MassMutual

Estate Planning

A way to help keep the promises you made

We all make promises.

We promise to keep our families safe and secure even after we're gone. We promise to give our children all the benefits of our own success. We promise ourselves that their future will be free from financial worries.

In essence, estate planning can be the single best way to make certain the promises you make are promises you keep.

TABLE OF CONTENTS

The information provided is not written or intended as specific tax or legal advice. MassMutual, its subsidiaries, employees, and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

A Sound Estate Plan

We all have goals we want to meet during our lifetime. The education of our children, a comfortable and financially secure retirement, and perhaps a new home or a second home.

The first step of estate planning is to help you plan for — and realize — these lifetime goals. It addresses your legal and financial concerns, taking into account your goals and tax considerations. It also takes advantage of existing laws and funding vehicles to help save on taxes and help manage your property in an efficient and profitable way during your lifetime.

Here are some of the more significant ways estate planning can help you make certain your family will get as much of your estate as is legally possible.

Minimizes Estate Taxes

Depending upon your net worth, the federal government may levy a substantial tax against the value of your estate. In addition, some states impose their own separate tax at death on their residents and on non-residents who own property within the taxing state. Just as important, that tax is due and payable before any property can be transferred to your beneficiaries. With a well-conceived estate plan, some — or even all — of this tax may be avoided.

Liquidity to Pay Estate Taxes

If your estate consists primarily of real estate, a business, or other non-liquid assets, your heirs could end up cash poor — and be forced to sell assets in order to pay taxes. Estate planning can help by reducing your estate tax liability. Additionally, an estate plan that includes life insurance can help address your estate liquidity needs.

Protects Your Family's Income

How will the members of your family support themselves after you're gone? A sound estate plan, including life insurance for your beneficiaries' financial protection, can make certain they will be taken care of.

Provides Professional Asset Management

An estate plan that includes the creation of a trust can be established to arrange for the professional management of your assets on your family's behalf.

Controls Distribution of Your Estate

Will your assets be distributed the way you want them to? Your estate plan will help make sure your wishes are met.

Forming an Estate Planning Team

Estate planning is a team effort. It involves the talents and efforts of a number of professionals — people you respect and trust.

Financial Services Representative

As a result of the unique features and tax advantages of life insurance, your financial services representative is a key member of your estate planning team.

Attorney

Your attorney would be responsible for making sure that your intentions are carried out in legally enforceable documents.

Accountant

Your accountant may provide tax advice and would be most familiar with the extent and value of your assets.

Bank Trust Officer

If you have chosen to use a corporate trustee, you will want to include the trust officer in your planning discussions.

Did you know MassMutual Trust Company can serve as your corporate trustee? Learn more at **www.massmutualtrust.com**

Life insurance plays a critical role in estate planning. It provides cash to pay estate settlement expenses and taxes — and it provides the capital to meet the financial needs of your family. While it gives you the security of a death benefit, life insurance can also be used to help you accumulate savings to supplement your retirement income.

Life insurance coupled with an irrevocable life insurance trust can be even more advantageous for you, particularly if the joint assets of you and your spouse are worth more than two times the applicable exclusion amount. This is the usual cut-off point where your heirs can, through proper estate planning, receive your assets without paying federal estate taxes.

An irrevocable life insurance trust offers several unique advantages:

- The proceeds of the life insurance policy can be insulated from estate taxes.
- Life insurance proceeds can pass income tax-free to your beneficiaries.
- The premium may be gifted to the trust, and thereby reduce the remaining taxable estate.

Since life insurance is such a vital part of your estate planning needs, you should make sure you work with a company that is among the leaders in the industry, such as Massachusetts Mutual Life Insurance Company (MassMutual). Furthermore, MassMutual's financial professionals can work with the advanced sales team on complex case designs.

Choosing the Option That's Right for You

BASIC ESTATE PLANNING TECHNIQUES

Technique	Definition	Best Application	Tax Pros/Cons	Other Advantages	Other Concerns
Will	A legal instrument through which an individual disposes of his/her property at death.	A valid will is a cornerstone of any estate plan.	The individual can maximize use of the unlimited marital deduction and the applicable exclusion amount.	Ensures property is disposed per individual's wishes; allows individual to stipulate a guardian for minor children.	Property passing through a will is subject to probate fees.
Durable Power of Attorney	A legal instrument granting power to another party ("agent") to act on the individual's ("principal") behalf.	Like the will, the durable power is a basic component of all estate plans, and particularly important with elderly and disabled clients.	If specifically authorized in the instrument, the person given power of attorney can make gifts and reduce the principal's estate.	Allows the principal to designate who will act on his/her behalf without probate court intervention should he/she become incapacitated.	Must adhere to laws of particular jurisdiction.
Health Care Directive aka Health Care Power of Attorney	A legal instrument granting power to another party ("agent") to act on the individual's ("principal") behalf.	A health care directive is also a basic component of all estate plans, and particularly important with elderly and disabled individuals.	None	Informs others of the principal's wishes about his health care. It allows the principal to name an agent to make health care decisions for the principal if the principal is unable.	Must adhere to laws of particular jurisdiction.
Living Will	A legal document expressing an individual's wishes concerning life-support procedures should the individual become terminally ill.	The living will is an important component of all estate plans.	None	The living will allows the individual to control his or her destiny.	The format of the living will document must comply with state law.

