

# ESTATE PLANNING



**SATURNA**  
TRUST COMPANY

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***Our clients' interests  
always come first.***





# W elcome to Saturna Trust Company

Saturna Trust Company's team of investment and trust administration professionals will ensure your trust is properly created and managed according to your wishes.

You have worked a lifetime to accumulate your assets. Now you need to protect those assets and ensure they keep their value. Managing your wealth takes careful coordination of financial management and legal planning to protect your assets from the costs that can erode their value and delay their efficient distribution to your heirs. Estate settlement costs, taxes, legal fees, privacy issues, and other considerations need to be taken into account when you decide how to manage your wealth today and in the future. Carefully coordinated trust and financial planning services are a vital part of that plan.

One of the most critically important and meaningful steps you can take in life is to plan the transfer of your estate to your heirs and beneficiaries. A comprehensive estate plan ensures that your wishes are honored and that your loved ones are provided for when you are gone. The estate planning process will systematically guide you through careful consideration of questions such as:

- What is the state of my financial affairs?
- What real and personal property do I own?
- Who will inherit this property?
- How much tax will need to be paid to transfer the property, and how can I minimize it?
- What funeral arrangements are appropriate?
- How much control do I want to have over the transfer of my estate?

Saturna strives to not only offer the best investment opportunities, but to match those sound investments with low costs and superior customer service.

## What is estate planning?

Essentially, estate planning is deciding how to distribute (dispose of) your estate upon your death. Your plan may be as basic as creating a succinct Last Will and Testament. On the other hand, your family structure may be complex, you may have disabled loved ones that need ongoing care, or you may want to transfer assets to various charitable organizations. Under any one of these circumstances a will may not be sufficient, and creation of a trust should be considered. Either way, a serious review of the “state of your estate” will help you plan appropriately and ensure that your wishes are honored. Professional planning may also help you avoid unnecessary tax consequences that can significantly reduce the value of your estate.

There are generally five ways to dispose of (distribute) property at death:

1. The “do nothing” approach (intestate – leave no will)
2. Insurance policy with designated beneficiary
3. Legal contracts set up as Joint Tenancy With Rights Of Survivorship (JTWROS), Tenants by the Entirety, Totten Trusts (an account in your name in trust for a beneficiary), Buy-Sell Agreements, etc.
4. Last Will and Testament
5. Trust with specific directions for estate distribution (dispositive provisions)

Each of these methods has pros and cons. A “pro” for you (little planning or inaction) may end up as a “con” for your loved ones (an extensive and expensive probate proceeding). Creating a trust will allow you the most control and potential tax benefits. An

estate planning attorney will help you review the many options available to determine which plan of action is best. At the very least, your estate plan will require a Last Will and Testament.

## What is a Last Will and Testament?

A will outlines your instructions for the administration and distribution of the property of your estate. The term “Last Will and Testament” refers to the most recent will executed by you prior to your death. It serves to nullify all other pre-existing versions of your will, if any. A will goes a long way toward estate planning and serves most individuals as a stand-alone solution, but it is not foolproof. If heirs dispute the will’s instructions, the estate will be subject to an extended probate; an expensive, lengthy, and public legal process involving state courts that determine the validity of the will and ultimately how the assets will be distributed.

Probate expenses (court costs and legal fees) can diminish your estate’s value; experts estimate the costs of probate can range from 3% to 15%.<sup>1</sup> In addition, probate has the following disadvantages for your loved ones:

- Probate is time-consuming. It can leave your assets tied up for six months or even multiple years, depending on the complexity of your estate and whether your heirs contest the will.
- Probate requires administrative attention during a time of bereavement. Typically, a will’s designated executor/executrix is a family member. An extended period of probate administration places an undue burden on family members in the form of travel, unforeseen expenses, and time away from daily activities and work.

## What is an “estate”?

Your estate consists of all property owned by you at the time of your death. This may include, for example:

- Real estate
- Bank accounts
- Retirement accounts
- Life insurance policies
- Personal property such as automobiles, jewelry, and artwork
- Stocks and other securities



- Probate is complicated. In most cases, the services of an experienced attorney will be employed to administer the process, usually at considerable expense to the estate.

