their descendants with as little transfer tax as possible. Some techniques include:

► **Shifting income.** Gift high income-producing assets to a trust that distributes taxable income to a beneficiary in a lower tax bracket.

► **Avoiding phase-outs.** Reduce gross income to avoid the phasing out of itemized deductions and personal exemptions by creating Charitable Lead Annuity Trusts (CLAT). In a low interest rate environment, CLATs also offer donors the opportunity to pass appreciation in assets in excess of the IRS assumed earnings transfer tax free to the next generation.

► **Delaying Capital Gains Taxation.** Gift appreciated assets that are to be sold to a Charitable Remainder Trust (CRT), a tax exempt trust. A sale by the CRT avoids immediate capital gains taxation and 100% of the proceeds are reinvested. Distributions from the CRT each year will be taxed to the beneficiary, but may avoid income taxation at top rates.

► **Selling instead of gifting.** Use installment sales to defective grantor trusts and zeroed-out Grantor Retained Annuity Trusts, preserving the gift and estate tax exemption amount for use against assets in the decedent's estate while still reducing the taxable estate.

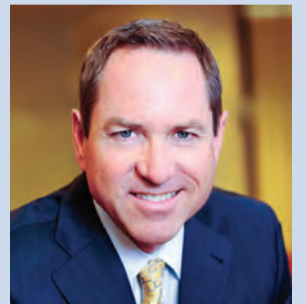
► **Exploit Basis Step-up.** Cause low basis assets to be included in a decedent's nontaxable estate, receiving a step-up in basis and reducing capital gains tax at a subsequent sale.

### Conclusion

Portability may allow simpler estate planning for some couples, but for others with significant wealth, blended families or unique goals, portability may not be the answer. In addition, the narrowed gap between gift and estate taxes and income and capital gains taxes has created a new focus on income tax planning. A check-up with your estate planner may be advised to ensure that your plan takes appropriate advantage of today's laws and cutting edge techniques.

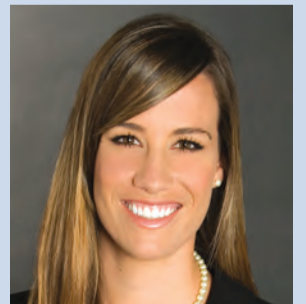
#### Timothy J. Kay

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It is also critical that all of these issues be examined, not just at the inception of a plan, but every year. What might seem like a modest change in any year could in fact result in significant and unanticipated ramifications. Having a qualified pension professional review and analyze data year to year is the best protection against unexpected consequences.

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## Year-End Strategies with Loreen Gilbert, CIMA, AIF, CRC, CLTC

### *Insights with the Experts*

**I**t is now the last quarter of the year, and whether you are reviewing personal financials, corporate financials or both, it is time to take note of year-end wealth strategies that can move you and your company forward. In our interview with Orange County wealth strategy experts, we explore the inherent complexities of as well as the necessary collaboration between these various disciplines.

We begin our year-end commentary from a wealth management perspective. I asked **Dryden Pence, CIO at Pence Wealth Management** the following:

**Loreen:** *Dryden, what are the key factors you are focusing on as we approach the end of the year?*

**Dryden:** There are four factors we think are important between now and year-end:

1. Does the Fed raise rates?
2. Does the government have a budget impasse?
3. Is there room in employment improvement and wage growth?
4. When will lower oil prices start reflecting increased consumer demand?

**Loreen:** *Those are important factors to consider; in addition, the question everyone wants answered is, how do you explain the recent market volatility?*

**Dryden:** Over the past few years, we have seen amplitude volatility, where the moves were large (7-10%) and over multi-month cycles. Now we are in frequency

volatility, where most moves are between 4% to 7%, but happen frequently over days or weeks. This is due to the volume of program trading, a lot of hedge fund leverage and the all-in all-out nature of ETFs (Exchange Traded Funds). This frequency volatility can sometimes be punctuated by large exaggerated swings over just a few days or hours as computer programs move the market faster than logical responses can settle it.

**Loreen:** *Thanks, Dryden. It is easy to forget that intra-year volatility is normal in the middle of a bull market cycle when it has been a number of years since we have experienced it.*



Dryden Pence

Our next expert discusses the often overlooked area of asset protection. To explain the specific strategies of asset protection is **Jeffrey Verdon, Managing Partner at Jeffrey M. Verdon Law Group LLP**:

**Loreen:** *Jeffrey, how can an attorney help to protect accumulated assets?*

**Jeffrey:** Asset protection is critical to a well-planned estate. Without asset protection, it is difficult to survive a financially ruinous lawsuit. Most estate planning attorneys do not offer these services, but they know other lawyers who do. There are many strategies that should be considered, from the basic family Limited Partnership and Limited Liability Company, to the more robust domestic and offshore asset protection trust. For all CA business owners, establishing a Private Retirement Plan (PRP) is one of the most effective and important planning steps to be taken before a lawsuit is filed. The PRP can be used to protect both the business assets and the assets contributed to the PRP by the employee.

