

# *Sather Financial Group, Inc.*

## *Private Wealth Management*

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### **2025 Bypass Trust & Multi-Generation Trust Overview**

The following is a brief discussion of basic estate planning, bypass and multi-generation trusts.

A **Will determines how your assets are distributed upon your death**. Obviously, an individual or a husband and wife each need a will. Additionally, everyone needs a **Durable Power of Attorney, Durable Power of Health Care and Directive to Physicians**. The “power” documents allow someone to make financial and health care decisions on your behalf, typically in the event of your incapacity. The Directive to Physicians expresses whether a person wants to be kept on life support, whether they wish to be resuscitated, etc.

If a person dies in the year 2025, they can leave up to \$13.99 million to anyone at their death without estate taxes being incurred. This figure is adjusted for inflation annually. In 2026, this figure will increase to \$15 million per person. Most people approach this as a death only event. These asset transferal limits also apply to transfers made during your lifetime. This can open up gifting opportunities.

Typically, for a husband and wife, the first item to consider once you develop a Will is Trust provisions. Probably the most common for a husband and wife is a Bypass (or Credit Shelter) Trust. For example, assume husband and wife have a \$27.22 million estate. Furthermore, assume husband dies this year. The Bypass Trust gets funded after husband’s death and allows \$13.61 of the \$27.22 million joint estate to be placed in trust for the remainder of the wife’s lifetime.

The wife is the beneficiary of the Bypass trust and can also be the trustee of the trust. The trustee is the decision maker and the one legally obligated to follow trust rules. The beneficiary (wife) can withdraw all the income produced by this Bypass trust for any reason and can spend the principal for items which typically fall under the categories of health, education, maintenance and support.

**The Bypass trust is not exposed to estate taxes in the beneficiaries’ estate and is not exposed to the beneficiaries’ creditors**. Since it is no longer exposed to estate taxes in this generation it can grow quite large with only income taxes being assessed. Once the beneficiary dies the assets of the Bypass trust will be distributed either outright or into other trusts for subsequent beneficiaries.

To further complement your estate plan the Bypass trust is often partnered with a **Multi-Generation Trust**. Functionally, this type of planning allows the IRS to be held at arms-length for many generations from an estate tax perspective.

Anyone can leave up to \$13.99 million into a Multi-Generation Trust to collectively benefit many people (adjusted to \$15 million in 2026). As such, a husband and wife can each leave up to \$13.99 million each (\$27.98 million total) in a multi-generation manner. A parent who establishes this type of trust can effectively leave money in a protected manner for children, grandchildren and even into the great grandchildren’s generation. Given this, the Multi-Generation Trust is a very effective tool to manage and protect wealth for multiple generations.

As with the Bypass trust, **the Multi-Generation Trust is protected from creditors as well as ex-spouses (in the event of divorce)**. Furthermore, these **assets are not exposed to estate taxes** in the estates of the beneficiaries. Additionally, the beneficiary can access the principal of the trust for health, education, maintenance and support items.

The Multi-Generation Trust does not have to be funded only at death. This is very important to understand. For instance, if a husband and wife are actively gifting to a child outright, they could modify their plan to make the gifts to a Multi-Generation Trust for the child’s benefit. By managing gifting in this manner, the parents reduce their estate, pass wealth to their child and the child has the protection afforded by the Multi-Generation Trust. Furthermore, while the parents are gifting into the Multi-Generation Trust the parents can serve as trustee of the child’s trust effectively giving the parents tremendous control over the gifted assets and the management of the trust itself.

Check with a lawyer (preferably one who is Board Certified in Estate Planning & Probate Law) to make sure the language in your estate plan still applies with the current exemptions. If some plans aren't adjusted, you could inadvertently leave little to your spouse or face an unexpected estate tax hit.

Many people's Wills don't reflect their current inheritance wishes because of a major life change. Furthermore, if a bank or trust company is the executor of your estate, you might have a new executor due to consolidation in the banking industry. Make sure you review, evaluate and trust that executor's judgment.

### **Beneficiary or Transfer On Death Designations**

Every IRA, 401(k), pension, life insurance policy, annuity etc. has an opportunity for you to name a beneficiary of that account. It is important to understand that **beneficiary designations SUPERSEDE the language in your Will.**

**Retirement Plans--401(k)s and IRAs:** Department of Labor regulations allow retirement plan assets to be inherited—either outright or in trust. Assume your will states that your IRA assets are to go to your children. If you instead name your estate as your IRA beneficiary, your IRA assets will ultimately pass to your children--but, not before your heirs pay potentially costly, and unnecessary, income taxes. By simply coordinating your primary and contingent beneficiary designations with the wishes in your will you can reduce these problems and potentially avoid immediate taxation upon your death.

The Department of Labor will allow an IRA or 401(k) balance to be inherited directly by a non-spouse without incurring the full brunt of income taxes.

