Estate Planning

And The Second To Die Program

INDIANA FARM BUREAU INSURANCE®

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Estate Planning and the Second to Die Program from Indiana Farm Bureau Insurance

A source of satisfaction for most married couples is to know that the assets they have worked hard to accumulate through the years stay in their families, even after both people are deceased.

All too often, however, this isn't the case. In fact, federal estate taxes and settlement fees can not only reduce the total assets inherited by family members, they can actually create financial hardships in situations where most of a couple's assets are not easily converted to cash.

The Estate Planning assistance and Second to Die program offered by Indiana Farm Bureau Insurance are designed to help give you the peace of mind you deserve. For additional information, call your Indiana Farm Bureau Insurance agent.

Table of Contents

Estate Planning Facts

Fact: Estate planning is not only for the rich and elderly.

Fact: The estate tax has NOT yet been repealed.

Fact: Estate planning is not only for those with large estates. It is also essential for smaller estates. Why? Because there are fewer assets to cover debts, the estate settlement costs and possible estate taxes.

Fact: If you do not specify who will inherit which assets and when those assets should be distributed, state laws will make those determinations. The terms and timing may not be consistent with your wishes.

What is Estate Planning?

Estate planning is a process that provides an efficient way to distribute your assets with a minimal amount of loss and delay. The primary objective of your estate plan should be the avoidance of unnecessary shrinkage of your estate and the financial security for your heirs. One of the most common causes of estate shrinkage is under-estimation and inadequate preparation for the numerous expenses incurred at your death. Estate planning helps provide solutions to administrative problems, like the following:

Potential Problems

- Failure to organize information regarding assets and location.
- Failure to make known your objectives and wishes regarding finances and distribution of assets.
- Failure to understand that if you own a life insurance policy on your own life, the proceeds are includable in your estate.

Solutions

- Create a financial summary (net worth statement) showing assets and liabilities.
- Indicate account numbers and other appropriate information.

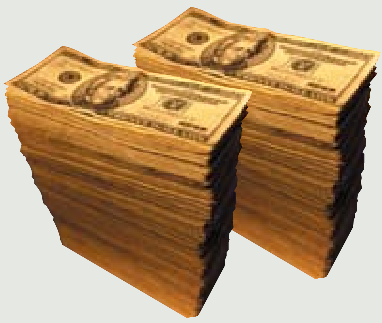
Execute documents, such as:

- A Will - Specifies who receives your property at your death. It can also provide instructions on creation of trusts and the designation of an executor(s).
- Durable Power of Attorney - Gives someone you trust the ability to act on your behalf if you are legally incapacitated.
- Make someone else the owner and beneficiary of your life insurance.

For Example: If you are the owner and insured of a $250,000 life insurance policy, the entire amount is included in your estate and could be reduced as much as 48% (2004) by estate taxation.

Unfortunately, your family likely will not receive all of the property you have accumulated throughout your life. Such expenses as debts, costs of settling your affairs, and estate taxes (for larger estates) must be paid first. Your family receives what is left. The following graphic shows how money is siphoned from your estate before finally reaching your family.

Your Estate Dollars Less Expenses



Your Estate

–

1. *Medical Bills*
2. *Funeral Expenses*
3. *Debts*
4. *Accounting Fees*
5. *Attorney Fees*
6. *Court Costs*
7. *Income Tax*
   •Federal •State •Local
8. *State Inheritance Tax*
9. *Estate Tax*

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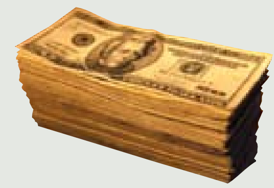

What is left?
Your family's portion.

1. *Medical Bills:* Many times medical expenses associated with the last illness can decimate an estate. Proper planning can help provide for this contingency.

2. *Funeral Expenses:* The average cost of funeral and burial is on the rise. This cost can comprise a substantial portion of a smaller estate.