**Loreen:** *I doubt most people have heard about a Private Retirement Plan (PRP). What is the benefit of establishing a PRP and how can it be funded?*

**Jeffrey:** California exemption law exempts from creditors the assets held in a Private Retirement Plan (PRP) and also exempts from creditors future distributions from the PRP. The PRP must be set up primarily for the retirement of the plan participant, may be funded with assets to provide an annual retirement benefit for his or her life, and allows the participant to contribute his or her own personal assets to the PRP. Since the PRP is not an ERISA qualified plan, it does not require all of the employees to be covered under the plan and there are virtually no limitations on the amount that can be funded into the plan. Because the PRP is established under the exemption laws of the state, the assets will be protected even if bankruptcy is filed.



Jeffrey M. Verdon

**Loreen:** *It sounds like a PRP is a great asset protection tool.*

In addition to asset protection, there are other advanced estate planning strategies to consider. To clarify some of the estate planning opportunities, I interviewed **Nicole Anderson, Principal of Anderson Law Group** and **Timothy Kay, Partner at Snell & Wilmer**:

**Loreen:** *Nicole, how often should an estate plan be reviewed?*

**Nicole:** At a minimum, estate plans and asset titling should be reviewed every three to five years, or when there is a change in the law or a change in family circumstances. Estate planning is not a once in a lifetime experience, and just like any investment it must be maintained so it works the way it was intended. We offer a cost effective maintenance program so that our clients usually see us at least once a year and talk to us during the year as well.



Nicole Anderson

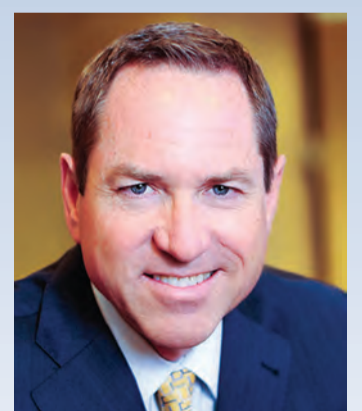
**Loreen:** *What is the hot topic in advanced estate planning right now?*

**Nicole:** Income tax planning is a hot topic for many clients who are experiencing better economic times and the effects of higher income tax rates. Charitable planning including the use of Charitable Lead Trusts (CLT) are very popular income tax tools given continued low interest rates which may be changing next

year. CLT documents are drafted by an estate planning attorney and funding a CLT gives the donor favorable tax treatment in the year it is established and funded.

**Loreen:** *Timothy, what are your thoughts on gifting and charitable giving at year end?*

**Timothy:** We encourage our clients with large estates to maximize their gifting to their kids or gifting through 529 plans for grandkids. We also encourage our clients to do a second round of gifting in January so that they do not have to worry about end-of-year deadlines during the holiday season. Donor Advised Funds (DAF) are another useful tool whereby appreciated stock or property is donated into the DAF and thereby a tax deduction is realized without incurring capital gains.



Timothy Kay

**Loreen:** *DAFs are a cost effective method to make donations without having to create a foundation. However, for many families, forming a family foundation is a life goal. How do you assist families with their foundations?*

**Timothy:** We help families establish and maintain their family foundation. We also assist with on-going family governance. Our goal is to keep the family engaged so that we avoid unhappy families and any potential future litigation.

Finally, at year end, corporate executives and business owners are starting to think about the income taxes which will soon be due. Creative retirement plan techniques can help mitigate the pain of a rising tax environment. Our experts in the area of retirement plan design are **Jack and Jordan Cross, President and Vice President respectively, of Jack A. Cross & Associates Inc.**



**Loreen:** Jack, what retirement plan strategies can a company and/or a business owner implement in the fourth quarter that will help reduce income taxes for the year?

**Jack:** There are two retirement plan solutions for a company to consider at the end of the year:

- ▶ Maximize the profit sharing component of a retirement plan
- ▶ Create a cash balance plan to run alongside the 401(k) Profit Sharing Plan.

**Loreen:** Jordan, what is new on the retirement plan horizon this year?

**Jordan:** This year the biggest issue is the Amendment and Restatement of all defined contribution plans. In recent years, Congress has enacted a number of new laws affecting tax qualified retirement plans. The most important of these new laws is the Pension Protection Act of 2006 (PPA). Congress and the IRS have generally permitted employers to comply with these new rules in operation without formally amending the underlying Plan document until some date after the law is effective. The IRS is now requiring all qualified plans to be restated to comply in form with the new laws and guidance by April 30, 2016.



Jordan Cross

**Loreen:** It sounds like the required restatement will keep employers and third party administrators busy in the next few months.