BASIC ESTATE PLANNING TECHNIQUES (CONTINUED)

Technique	Definition	Best Application	Tax Pros/Cons	Other Advantages	Other Concerns
Life Insurance	A contract that provides cash at the death of the insured; the contract may also provide for cash accumulation during the life of the insured.	Life insurance is an integral part of estate planning at all stages of the individual's life cycle.	Death benefit passes to the beneficiary free of income taxes and if owned correctly, will not be included in the decedent's estate for tax purposes.	Life insurance can provide: family income in the event of premature death of the individual and/or spouse; cash value of whole life insurance can help to provide for children's education and/or supplemental retirement income; and liquidity to pay estate taxes.	Balancing premium payments against other financial obligations affecting current cash flow.
Qualified Disclaimer	A refusal to accept gift or bequest by intended recipient.	Used where donee/ beneficiary of property prefers that someone else receives the property.	Property is treated as if it never passed to original donee/ beneficiary.	Facilitates postmortem planning.	Disclaimer must be an unqualified refusal in writing received by the donor within nine months; the beneficiary must not accept the property; property must pass to someone other than the person disclaiming; person disclaiming cannot direct disposition.

ADVANCED ESTATE PLANNING TECHNIQUES UTILIZING TRUSTS

Technique	Definition	Best Application	Tax Pros/Cons	Other Advantages	Other Concerns
Revocable Trust (Living Trust)	A trust is a fiduciary arrangement created by the grantor where legal title to property given by the grantor is held and the property managed by a trustee for the benefit of a beneficiary. A revocable trust can be revoked, amended, or terminated and the property recovered by grantor.	Useful in conjunction with durable power of attorney and a pour over will (providing that all other assets "pour over" into the trust at death).	No tax advantage to the grantor since the grantor will be taxed on the income and the assets will be included in the grantor's taxable estate at death.	Efficient receptacle for holding assets during lifetime so that assets are funneled to marital deduction or bypass trusts at death; provides for management of property should grantor be incapacitated; probate costs and publicity are avoided by using a trust versus a will alone.	No major concerns since trust can be changed or terminated.
Irrevocable Life Insurance Trust	A trust, which cannot be changed or terminated by the grantor; the trust purchases life insurance using funds gifted to the trust by the grantor; at the grantor's death the death benefits pass to the trust's beneficiaries.	Estates with liquidity problems.	Substantially reduces grantor's estate through annual gifts thus reducing estate taxes; death proceeds are received by beneficiaries income tax and estate tax free.	Estate liquidity enhanced; expenses and publicity of probate are avoided.	Grantor loses control of property in trust.
Marital Deduction & Bypass Trusts	Often referred to as A-B trusts, these trusts are established to minimize estate taxes. The bypass trust takes maximum advantage of the applicable exclusion amount and the marital deduction trust maximizes use of the marital deduction.	These are basic estate planning tools useful in estates where the joint assets of the spouses exceed the value of their total unified credit.	Minimizes estate taxes by: allowing both spouses to take advantage of the applicable exclusion amount; and by fully utilizing the unlimited marital deduction (thus deferring taxes until the estate passes to the children/family).	Professional management of assets by the trustee after the death of the first spouse.	Possible loss of control of the assets by the surviving spouse, if spouse is not named sole trustee.
Charitable Remainder Trusts (CRT)	An irrevocable trust providing current income payments to the grantor followed by payment of the remainder to a charity.	Useful where grantor wants to make a charitable gift but also wants income; appropriate where grantor wants increased income from appreciated property without selling and incurring capital gains; applicable where estate tax avoidance and current income tax deduction are goals.	The grantor is entitled to a current income tax charitable deduction; the trust can sell highly appreciated property without incurring capital gains; the property gifted to the trust is removed from the taxable estate.	Increased current income; ability to make gift to favored charity.	Grantor must be willing to relinquish control of the asset.