3. *Debts:* A decedent's creditors have a legal right to be paid before his family receives any of his estate. Debts may include the mortgage on a personal residence, automobile loans, credit card balances, etc.

4. *Accounting Fees:* At death, a decedent's taxes must be paid including income taxes, inheritance taxes, and estate taxes. Where an accountant is involved in the preparation, additional costs will accrue.

5. *Attorney Fees:* In most cases, an attorney directs and assists the executor in the estate administration. Depending upon the complexity, attorney fees may be substantial.

6. *Court Costs:* Filing fees for opening an estate are typically minimal but must be paid.

7. *Income Tax:* Federal, state, and local income taxes that have accrued since the last income tax return must be filed and paid. Also, the estate must file an income tax return for income accrued during the estate administration.

8. *Inheritance Tax:* States levy a tax on the right of a beneficiary to succeed to the ownership of the decedent's property.

9. *Federal Estate Tax:* A decedent who dies owning property worth in excess of $1.5 million (fair market value in the year 2005) will have his estate subjected to federal estate tax. This value increases each year until 2010 (see Rate Schedule for Estate and Gift Taxes).

Minimizing the Estate Tax

The Unlimited Marital Deduction

The Unlimited Marital Deduction is a simple and powerful estate planning tool which will allow you to transfer an unlimited amount of assets to your spouse without paying any federal estate tax (at death) or a gift tax (while living). It is important to remember that the transfer only delays the estate taxation until the second death and in many cases, the estate will grow significantly before the surviving spouse dies - creating an even larger federal estate tax liability for the heirs to pay! Consider the example of John (age 60) and Anne (age 58) whose combined estate totals $4 million. John and Anne share the estate equally.

Example 1:

John Dies 2005 / Anne Dies 2008

$ 2,000,000	*John's Estate*	$1,680,800	***Tentative Tax***	$ 4,000,000	*Estate Value*
+ 2,000,000	*Anne's Estate*	– $780,800	***Unified Credit***	– 900,000	*Estate Tax*
$ 4,000,000		$900,000	***Estate Tax***	$3,100,000	*Available to heirs.*

The Unified Gift and Estate Tax Credit

Both you and your spouse are entitled to the Unified Gift and Estate Tax Credit which shelters a certain amount of assets each year. The credit is a dollar for dollar reduction which offsets any gift taxes on lifetime transfers of assets. The remaining credit is applied against any federal estate taxes that are due at death.

The most efficient use of this credit is made in conjunction with the Unlimited Marital Deduction. First, the Unified Credit is used to its maximum extent at the first death and then the remainder of the estate is transferred to the survivor's estate using the Unlimited Marital Deduction. Second, another Unified Gift and Estate Tax Credit is used again when the survivor spouse dies. Another look at the estate of John and Anne.

Total assets available to the heirs of John and Anne include the $1,500,000 from John's estate, transferred to the children at his death, using the Unified Gift and Estate Tax Credit: $3,775,000 ($1,500,000 + $2,275,000). Compare this with the first example where only $3,100,000 was left to the heirs.

Example 2:

A)	$ 2,000,000	*John's Estate*
	– 500,000	*To Anne's Estate*
	$ 1,500,000	
	$ 1,500,000	*To Children via Unified Credit*
	$ 555,800	*Tax*
	– 555,800	*Unified Credit*
	$ 0	*Estate Tax*
	$ 1,500,000	*To Children via Unified Credit*
	– 0	*Estate Tax*
	$ 1,500,000	*Credit Shelter Trust*
B)	$ 2,000,000	*Anne's Estate*
	+ 500,000	*Unlimited Marital Deduction*
	$ 2,500,000	*Initial Assets*
	$ 1,005,800	*Tentative Tax*
	– 780,800	*Unified Credit*
	$ 225,000	*Actual Estate Tax*
	$ 2,500,000	*Initial Assets*
	– 225,000	*Actual Estate Tax*
	$ 2,275,000	*To Anne's Heirs*
C)	$ 2,275,000	*To Anne's Heirs*
	+ 1,500,000	*Credit Shelter Trust*
	$ 3,775,000	*Available to Heirs*