If a non-spouse inherits retirement plan assets, they will be subject to “required minimum distributions” each year. Ultimately, all of the assets must be distributed over a ten year period. This is true whether your heirs receive retirement assets in their name or in trust.

Concerns also arise from designations like Pay-On-Death, Transfer-On-Death and Joint With Rights Of Survivorship on different accounts (especially bank accounts). These need to be properly coordinated with your Will and final wishes as these designations will supersede the language in your Will.

**Trust Planning**—if you want your heirs to inherit retirement plan assets and still have the benefit of a Marital Trust or Generation Skipping Transfer trust—you must make sure the beneficiary designation is properly worded. Usually, if retirement plan assets are to be left in trust the beneficiary will need to be styled somewhat in the following manner: “The Testamentary Trust, Established Under the Will of John Doe, For the Benefit of Fred Doe.” Normally, we request specific beneficiary language from the attorney that drafted the estate plan to ensure they are correct.

### **Gifting**

This year the Annual Gift Tax Exclusion is \$19,000 per year per person. That means you can give \$19,000 to any person without any gift taxes being assessed against that gift. Married couples can “split” gifts meaning your spouse could effectively gift to the same person \$19,000 (for a total of \$38,000 between the two gifts).

In addition to the \$19,000 annual gift tax exclusion, an individual can give away a total Lifetime Gift of \$13.99 million (or at death—but not both), which is also free of gift taxes. In both instances, these gifts can remove assets from your estate when evaluating estate tax consequences.

Another consideration is making gifts for Health Care or Educational related purposes. If you are inclined to make gifts for Healthcare or Education, you must make the check directly out to the institution. If you do write the check directly to your grandchild's university (for tuition in example) that gift is in addition to the \$19,000 gift which can be made each year.

As such, it is important to remember that you can make unlimited gifts for purposes of Healthcare or Education.

### **Other items which may indicate you need to address your estate plan**

#### **Specific Bequests**

- I want to make specific bequests to individuals not currently included in my plans-or delete the names of one or more persons (or charities) currently named.
- I would like to change the amounts of some of the bequests I have made.

**Changes in Valuation**

- The value of my estate has changed more than 20% in the last two years or the composition of my estate has changed significantly.
- I have, or will, receive a substantial inheritance soon.
- I have, or will, be the beneficiary of a trust soon.

**Special Provisions for Children**

- My health (my spouse's or children's health) has deteriorated substantially in the last year.
- My heirs may not be capable of handling an inheritance.

**Newly Born or Adopted Children**

- A child (grandchild) has been born (or adopted) since our last review.

**Handicapped or Incompetent Children**

- A child (grandchild or other dependent) has become handicapped or seriously injured since our last review.

**Status of Family Marriages**

- A member of the family has become married, divorced or separated since our last review.
- I have, or will have, been married and are there children from a previous marriage.

**Cancellation of Loans to Children and Equalization of Inheritance**

- I would like to discharge an obligation owed to me by canceling the loan in my will.
- I would like a clause to equalize any gifts made in the past (or to be made in the future) to certain children (grandchildren).

**Life Insurance**

- I have added (or dropped) more than \$50,000 of life insurance since our last review.
- I have changed (or would like to change) a beneficiary designation on an existing policy or annuity.
- I feel I may need more life insurance, but I don't know how much to purchase or what type to consider.

**Gifts to Minors**

- I would like to make substantial gifts to minor children (grandchildren).

**Gifts to Charities**

- I would like to add (delete) one or more charitable beneficiaries.
- I would like to change the amount of my bequest to certain charities.

**Business Interests**

- I have entered into a stock (or partnership) buy-sell agreement since our last review.
- I have bought or sold a business since our last review.
- My business situation has changed significantly since our last review.

**Guardians, Executors, and Trustees**

- I would like to name a particular person as advisor to my executor and trustees.
- I would like to reconsider the designation of the guardians, executors, and trustees I have named.

**Other**

- Have you reviewed your Durable Power of Attorney document recently (within the last three years)?
- Have you reviewed your Durable Power of Health Care document recently (within the last three years)?
- Have you reviewed your Directive To Physicians document recently (within the last three years)?
- Are you, or do you anticipate, being sued?
- Are you currently engaged in a lawsuit?
- Have you recently retired or will you soon?
- I would like to know how the latest tax law affects my estate plan.
- I would like to review my estate plans for the following reasons. \_\_\_\_\_

As with any of these issues, it is best to properly coordinate these decisions with your Board Certified Probate and Estate Planning Attorney, Certified Public Accountant and CERTIFIED FINANCIAL PLANNER™.

Please call to discuss any of these issues.

Sincerely,

*Dave*

Dave Sather, CEO  
CERTIFIED FINANCIAL PLANNER™

*Warren*

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CERTIFIED FINANCIAL PLANNER™