ADVANCED ESTATE PLANNING TECHNIQUES UTILIZING TRUSTS (CONTINUED)

Technique	Definition	Best Application	Tax Pros/Cons	Other Advantages	Other Concerns
Charitable Lead Trust (CLT)	An irrevocable trust providing current income payments to a charity followed by payment of the remainder interest to a non-charitable beneficiary.	Grantor wants to benefit charity currently while keeping property in the family; grantor wants current income tax deductions but is willing to report trust income later; grantor facing substantial estate taxes and wants to transfer property to children at minimal gift/estate tax cost; grantor with rapidly appreciating property wants to remove future appreciation from estate at minimal gift tax cost.	Can provide significant income tax deduction; testamentary CLT can provide significant estate tax deduction for the charitable interest; enables grantor to transfer substantial wealth to children or grandchildren at minimum gift/estate tax cost.	Provides current income stream to grantor's favorite charity; property remains in family.	Grantor is taxed on the trust's income.
Grantor Retained Annuity Trust (GRAT)	An irrevocable trust into which the grantor places income-producing property but retains the right to a fixed annuity for a specified term of years after which the property passes to the children/family.	Used to freeze the estate (restrict taxable estate to its current value) to reduce estate taxes; often used to transfer stocks or real estate on a favorable gift tax basis.	Appreciation of assets escapes estate taxes; assets can be transferred to the next generation at a substantial discount; income from the trust taxed to the grantor.	Provides fixed income stream to grantor.	The grantor sacrifices control over the property; if grantor dies during the retained interest period, the property is included in his/her estate.
Grantor Retained Unitrust (GRUT)	An irrevocable trust into which the grantor places income-producing property but retains the right to a fixed percentage of the property for a specified term of years after which the property passes to the children/family.	Same as GRAT.	Same as GRAT.	Provides variable current income stream to grantor.	Same as GRAT.

ADVANCED ESTATE PLANNING TECHNIQUES UTILIZING TRUSTS (CONTINUED)

Technique	Definition	Best Application	Tax Pros/Cons	Other Advantages	Other Concerns
Qualified Personal Residence Trust (QPRT)	A trust that holds the grantor's primary or vacation home; the grantor retains the right to reside in the home for a term of years; thereafter, the house is transferred to the beneficiaries.	Used where grantor wants to reduce estate taxes while also residing in home.	Reduction of estate taxes; gift tax is reduced by the value of the interest retained by the grantor to reside in the house.	QPRTs are exempted from the anti-estate freeze rules.	Tax savings are only realized if grantor lives beyond the term of years that the residence is retained. Continued use of property after QPRT ends requires payment of rent by grantor.
Estate Freeze Techniques	Methods designed to restrict taxable estate to its current value (see FLP, GRAT, GRUT, SCIN for examples).	Used to transfer highly appreciating property to heirs.	Reduces estate/ gift taxes.	Property owner retains some control over property but shifts appreciation in property to heirs.	Estate freeze law must be satisfied to gain tax advantages.
Power of Appointment	A property right allowing the recipient to control who will receive the property.	Appropriate in "wait and see" situations where the donor grants decision to power holder to transfer property at future date.	The power of appointment is not taxed in the estate of the holder of the power, provided the power is drafted correctly.	Provides flexibility to shift property according to changing needs/ circumstances.	Donor has no control over ultimate disposition of the property by the holder of the power of appointment.
2503(c) Trusts	Trusts utilized to gift property to a minor.	Appropriate where grantor wants to control the use of the trust property until the beneficiary reaches adulthood.	Reduces estate taxes of grantor; shifts taxable income to minor (subject to kiddie tax limitations).	Gives grantor peace of mind knowing that assets will be properly managed for the benefit of the minor beneficiary.	Grantor loses personal control of assets and minor has access at age 21.