Credit Shelter Trust

How It Works

A Credit Shelter Trust (also referred to as a By-Pass Trust, Family Trust, or Trust B in an A-B plan) allows a married couple to take full advantage of the Unified Credit available to each individual, thereby reducing their estate taxes and probate costs, and passing more of the estate to the heirs. The major characteristics of a Credit Shelter Trust are:

1. At the first death, the will or revocable living trust provides for the establishment of a trust equal to the amount that could be passed tax free through the Unified Credit.

2. The balance of the estate typically passes to the surviving spouse outright or in a trust which qualifies for the unlimited marital deduction.

3. A properly drafted Credit Shelter Trust can provide income and limited amounts of the principal to the surviving spouse and/or family members.

   These provisions may include:
   a. all income paid annually to the survivor;
   b. the survivor's right to demand up to 5% of the trust assets annually;
   c. the trustee's discretion to pay for the maintenance, education, support, and health of the survivor;
   d. the trustee's discretion to terminate the trust due to the extreme need of the survivor.

4. Care must be taken that no right be granted that causes the trust assets to be included in the surviving spouse's estate.

5. At the death of the surviving spouse, the assets remaining in the Credit Shelter Trust should not be taxed in the estate of the surviving spouse.

Benefits of a Credit Shelter Trust

1. The assets remaining in the Credit Shelter Trust at the death of the surviving spouse can pass outright to the heirs or in trust for their benefit avoiding both federal estate taxation and probate expenses at the surviving spouse's death.

2. More of the estate passes to the heirs than would through the use of a Simple Will. The money saved from the reduction of taxes goes directly to the heirs.

3. The Unified Credit works to create a $1.5 million (2005) exemption for each person subject to the estate tax. This personal exemption is scheduled to increase to $2 million in 2006, followed by an expansion to $3.5 million in 2009. In 2010 the estate tax will be temporarily repealed. However the tax is scheduled to reappear in 2011, with a $1 million per person exemption. Through proper planning a married couple may use a Credit Shelter Trust to combine their personal exemptions, transferring up to $3 million (2005) to their children or other beneficiaries free of estate taxes.

4. The surviving spouse may be a beneficiary of the Credit Shelter Trust.

5. Provides peace of mind because the decedent may specify who will receive the remaining assets at the death of the surviving spouse.

6. If a person selects a corporate fiduciary to serve as trustee, the beneficiaries receive professional asset management.

7. The amount of the estate passing to the surviving spouse (in excess of what is put in the Credit Shelter Trust) qualifies for the unlimited marital deduction and therefore passes estate tax-free at the death of the first spouse.

The Need for Estate Liquidity

Regardless of the size of the estate, the debt and estate settlement cost expenses will occur, plus estate taxes may be due on estates larger than $1.5 million. Each of these expenses can reduce or "shrink" the estate's value. As shown in the estate example of John and Anne, there is a special need for estate liquidity at the second death to pay the estate tax and other settlement costs. There are a number of ways to provide the necessary cash when Anne dies:

1. Sell estate assets to meet the cash needs. This often results in forced liquidation losses.

2. Keep enough cash on hand to pay the costs. This could mean keeping large amounts of money in low-yield liquid investments. Also, these assets may be unnecessarily subjected to the probate process, which involves proving to the probate court the validity of the will.

3. Borrow the cash and force the heirs to pay interest on the loan.

4. Prepay the expenses using a life insurance program that pays proceeds at the second death when the money is needed.

The Indiana Farm Bureau Insurance Second to Die Program

Here are some of the advantages of using a life insurance program that pays proceeds at the second death:

1. Provides necessary liquidity to pay estate taxes and other settlement costs without liquidating part of the estate.

2. Death benefit is payable at the second death when estate taxes are due.

3. Provides an economical solution - supplies large amounts of cash to meet estate liquidity needs using discounted dollars. Life insurance policies are designed to pay more in death benefits than total premiums paid in. (It may only cost $.25 to receive $1.00 of benefits.)

