From the ground up

Building a dream house requires a solid blueprint—and so does your wealth plan.

Anyone who's built their dream home knows how much time and work goes into it before a single shovel hits the ground. There's the visualization phase, the planning phase and finally the moment you put all those pieces together and begin. The result is a home that's uniquely you and one that will endure for years to come.

Your wealth management plan benefits from a similar approach. At BMO Family Office, we have a comprehensive, proven family blueprint to guide you through crafting your wealth management strategy. The family blueprint helps you formulate your goals and aspirations, your mission and vision, and the details of your family's financial position. It's a roadmap to a secure future.

Here's how to do it.

Make sure your foundation is strong.

A home that lasts for years and passes down from one generation to the next starts with a solid foundation, built on *terra firma*. The stronger your foundation is, the stronger your structure will be too.

Going back to the family blueprint, building such a strong foundation means evaluating where you are today as well as who and what matters most to you. A family tree can help you to see the totality of your family life. For example, are there children from a previous marriage? Do you have a special needs child? Do you expect an inheritance? The family tree illustrates the interconnected ties of your family.

This foundation also helps you understand what assets you own and how you own them, whether these assets are liquid—such as stocks or bonds—or less liquid, such as real estate or a business. This foundation helps you to see on paper and better understand your starting point and how to structure your plan for the future.

Here's an example of why a solid foundation is so important: We recently learned of a couple that had been married for 41 years. Both spouses assumed they were the beneficiaries of each other's retirement accounts. But when the wife died, it turned out that she had never updated her beneficiary designation. Her sister was still listed as the beneficiary, and her husband of more than four decades didn't inherit a single dime of a sizable 401(k) plan. This unfortunate situation could have been avoided with a family blueprint that examines the foundation of family wealth.

Ready to build? Start at the end.

Your dream home often starts with the end product in mind. You might be imagining family game nights, dinner parties and holiday celebrations, and work toward that vision in your design.

Wealth planning works the same way. It's best to start broadly. Dream a little and ask yourself: "What am I trying to achieve? What is the purpose for my wealth?"

For some families, it might be ensuring the next generation has the resources needed to fulfill their dreams. For others, it may be a commitment to charitable giving and philanthropy. These goals will shape your planning conversations and guide the development of your plan.

We recently worked with a husband and wife who came to us with significant assets. We recommended a strategy involving charitable giving. The clients said they were not charitably inclined, and instead, their goal was to preserve wealth for the next generation. However, once they discussed the strategy we had originally proposed with their children, they got such an enthusiastic response that the family did indeed embark on a journey of charitable giving—together.

Gather your building blocks.

Now that you have a solid foundation and know what kind of house you're planning for, it's time to roll up your sleeves and get to work. Consider the different building blocks you have to work with.

The family balance sheet is an important snapshot of the current state of your wealth. It enumerates all your assets and what vehicles house them. It also details your liabilities and how they are structured.

In addition, a cash flow statement helps you see where your income comes from, and whether it is enough to support your current lifestyle as well as your future needs. By creating this, we can see your potential tax liabilities, and we can start to work on tax-minimizing strategies. We can illustrate your personal cash flow before and after tax planning strategies.

One useful tool we recommend often for married couples with significant assets is a Spousal Lifetime Access Trust (SLAT). This is an irrevocable trust that allows one spouse to make a gift into a trust for the benefit of the other spouse, with the goal of removing those assets from the taxable estates. With a SLAT, spouses can take advantage of the federal lifetime gift and estate tax exclusion. Any appreciation of assets will take place in the trust and should be excluded from the estate of both spouses, and therefore should not be subject to federal estate tax.