### **Why should I have a will?**

There are numerous reasons to have a will, some more compelling than others depending on the size and complexity of your estate. Among them are:

- To pass your estate to the persons of your choice, not to persons designated by your state's laws
- To minimize estate and inheritance taxes by taking advantage of available deductions and credits
- To designate the person(s) or institution you wish to manage your estate rather than leave that choice to the courts
- To select the guardians of your minor children
- To provide for the specific distribution (disposition) of personal effects and furniture
- To avoid undesirable divisions of property that may be created by state law such as apportionment of real estate ownership by percentage (fractional interests)
- To establish a presumed "order of death" contrary to that determined by state law, which

would come into play if both you and one or more of your beneficiaries die simultaneously

- Finally, as many other additional reasons as there are individuals with their own specific needs

Creating a will necessitates naming an individual (or a corporate trustee) as executor/executrix.

The choice of an estate administrator is a critical one. Most people are not aware of the scope of administrative tasks involved in settling an estate. Some typical responsibilities are as follows:

- Oversight of property appraisals
- Probate inventory of property that is filed with the court
- Administration of creditors' claims to property of the estate
- Distribution of property to heirs or to trusts under the terms of the will
- Final individual tax returns
- Various other tax returns such as State Inheritance Tax Return (if required), US Estate Tax Return, and US Fiduciary Income Tax Return
- Court discharge of executor/executrix

The more comprehensively you plan, the less administrative burden you will leave to your loved ones.





## What if I already have a will?

Once you have established a will, some maintenance is required to ensure its effectiveness over time.

Some reasons to update your will include:

- A change in your marital status
- The birth of children or grandchildren
- Children reaching adulthood
- Substantial changes to your estate
- Changes in the needs of your beneficiaries
- Questions about the viability or appropriateness of your designated executor/ executrix
- Relocation to a different state
- Changes to tax and/or other laws
- Changes in your interests and commitments

Trusts are implemented in conjunction with a will. At the time you review and update your will, ask your attorney to evaluate whether establishing a trust would be advantageous to your overall estate plan.

## When and for whom is a trust appropriate?

Estate planning largely involves a detailed assessment of your family's needs, the size and complexity of your estate, your estate's potential tax consequences, and exactly where and to whom you want your estate distributed. You may benefit from a trust if:

- You wish to leave your estate to your spouse and still make bequests to other beneficiaries after your spouse's death.
- You want to provide for your current spouse, as well as any children from a previous marriage.
- You are concerned about the possibility

of periods of disability and want to ensure continuous management and protection of your assets.

- You want increased control over the actual distribution of your assets after death, especially in providing for beneficiaries with special needs, such as disabled persons or beneficiaries unable to manage their inheritance.
- You are married and your assets exceed the maximum applicable exclusion amount for federal estate taxes.
- You want a portion or all of your assets distributed to philanthropic endeavors.

The list above is not comprehensive, but these examples illustrate the varied reasons for establishing a trust in conjunction with your will. A trust can be tailored to your specific needs and wishes. It will not only protect your assets, but also create greater financial peace of mind. Specifically, a trust can help you:

- Designate and provide for a trusted professional to act on your behalf in the event of death or disability
- Ensure assets are conserved and not squandered by heirs after you or your spouse dies
- Provide for your family's financial needs after your death
- Ensure privacy for your estate
- Eliminate probate fees on assets held in a living trust
- Reduce or eliminate estate taxes
- Expedite the distribution of assets to beneficiaries
- Ensure control and protection over payments and asset distribution to heirs with special needs either during your lifetime or upon death



## **Why use a corporate trustee?**

The legal process of establishing a trust requires you to designate a person or organization as trustee. The trustee takes possession of and manages the trust's assets in accordance with its terms and provisions and on behalf of the beneficiaries' best interests. You may choose an individual or an organization as trustee, but even when an individual trustee is designated, it is customary to name a corporate trustee as successor trustee. Some distinct advantages of a corporate trustee are:

### **Knowledge and Experience**

Typically, the resources of a trust company include established expertise in the areas of asset and investment management. A corporate trustee will actively manage your estate according to your stated goals, and will work in conjunction with your attorney and tax professional to address ongoing estate tax and regulatory issues. Professional asset management and tax planning help you preserve and/or grow the value of assets you leave to your heirs.

### **Impartiality and Fiduciary Mandate**

Naming a relative as a trustee may seem like a good idea, but can cause substantial family disharmony when competing interests attempt to exert their influence. A corporate trustee is accountable to regulatory authorities and has a fiduciary responsibility to the trust and its beneficiaries, which ensures impartial administration of your estate.

### **Permanence**

A relative or other personal representative may not be able to fulfill his or her duty to your estate for any number of reasons, including incapacity or death. A corporate trustee provides continuous and perpetual management of your trust during your lifetime and after your death.

### **Ongoing Trust Administration**

Estate planning is an ongoing process that may require periodic administrative functions such as bookkeeping, accounting, bill paying, and tax planning. A corporate trustee provides a complete array of resources to support your administrative needs.