OTHER ADVANCED ESTATE PLANNING TECHNIQUES

Technique	Definition	Best Application	Tax Pros/Cons	Other Advantages	Other Concerns
Gifts*	A gratuitous transfer of property during the donor's lifetime.	Most appropriate for transferring assets that will significantly appreciate.	Donor can gift up to value of annual gift tax exclusion to each donee per year free of gift tax; reduces size of taxable estate.	Removes appreciation of asset from taxable estate.	Donor's loss of control over property.
Generation-Skipping Transfers*	Transfers of property to a person(s) two or more generations below the donor.	Used when donor wants to pass property to grandchildren/great-grandchildren.	Subject to Generation-Skipping Transfer Tax unless some permissible exemption/exclusion applies.	Can provide creditor protection for beneficiaries for generations.	Donor's loss of control over property.
Family Limited Partnership (FLP) and Family Limited Liability Companies (LLCs)	An association of family members to carry on a business for profit; normally the parents are the general partners who operate the organization and assume full liability; they convey limited partnership interests to other family members. With LLCs, members can manage the LLC without exposure to full liability.	Used to pass property to family members at discounted values.	Reduction in estate taxes since property appreciation transferred from senior generation's taxable estate and discounts may reduce the value of gifts to family member(s); reduction in income taxes if limited partner-donees are in lower tax bracket.	Management and control of family assets remain vested in senior family members.	Unlimited liability of general partners if a partnership is used; expense of establishing an FLP or LLC.
Charitable Contributions	Gift to favorite charity.	Useful when donor wants to benefit charity while also possibly gaining income and transfer tax advantages.	Donor would receive income tax deduction up to the percentage limits.	Donor's satisfaction in benefiting charity.	Charitable gift reduces estate passing to donor's heirs.
Installment Sales & Self Canceling Installment Notes (SCIN)	Sales methods whereby the purchaser pays for property over a period of time.	Useful for freezing value of highly appreciating property; used when purchaser cannot afford full purchase price at time of purchase.	Any capital gains on a sale can be recognized gradually by seller; can reduce estate tax by shifting appreciation in property to heirs; any balance remaining on SCIN at death of seller is canceled and not subject to estate tax (but remaining gain is taxable income to estate). A SCIN requires an additional premium cost to be paid in order for the balance of note to be canceled at the death of the seller.	Provides flexibility to the seller in either spreading out recognition of capital gain or immediately recognizing; gives buyer flexibility of spreading out payments.	With installment sale, any installments due at death of seller are included in the seller's estate.

* The Tax Cuts and Jobs Act of 2017 changed the estate, gift and generation-skipping transfer exemption amount to $10,000,000, as indexed for inflation. Under this law, the exemption will revert back to the prior law for years after December 31, 2025. Please see IRS.gov for additional information.

The Current Tax Environment

The size of your estate will determine the extent of your need to plan for the future payment of estate taxes. This piece is intended to examine the federal estate tax rules. It is possible, depending upon state residency at death and where you own property, that an estate exempt from federal estate tax could be subject to state inheritance or estate tax.

Because there is no tax on assets inherited by a surviving spouse, the estate tax exemption amount only works for assets that do not pass to a husband or wife. Therefore, many estate plans commonly transfer the maximum exemption amount in a "bypass" trust that benefits the children or family.

Exemptions and Rates

The Tax Cuts and Jobs Act of 2017 provides for unified federal estate, gift and generation-skipping transfer tax laws and the tax exemptions of $10,000,000 per person ($20,000,000 per married couple), as indexed for inflation. Under current law, the estate, gift and generation-skipping transfer exemption will sunset for years after December 31, 2025, reverting back to a $5,000,000 exemption, plus an inflation adjustment. Please see IRS.gov for additional information.

"Portability" of any Unused Estate Tax Exemption

The Deceased Spousal Unused Exclusion Amount (DSUEA) is known as portability. It is the ability for the executor of the deceased spouse's estate to elect, on a timely filed Federal Estate Tax Return (Form 706), that any unused exemption be "ported" over to the surviving spouse.

In the past, trusts — often referred to as bypass trusts or credit shelter trusts — were established to utilize the estate tax exemption of the first spouse of a married couple to die. Assets transferred to these trusts at the death of the first spouse "bypassed" or were "sheltered" from estate taxation at the death of the second spouse.

While this new provision has the potential to help simplify estate tax planning for married couples, it should be noted that there are benefits to using a bypass or credit shelter trust that portability does not offer, including creditor protection and keeping the appreciation or increase in value of trust assets out of the second spouse's taxable estate.

TAX RATES AND EXEMPTION EQUIVALENTS

Calendar Year	Estate and GST Tax Deathtime Transfer Exemption	Highest Estate and Gift Tax Rates (GST Tax Rate)
2010	N/A (estate and GST tax repealed)	Gift tax remains, equal to top individual income tax rate of 35%
2011	$ 5,000,000	35%
2012	$ 5,120,000	35%
2013	$ 5,250,000	40%
2014	$ 5,340,000	40%
2015	$ 5,430,000	40%
2016	$ 5,450,000	40%
2017	$ 5,490,000	40%
2018	$11,180,000	40%
2019	$11,400,000	40%
2020	$11,580,000	40%

The Tax Cuts and Jobs Act of 2017 changed the estate, gift and generation-skipping transfer exemption amount to $10,000,000, as indexed for inflation. Under this law, the exemption will revert back to the prior law for years after December 31, 2025. Please see IRS.gov for additional information.

AS6004 1119

CRN202110-254613