CLIENT ALERT

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Recent Economic Developments Affecting Your Personal Planning

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Excellent Estate Planning Opportunities in the Current Market: Due to exceptionally low interest rates, it is a great time to remove certain assets expected to appreciate in the future (such as marketable securities and closely held business interests) from your estate through the use of a grantor retained annuity trust. This technique allows a person to transfer anticipated growth but retain the right to a return of the principal. If the actual interest received over time exceeds the applicable interest rate in place at the time the grantor retained annuity trust was created, then the excess growth can be passed gift tax and federal estate tax free to the beneficiaries. Thus, the lower the applicable interest rate at creation, the larger the potential gift to the trust beneficiaries on termination of the trust.

Similarly, qualified personal residence trusts are effective for a transfer of a personal residence which is dropping in market value, effectively transferring real estate out of your estate at lower gift tax values. The initial transfer of real estate into a qualified personal residence trust is a taxable gift for less than the value of the transferred real estate because the grantor retains the right to live in the home. If you own multiple properties and desire to transfer your personal residence to family members at some time in the future, transferring real estate to a qualified personal residence trust while real estate values are low will further lessen the gift tax burden than if you wait until real estate values increase.

Changes in the FDIC's Insurance Protections: Recently, the FDIC issued new rules which make it much easier to ensure that larger accounts obtain the benefit of full deposit insurance. These rules dramatically changed deposit insurance coverage for beneficiaries of revocable trusts (including informal trusts, such as "payable on death" accounts and Totten trusts).

First, the FDIC deposit insurance limits were generally increased to $250,000. This increase was implemented on October 3, 2008 and is scheduled to end on December 31, 2009. The increased limit generally applies to each category of ownership (e.g. an individual account, trust account, individual retirement account). Second, FDIC-insured benefits apply to many more trust beneficiaries. The FDIC previously insured only the spouse, children, grandchildren, parents or siblings of the grantor. Now, any individual and any charity or nonprofit organization recognized by the IRS, as a beneficiary of a revocable trust, is eligible for FDIC insurance protection. All beneficiaries should be named in the bank account records and/or trust document to qualify for this protection. Finally, it is now much easier to calculate the amount of FDIC insurance for revocable trust accounts. Until the 2009 year-end, the calculation used to determine the amount of FDIC insurance for revocable trust accounts is equal to the number of beneficiaries multiplied by $250,000, with a maximum coverage of up to $1,250,000. Since the insurance is applied on a per-owner basis, if a husband and wife are the grantors, generally the

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maximum amount insured would be $500,000 per beneficiary, with a maximum coverage of up to $2,500,000. Therefore, a depositor who has a savings account, an IRA, and a trust account in the same bank could be eligible for up to $1,750,000 in FDIC insurance in 2009!

Investors should consider how to maximize FDIC insurance for existing accounts as part of their personal planning. Some investors also may consider the potential advantages of other insured options being offered by financial institutions such as CD placement services.

2009 Increases to the Federal Gift and Estate Tax Exemption: The U.S. federal estate tax exemption has reached an historic high. As of January 1, 2009, each individual may transfer $3,500,000 free of any federal estate tax, allowing married couples to avoid federal estate tax on up to $7,000,000 with proper planning. Although under present law this increased federal exemption of $3,500,000 is applicable for only one year, it is likely that the exemption will remain at that level since President-elect Obama supports maintaining a $3,500,000 exemption.

2009 FEDERAL ESTATE AND GIFT TAX EXEMPTIONS YOU SHOULD BE AWARE OF:

Annual gift exclusion:	$13,000
Estate tax exemption:	$3,500,000
Lifetime gift tax exemption:	$1,000,000
Generation-skipping transfer tax exemption:	$3,500,000
Citizen spouse annual gift exclusion:	Unlimited
Citizen spouse estate tax marital deduction:	Unlimited
Noncitizen spouse annual gift exclusion:	$133,000
Noncitizen spouse estate tax marital deduction:	$0

One Year Moratorium on Minimum Required Distributions: The Worker, Retiree, and Employer Recovery Act of 2008 ("WRERA 2008") was signed into law by President Bush on December 23, 2008, which places a one year moratorium on required minimum distributions from individual retirement accounts and other employer-sponsored plans for 2009. The intent of WRERA 2008 is to assist retirees in recouping some losses which may have been incurred due to the decline in the 2008 financial market. Unless Congress extends the moratorium, WRERA 2008 will only suspend such distributions for 2009.

Please contact your Partridge Snow & Hahn counsel to determine which opportunities are best for you.

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