## What is a revocable living trust?

A living trust, also called an *inter vivos* trust, is a legal contract in which the person creating the trust (the grantor) conveys the assets of his or her estate to a trustee who holds the legal title and manages the assets for the benefit of the designated beneficiary(ies). The trust document establishes a fiduciary relationship furnishing an explicit, legal obligation on the part of the trustee to manage the assets in the best interests of the beneficiary(ies). Upon your death the trustee performs the administrative responsibilities surrounding the management and distribution of the trust's assets according to the directions contained in the trust document. If you become incapacitated, the trustee will manage the assets until and/or upon your death.

You may designate yourself as trustee and maintain control of the trust's assets during your life, or you may choose another individual or employ the services of a corporate trustee. It is common for those who initially designate themselves as trustee to name a corporate entity as successor trustee.

Some advantages of a living trust are:

- Your personal business remains confidential, because a private trust is not made a matter of public record with the court.
- A living trust with a designated corporate trustee enjoys the benefits of professional investment and tax management expertise.
- If you become incapacitated, the provisions and terms of the trust permit immediate, uninterrupted management of assets and use of the trust's income and/or principal to provide for you and your family.
- Costs and delays associated with the probate process are avoided, and property is distributed outright to—or continues in trust—for heirs and other entities, per the terms of the trust agreement.
- A trust incorporates tax planning to avoid paying unnecessary taxes.

In addition, even though you have placed your assets in the trust (also known as funding the trust), you continue to retain ultimate control over them. This happens because although the trustee holds the legal title to the trust's assets, you retain the equitable title as the trust's primary beneficiary during your lifetime. As grantor of the trust, you also retain certain rights. For example, you have the right to amend the trust agreement or to completely revoke the trust. You may choose to reserve certain property outside the trust or request removal of assets from the trust. You also have the authority to direct or approve investment changes.



## What are estate taxes?

According to the IRS, "The Estate Tax is a tax on your right to transfer property at your death. It consists of an accounting of everything you own or have certain interests in at the date of death."<sup>2</sup>

One of the goals of estate planning is to limit the effect of taxes on your estate. The amount of your estate subject to tax and the estate tax rate can vary with the whim of Congress. In recent years, the amount of excludable assets has ranged from \$675,000 to \$5 million, and the tax rate itself has bounced from 55% in 2001, to 0% in 2010, to a maximum rate of 35% in 2012. Consequently, if the size of your estate falls in or near this range, you may benefit from the sheltering effect a trust can provide while transferring more of your assets to your heirs or charitable causes. Your estate planning attorney can advise you of the latest changes to exemption levels and rates and help you estimate what to expect in the future.

Includable for estate taxes:

- All property titled solely in your name, including trust assets in a grantor, marital, or Qualified Terminal Interest Property (QTIP) trust
- One half of property held jointly with your spouse
- Your share of property held jointly with other persons (on the basis of contribution to the property)
- Possibly life insurance, annuities, and retirement plans

Deductions available for estate taxes:

- Your debts and mortgages
- Expenses of estate administration, such as court costs, executor's fees, attorney's fees, etc.
- Funeral expenses
- Property passing to your surviving spouse (marital deduction)
- Charitable gifts

## How do I begin planning my estate?

The first step of the process is to find a reputable attorney to draft or update your will. Your attorney will help you evaluate whether your will fulfills your estate planning needs as a stand alone solution or whether you should consider additional options such as creation of a trust.

If you determine that trust services are a part of your estate plan, please contact Saturna Trust Company to find out how our products and services provide solutions to your specific estate planning needs.

## Personal Trust Services

**Revocable Living Trust or Grantor Trust:** This type of trust is devoted to investment management during your lifetime as the grantor. It provides protection against incapacity and assures prompt distribution of property at death (whether outright or to remain in trust). This product may involve extensive estate and tax planning in close consultation with your attorney and accountant. It may also involve income distributions to you and often includes personal bill paying. The trust's assets escape probate at death and the amount and type of assets remain confidential.

**Testamentary and Irrevocable Trusts:** A testamentary trust is created according to instructions contained in your will. An irrevocable trust created during your lifetime cannot be modified or terminated except by court action. You effectively surrender ownership of the assets you place in an irrevocable trust; however, tax benefits may be gained from their removal from your taxable estate. This type of trust is administered according to the terms and provisions of the trust to provide for the current beneficiary(ies). It includes investment management and discretionary actions of the trustee under the terms of the trust.