Loreen Gilbert is a registered representative with and securities and financial planning are offered through LPL Financial, a Registered Investment Advisor. Member FINRA/SIPC.

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Loreen Gilbert, CIMA, AIF, CRC, CLTC  
President  
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# A Man's Home is His Castle, or is it?

## "Homemade" Homestead Exemption

by Jeffrey M. Verdon, Esq., Managing Partner, Jeffrey M. Verdon Law Group LLP

Saul can't sleep.

He spends his first night in his magnificent new beach house with his mind wandering restlessly, trying to pinpoint what's bothering him...

When Saul sold his company for a huge profit, he put most of the cash into the most protective of the popular asset protection choices, an offshore asset protection trust (APT) knowing that if anyone ever came after it, the APT would put it out of play. But as Saul contemplates his insomnia, he realizes he protected most of the cash from the sale of his company, but not his most coveted possession – his newly completed dream beach house.

As an estate and trust law firm, our clients often ask how to keep both their valuable primary and vacation homes in the family and protect them from future



lawsuit creditors.

Because California has one of the most miserly homestead exemptions for the personal residence and no exemption for vacation homes, the choices for dealing with an expensive personal residence or vacation home can be boiled down to two options: a qualified personal residence trust (QPRT) or a promissory note residence trust (PNRT).

QPRTs have gained popularity over the past 20 years because they can be established as an irrevocable trust in which the parent retains the right to occupy the house for a pre-designated "term of years," but whether and when the estate is subject to death taxes and asset protection ultimately depends upon the lifespan of the parent and the trust's definition of "term of years."

The PNRT is another option that, simply stated, creates a "homemade homestead" by selling the personal residence or vacation home to a special type of irrevocable trust called a HYCET™ Trust (an irrevocable intentionally defective grantor trust) in exchange for a long-term promissory note.

Here's how it works:

Saul funds a PNRT with cash or other property, giving the trust independent assets to create an initial balance sheet. He then sells the residence or vacation home (or both) to the trust in exchange for an IOU or promissory note secured by trust assets. Saul lives in his property, paying rent at market rates to the PNRT. The PNRT pays Saul interest on the promissory note, which usually covers his rental payment, making it a zero sum game.

There are several advantages of using a PNRT. Rental and interest payments are federal and state tax-free, the note term can range from 3–20 years, and the principal of the note can be prepaid without penalty. All future appreciation of the dream beach house remains in the PNRT, free of estate and generation skipping tax for a period of time exceeding 360 years (although the IRS wants to change this rule, so act soon).

If the promissory note remains outstanding at Saul's death, it will be included in his estate; alternatively, he can use a self-canceling installment note which expires at his death and is not includable in the estate. To plan for the note being included in Saul's estate requiring estate taxes to be paid, the PNRT can purchase a life insurance policy on Saul and direct the insurance proceeds to be used to pay off the note at Saul's death to cover them. The PNRT can also purchase real estate for the kids and grandkids without having to charge them rent for the use and enjoyment of the property. In sum, the PNRT can be used to provide Saul's children homes and businesses and keep such assets away from their future creditors from lawsuits, bankruptcy or divorcing spouses for maximum creditor protection.

Saul can finally sleep at night knowing that there is a legal, "homemade" homestead protecting his family from potential lawsuits, death taxes, bankruptcy and divorcing spouses.

If exposed real estate assets are keeping you up at night, and you would like to learn how the PNRT can work for you, please contact our office to schedule a consultation with one of our professionals.

For more information, contact Jeff Verdon at 949.333.8150 or [jeff@jmvlaw.com](mailto:jeff@jmvlaw.com).



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### BOTTOM LINE UP FRONT

*continued from page C-58*

available to work but have not actively searched recently and people who are working part time but would rather work full time, we see improvements as well.

In **Chart 3**, we forecast that the broad level unemployment rate should be normalizing around 9% in mid-2016 from the current level of 10.8%.

US Energy Information Administration (EIA) data published this month also shows that global petroleum oversupply, or production versus consumption, has more than doubled to 2.6 million barrels per day (bpd) since the end of the second quarter last year. With the possibility of a return of Iranian crude exports, more oil may yet come to the market and further price turbulence looks almost certain.

Go to [PenceWealthManagement.com](http://PenceWealthManagement.com) to access all of our *Pence Perspectives* to stay informed. Be sure to check back for our upcoming Fourth Quarter *Pence Perspective* newsletter.



# YEAR-END STRATEGIES FOR FINANCIAL SUCCESS

Year-end is a great time to reflect on what has happened, and look to the year ahead—financially as well as personally. You should capitalize on events that occurred over the year and put your finances on firm footing for next year.

I can make sure your investment plan is up-to-date and that you are on track toward your goals.

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