4. Proceeds are Federal income tax free to the beneficiaries.

5. Structured correctly, the proceeds avoid the probate process, inheritance tax and estate tax.

John and Anne Example - $225,000 Estate Liquidity Need

Our program provides life insurance protection that pays a death benefit at the second death when funds are needed to pay the costs of settling the estate. We assess the health of both applicants, designating one as the Insured under the base policy, while the other applicant is designated as the Second Insured.

If the Second Insured dies first, the surviving Insured continues to pay premiums on the $225,000 base policy to pay the estate settlement costs due at the second death. However, the Indiana Farm Bureau Insurance Second to Die Program is UNIQUE in that if the base Insured dies first, the survivor/Second Insured will automatically receive a paid up $225,000 life insurance policy (or equal to the current net death benefit at the time of death if different). No underwriting is required regardless of the survivor's health. The new policy will provide funds needed to pay estate settlement expenses at the second death as planned.

Regardless of who dies first, there will always be insurance protection that provides a tax free death benefit payable at the second death. Plus, if the Insured under the base policy does predecease the Second Insured, there can be "residual death benefit" available to the beneficiaries. Residual Death Benefit - another unique Indiana Farm Bureau Feature!

Example:

Recall the previous example where Anne's policy face amount is $225,000 to pay the estate taxes due on the $4 million estate at the second death. If she unexpectedly dies before John ten years from now, the $225,000 death benefit is used to purchase a paid up policy for the same face amount on John's life - providing cash to pay estate taxes when he dies. There is residual death benefit of $138,600 payable to the beneficiaries.

$	225,000	Death Benefit From Anne's Policy
–	155,700	Single Premium Cost of John's $225,000 Policy at Age 70
$	69,300	Residual Death Benefit Payable to the Beneficiaries

The residual death benefit provides cash at the first death only when and if the Insured under the base policy dies before the Second Insured.

Underwriting - Determining the Insured under the base policy

One of the individuals will be designated as the "Insured under the base policy" while the other person is designated as the "Second Insured"- regardless of the health status of the Second Insured.

Example of information disclosed in the joint application:

- John is Age 60 and is in fair health.
- Anne is Age 58 and is in good health.
- Anne is named the Insured of the base policy. John is designated as the Second Insured.
- If John (the Second Insured) dies first, Anne continues to pay the premiums on the policy, with the guarantee that the premium will not increase.
- If Anne (the Insured under the base policy) dies before John, our program is a unique solution providing continuous life insurance coverage on John's life for no additional premium. In addition, our program can provide Federal income tax free cash to the beneficiaries as a "residual death benefit."

What Other Program Offers All of These Features?

- Life insurance proceeds at the second death to pay for estate settlement cost.
- The possibility to receive Federal income tax-free proceeds at both the first death and the second death with no further premium.
- If the Insured under the base policy predeceases the Second Insured, no further premiums are required.
- No underwriting requirements for the Second Insured.
- Guaranteed premiums that will not increase.

Indiana Farm Bureau Insurance offers such a program along with a free analysis of your own estate!

Additional Information About Estate Planning

Life Insurance in a Trust

How It Works

In general, the proceeds of a life insurance policy pass free of probate unless the beneficiary of the policy is the insured's estate. If the insured's estate is the beneficiary, the proceeds of the policy are payable to the insured's estate and are subject to the probate process.

The value of any policies owned by an individual at death are subject to estate taxes. If an individual possesses certain rights (known as incidents of ownership) over a policy insuring his or her own life, the proceeds of the policy are generally included in the individual's gross estate for estate tax purposes at the individual's death.