**Investment Management/Advisory Agency:** Saturna Capital provides investment advisory services, including investment advice, securities trading, and bookkeeping services.

**Estate Administration:** Saturna Trust Company, as your corporate trustee, serves as your personal representative (executor) of your estate and also provides the following services: filing of your Last Will and Testament with the court for probate, preparation of estate inventory, handling payment or contest of claims against your estate, collection of life insurance, and property appraisals. We administer the payment of final debts, expenses, and taxes, and distribute your individual and estate property to your heirs or trusts created under the terms of your will.

**Philanthropic Advisory / Charitable Trust Services:** Saturna Trust specializes in legacy and philanthropic advisory services and provides administration of charitable trusts and private foundations. Our duties typically include investment management, distribution to beneficiaries and charitable organizations, and charitable trust consultation. Please inquire as to the various charitable trust options that are available.

**Custodial Accounts:** We provide bookkeeping services, securities settlement, and handle corporate actions such as stock splits, mergers, and acquisitions.

**Guardianship Accounts:** We can serve as guardian of your estate for a minor child or for an incapacitated adult in need of assistance with financial matters. Guardianship accounts are subject to court approval and require regular filings of accountings with the court. This type of account is financial in nature only and must be combined with additional guardianship for the purposes of personal welfare and health care decisions.

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**Just like individuals, every estate is unique. Saturna Trust Company specializes in administering custom trust solutions that meet your needs.**

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## Glossary:

**beneficiary** – the person or entity designated to receive the proceeds of a will or trust

**decedent** – a person who has died

**dispositive provisions** – components of a will or trust that direct the distribution (disposition) of the property of an estate

**donor** – a person or organization that establishes a trust and transfers title of assets to it (synonymous with grantor, settlor, and trustor)

**equitable title** – the holder of equitable title to a property retains the right to its use, benefit, and enjoyment (see legal title)

**estate** – all the property owned by a person, including both money and real property

**executor/executrix** – the person designated in the decedent's will or appointed by a court to settle his or her estate

**fiduciary** – a designated custodian of assets whose foremost obligation is to manage the assets in the best financial interests of one or more beneficiaries

**fractional interests** – ownership of some but not all of the rights in real estate (such as an easement or hunting rights)

**grantor** – a person or organization that establishes a trust and transfers title of assets to it (synonymous with donor, settlor, and trustor)

**grantor trust** – a trust over which the grantor maintains control

**inter vivos** – during one's life (see testamentary)

**intestate** – dying without a legal will, so that the decedent's estate must be distributed by the state in which he or she resides, according to the laws of intestate succession of that state

**irrevocable** – may not be altered or annulled, even by the grantor

**legal title** – the holder of legal title to a property retains the right to buy, sell, or transfer the property (see equitable title)

**living trust (*inter vivos* trust)** – a trust established during the lifetime of the grantor which holds and manages the grantor's estate for the benefit of the trust's stated beneficiary(ies)

**marital deduction** – a US tax code provision that exempts from gift and estate taxes the transfer of unlimited property to a spouse upon death

**order of death** – a determination made by statute or courts when two or more persons die simultaneously in a common disaster (such as a car accident), making it impossible to determine the actual order of death

**probate** – the legal process occurring after death that includes validating the decedent's will (if one exists) and administration of identifying and distributing the decedent's property

**QTIP (Qualified Terminal Interest Property) trust** – a trust employed by married couples to both provide income to a surviving spouse while also asserting control over disposition of assets once the surviving spouse has died, typically to direct assets to the grantor's children and avoid passing the estate to a new spouse

**revocable** – may be altered or annulled

**settlor** – a person or organization that establishes a trust and transfers title of assets to it (synonymous with donor, grantor, and trustor)

**testamentary** – set forth by a will (see *inter vivos*)

**trustee** – the individual or organization designated by the trustor to assume fiduciary responsibility for management of trust assets on behalf of the trust's beneficiary(ies)

**trustor** – a person or organization that establishes a trust and transfers title of assets to it (synonymous with donor, grantor, and settlor)

**will** – a legal document declaring instructions for disposal of one's property at death

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## Footnotes

<sup>1</sup> Bennett, GM. *How to Avoid Probate by Creating a Living Trust: A Simple Yet Complete Guide*. New York: Sterling, 2007.

<sup>2</sup> [www.irs.gov](http://www.irs.gov)





**SATURNA**  
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*Saturna Trust Company is a wholly-owned subsidiary of Saturna Capital Corporation, investment adviser and administrator to the Amana, Sextant, and Saturna Sustainable Fund families.*

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