

“10 Strategies for Preserving Your Wealth”

By Steven Adkinson

You may not think of yourself as wealthy, but when you've accounted for your home, investments, personal property, retirement accounts, and all insurance that you own in your name, you may have assets over \$1 million—and that means you're “wealthy,” according to the IRS. **As an apartment owner, you most likely fall within that category.**

In 2003, every dollar over \$1 million may be subject to estate taxes, up to 49%. If a majority of your assets are in retirement accounts, including qualified plans and IRAs, your estate could lose over two-thirds of its value to federal estate and income taxes, leaving your beneficiaries with a much smaller portion of what you worked so hard to accumulate. **You may want to consider these strategies to help preserve your wealth:**

1. **Prepare a Will.** Be sure it keeps pace with changes in your own personal circumstances and adjustments in tax laws. Marriage, divorce, birth, a move to another state or a change in your finances should signal an immediate review and possible updating of your will.
2. **Use Your Estate Tax Exclusion.** The IRS allows U.S. citizens to pass the first \$1 million of assets in 2003 (incrementally increasing to \$3.5 million by 2009) to their beneficiaries free of federal estate tax. Be sure to plan properly so that both spouses use their estate tax exclusions.
3. **Title Assets to Avoid Probate.** Holding property **and real estate** in joint tenancy with the right of survivorship is a simple way to avoid probate. The probate process may increase your estate administration expenses, delay the execution of your wishes and subject your affairs to unwanted publicity.
4. **Monitor Retirement Plan Assets.** If you plan to gift your IRA or qualified plan to heirs at death, the IRA/qualified plan could lose up to two-thirds of its value to federal estate and income taxes. You may consider taking distributions from your IRA or qualified plan and purchasing a life insurance policy held in an irrevocable life insurance trust (ILIT). That way your heirs receive the insurance death benefit free of estate and income taxes (if the ILIT and plan are properly designed), instead of a fraction of your IRA or qualified plan.
5. **Gift Away What You Don't Need.** Lifetime gifts to family members or others can reduce your assets and potential estate tax liability by removing the appreciation on those assets from your estate. You are entitled to transfer up to \$11,000 per person each year without incurring any gift tax or reducing your lifetime gift tax exclusion amount. (Spouses together may gift up to \$22,000.)
6. **Keep Enough Assets Liquid to Satisfy Estate Taxes.** Generally, the IRS requires that any federal estate tax liability be satisfied within nine months of the date of death, and that payment must be in cash. There are four typical sources from which funds can be obtained: cash reserves, loans, liquidation of assets or life insurance proceeds. **This can be very relevant for apartment owners who typically have a significant portion of their wealth invested in their apartment complexes. Being required to sell in a down market as a result of estate taxes is a situation to be avoided** at all costs.
7. **Hold Life Insurance in Trust.** If properly owned by a trust or third party, life insurance proceeds may be especially advantageous; they are income tax free to the recipient and not subject to estate tax. However, the proceeds will be subject to estate tax if you own or have rights in the policy. Purchasing the policy within an irrevocable trust may prevent life insurance proceeds from increasing your estate tax liability.
8. **Know What You Have and Where You Have It.** Keep copies of your important papers and make sure that appropriate parties know where these papers are kept.

9. **Choose Executors and Trustees Wisely.** Selecting one family member among several may create unforeseen problems down the road. The fiduciary duties may call for the expertise, impartiality and independence of a corporate trustee, at least as co-trustee.
10. **Meet with Your Financial Consultant.** Finally, discuss your estate planning objectives, concerns and fears with your Financial Consultant, as well as your accountant and attorney, so that you can develop a plan for effectively transferring wealth to your heirs.

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