Integrated balance sheet

Included in Estate							Non-Includable						
	Husband	Wife	Joint	Revocable trust for husband (non-probate)	Revocable trust for wife (non-probate)	Total Includable	Family trust	Charitable trust or private foundation	SLAT for husband	SLAT for wife	Joint ILIT	Total non-includable	Total
NON-QUALIFIED ASSETS													
Marketable securities	-	-	2,500,000	-	-	**2,500,000**	-	-	12,000,000	12,000,000	-	24,000,000	**26,500,000**
LIFESTYLE ASSETS													
Tangible property	-	-		-	-	**-**	-	-	-	-	-	-	**-**
Homes	-	-	1,500,000	-	-	**1,500,000**	-	-	-	-	-	-	**1,500,000**
BUSINESS ASSETS													
Business assets	100,000,000	-	-	-	-	**100,000,000**	-	-	-	-	-	-	**100,000,000**
QUALIFIED ASSETS													
Tax-deferred investments	500,000	-	-	-	-	**500,000**	-	-	-	-	-	-	**500,000**
Death benefit of life insurance	1,000,000	-	-	-	-	**1,000,000**	-	-	-	-	-	-	**1,000,000**
Total Assets	**101,500,000**	**-**	**4,000,000**	**-**	**-**	**105,500,000**	**-**	**-**	**12,000,000**	**12,000,000**	**-**	**24,000,000**	**129,500,000**
LIABILITIES													
Home mortgage	-	-	-	-	-	**-**	-	-	-	-	-	-	**-**
Total liabilities	-	-	-	-	-	**-**	-	-	-	-	-	-	**-**
TOTAL NET WORTH	**101,500,000**	**-**	**4,000,000**	**-**	**-**	**105,500,000**	**-**	**-**	**12,000,000**	**12,000,000**	**-**	**24,000,000**	**129,500,000**

For illustrative purposes only.

The family balance sheet is an important snapshot of the current state of your wealth.

Continued

Integrated cash flow

	YEAR 1	YEAR 2	YEAR 3	
CASH INFLOWS				
Salary	300,000	0	0	
Distribution from business for taxes	450,000	0	0	
Investment Income	50,550	2,072,550	1,757,410	
Business sale proceeds	0	100,000,000	0	
Total cash inflows	**800,550**	**102,072,550**	**1,757,410**	<< Does this meet your cash flow needs?
CASH OUTFLOWS				
Living expenses	300,000	306,600	313,345	<< Is this assessment accurate?
Income taxes	570,860	24,722,664	833,325	<< Does this change your asset allocation? Does this have an impact on other financial planning goals and objectives?
Total cash outflows	**870,860**	**25,029,264**	**1,146,670**	
EQUALS: Net cash flow	**(70,310)**	**77,043,286**	**610,740**	

For illustrative purposes only.

Estate disposition detail

Wife survives husband—at first death

Husband's non-probate estate				Husband's probate estate	Husband's non-includable estate	
IRAs taxable on 2nd death (pre-tax) **$500,000**	½ Interest in joint investment assets **$1,250,000**	½ Interest in joint investment home **$750,000**	Life insurance **$1,000,000**	Business **$100,000,000**	Husband's ILIT **$**	Non-includable asset **$**

Pre-tax IRA **$500,000**	½ Interest in joint investment assets **$1,250,000**	½ Interest in joint investment home **$750,000**	Life insurance **$1,000,000**	Marital trust **$87,765,000**	Family trust **$11,200,000**	Husband's ILIT **$**	Non-includable asset **$**

Estimated gross estate	$103,500,000
Estimated administration expenses	($1,035,000)
Debts	$0
Estimated estate taxes	$0
Estimated income taxes	$0

For illustrative purposes only.

Will this home last?

Your overarching objective is to provide for the people and causes you love. That's why it's important to act now. By procrastinating, you run the risk that you won't finish all your planning in time and jeopardize the financial security of your family and the charitable endeavors you care about.

There is now greater urgency to act because the generous $12.06 million gift and estate exclusion per person (and $24.12 million per couple[1]) is slated to sunset, or expire, on December 31, 2025. After that, the exclusion is expected to revert to the previous amount of $5 million, adjusted for inflation.

A meaningful wealth planning strategy embodies your vision, hopes and personality, all to ensure you are financially well situated over your lifetime. By developing a solid blueprint, you can provide yourself and your loved ones with a secure future built on a strong foundation.