Frequently, a couple will think they are safe from estate taxes if they own policies on each other. They may not be. Take for example the husband who is the owner and beneficiary of a policy on his wife. The wife dies first. The husband generally receives the proceeds of the life insurance policy free of income and estate taxes, but the funds remaining at his death become part of his gross estate for estate tax purposes.

Life insurance policies are often transferred to an irrevocable life insurance trust in order to avoid the estate taxes that may result from owning a policy or from holding incidents of ownership in one. Other objectives may also be accomplished by such a transfer.

Pitfalls of Life Insurance in a Trust

The Grantor cannot terminate or change the terms of an irrevocable life insurance trust once it is established and he does not have access to the funds in it.

If the insured transfers an existing policy and then dies within the next three years, the proceeds of the policy are includable in the estate for estate tax purposes under the Three Year Rule of IRC Section 2035. To avoid this possible pitfall, the trustee of the life insurance trust often purchases a new policy using cash in the trust, so the insured is not transferring a policy to the trust. Frequently, the policy premiums for a policy in trust will be paid by the trust with money received as a gift form the Grantor. These transfers to the trust for premium payments may not qualify for the annual $11,000 gift tax exclusion because they are considered to be gifts of a "future interest" rather than a present interest. To avoid this possible pitfall, the beneficiaries of the trust are often given a limited power to withdraw funds (known as a "Crummey Power"). Proper withdrawal rights generally make the gift a "present interest" and may allow the gift to qualify for the annual gift tax exclusion. Gifts to an irrevocable trust which do not qualify for the annual gift tax exclusion may trigger a gift tax or a reduction in the available unified credit for federal estate tax purposes.

The gift tax exclusion is adjusted annually for inflation. Adjustments are rounded to the next lowest multiple of 1,000.

Revocable Living Trust

How It Works

A Revocable Living Trust is a flexible estate planning tool that can be used to reduce probate and administrative costs. It is a trust created by the Grantor during his or her lifetime in which the Grantor retains the right to terminate the trust, change its terms, or remove trust property. It may be funded during his or her lifetime (to obtain probate avoidance benefits) or remain unfunded until the Grantor's death. Since the Grantor hasn't irrevocably disposed of the trust assets, the entire trust will be includable in the Grantor's gross estate for estate tax purposes. However, to the extent the trust is funded during his or her lifetime, the formal probate process is avoided. The major characteristics of a Revocable Living Trust are:

1. The Grantor establishes the terms and conditions by which assets in the trust will be managed and names the beneficiaries to whom the trust will ultimately be distributed.

2. Property is transferred to the trust during the Grantor's lifetime or "pours over" to the trust under the terms of the Grantor's Will.

3. The trust can reduce probate and administrative costs, simplify asset management and provide greater privacy for the distribution of assets at death.

Advantages of a Revocable Living Trust

1. In the event of the mental or physical incapacity of the Grantor, the Trustee continues to manage trust assets without interruption or the need for a court-appointed guardian.

2. By avoiding the formal probate process, the Grantor's family may be afforded privacy with respect to the nature and amount of trust assets and the identity of the beneficiaries.

3. The Trustee can distribute or manage trust assets immediately upon the Grantor's death and does not need to wait for admission of the Will or other time consuming probate delays. "Ancillary" probate proceedings for property located in another state can be avoided.

4. Probate and administrative costs can be reduced during the Grantor's lifetime and at death.

5. Some estate planning can be accomplished.

Disadvantages of a Revocable Living Trust

1. All trust assets are includable in the Grantor's gross estate for estate tax purposes.

2. Establishment of the trust may generate legal costs and trustee fees.

3. If probate avoidance is desired, assets generally need to be transferred to the trust during the lifetime of the Grantor.

Unified Rate Schedule for Estate and Gift Taxes

For year of death 2005, the Unified Gift and Estate Tax Credit is $555,800 based on an exemption equivalent of $1,500,000.