Blueprint in action.

We recently worked with a client whose taxable estate of $241 million was on track to owe $89 million in estate taxes, given the growth rate of their assets and their own spending. The family had already set up a few foundations, as both an estate tax strategy and a way to get their kids involved in charitable giving.

We believed we could help the couple accomplish their goals, while also saving them a significant amount in estate taxes, which would free up additional assets to further their charitable goals.

We recommended an irrevocable trust and two Spousal Lifetime Access Trusts (SLATs) be established with the couple's remaining lifetime exemption amount to fund the SLATs. In addition, we advised that they sell assets to the SLAT, because any appreciation of those assets would take place within the SLATs, not the estate. During their lifetimes, the spouses could receive income from the SLATs and at the time of death, any remaining assets in the SLATs will pass to the beneficiaries tax-free.

Finally, we suggested the family take out a second-to-die life insurance policy within the existing irrevocable trust. There is no tax liability on the first death and proceeds of this policy can be used to pay estate taxes.

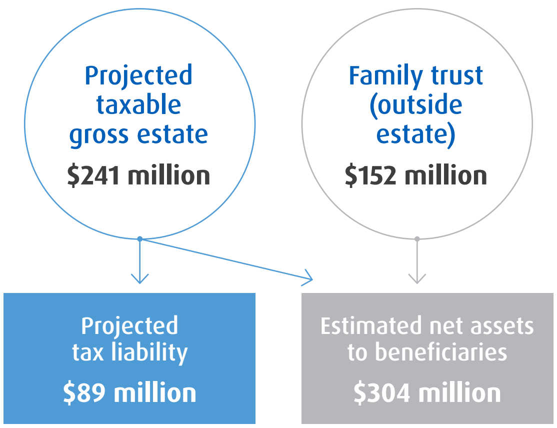
The result: Instead of an $89 million tax liability, the family is projected to owe just $3 million in estate taxes.

Continued

Dave Bensema, CPA, CFP® is a Managing Director at BMO Family Office, an integrated wealth management provider that serves ultra-affluent individuals, families and family offices across their tax, estate, investment, philanthropic, risk and family capital needs. Dave provides customized financial planning solutions to individuals and families as part of an overall personal wealth management strategy. He joined BMO in 1991 and has over 30 years of experience in the financial services industry.

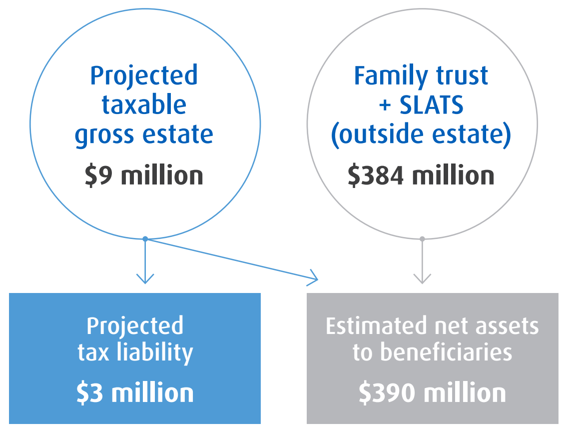
Meeta Yadava, CFP® is a Managing Director at BMO Family Office. She joined BMO in 2009 and works closely with clients to navigate the complex issues of managing significant wealth. Meeta leads teams across several states and is responsible for promoting new client engagement and for delivering an exceptional client experience.

Without a comprehensive estate plan at age 95



Total to beneficiaries $304M (est.) with current estate documents

With a comprehensive estate plan Spousal Lifetime Access Trust (SLAT) at age 95



Total to beneficiaries $390M (est.) with use of SLAT and current estate documents

Projected tax liability at age 95: $3M vs. $89M
Estimated **$86 million more to heirs**

For illustrative purposes only. Client ages when SLAT created: 53 and 56. Estimates assume a portfolio appreciation rate of 5.4% per year.

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[1] Rates cited are for 2022. Please reference: Estate Tax | Internal Revenue Service (irs.gov).