For year of death 2006, the Unified Gift and Estate Tax Credit is $780,800 based on an exemption equivalent of $2,000,000.

For year of death 2007, the Unified Gift and Estate Tax Credit is $780,800 based on an exemption equivalent of $2,000,000.

For year of death 2008, the Unified Gift and Estate Tax Credit is $780,800 based on an exemption equivalent of $2,000,000.

For year of death 2009, the Unified Gift and Estate Tax Credit is $1,455,800 based on an exemption equivalent of $3,500,000.

For year of death 2010, the estate tax has been repealed. All property may be passed without use of a credit.

For year of death 2011, the Unified Gift and Estate Tax Credit is $345,800 based on an exemption equivalent of $1,000,000.*

**Assumes sunset provisions have taken effect.*

Gift and Estate Tax Tables

VALUE OF ESTATE From:	VALUE OF ESTATE To:	Tax Col.(1)	Rate on Excess
LOWER BRACKETS (2005-2009, 2011)			
$ 0	$ 10,000	$ 0	18%
10,000	20,000	1,800	20%
20,000	40,000	3,800	22%
40,000	60,000	8,200	24%
60,000	80,000	13,000	26%
80,000	100,000	18,200	28%
100,000	150,000	23,800	30%
150,000	250,000	38,800	32%
250,000	500,000	70,800	34%
500,000	1,000,000	155,800	37%
1,000,000	1,250,000	345,800	39%
1,250,000	1,500,000	448,300	43%
UPPER BRACKETS (2011 and Later)			
$ 1,500,000	$ 2,000,000	$ 555,800	45%
2,000,000	2,500,000	780,800	49%
2,500,000	3,000,000	1,025,800	53%
3,000,000	10,000,000	1,290,800	55%
10,000,000	17,184,000	5,140,800	60%
17,184,000	....	9,451,200	55%

VALUE OF ESTATE From:	VALUE OF ESTATE To:	Tax Col.(1)	Rate on Excess
UPPER BRACKETS (2005)			
$ 1,500,000	$ 2,000,000	$ 555,800	45%
2,000,000	....	780,800	47%
UPPER BRACKETS (2006)			
$ 1,500,000	$ 2,000,000	$ 555,800	45%
2,000,000	....	780,800	46%
UPPER BRACKETS (2007-2009)			
$ 1,500,000	$	$ 555,800	45%

Indiana Inheritance Tax Schedule

VALUE OF INHERITANCE		CLASS A Tax on Col.(1)	CLASS A Rate on Excess	CLASS B Tax on Col.(1)	CLASS B Rate on Excess	CLASS C Tax on Col.(1)	CLASS C Rate on Excess
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$ 0	$ 25,000	$ 0	$ 1%	$ 0	$ 7%	$ 0	$ 10%
25,000	50,000	250	2%	1,750	7%	2,500	10%
50,000	100,000	750	3%	3,500	7%	5,000	10%
100,000	200,000	2,250	3%	7,000	10%	10,000	15%
200,000	300,000	5,250	4%	17,000	10%	25,000	15%
300,000	500,000	9,250	5%	27,000	10%	40,000	15%
500,000	700,000	19,250	6%	47,000	12%	70,000	15%
700,000	1,000,000	31,250	7%	71,000	12%	100,000	15%
1,000,000	1,500,000	52,250	8%	107,000	15%	145,000	20%
1,500,000	....	92,250	10%	182,000	15%	245,000	20%

BENEFICIARY		EXEMPTION
CLASS A:		
	Child 21 or older*	$ 100,000
	Child under 21*	100,000
	Parent	100,000
	Other lineal ancestor or descendent	100,000
CLASS B:		
	Brothers, sisters, their descendants, and child's spouse, widow or widower	$ 500
CLASS C:		
	All others**	$100

* *"Child " includes a legally adopted child. Children under age 18, if no surviving spouse, collectively have an allowance of $8,500 which is also exempt from inheritance tax.*

** *Except a surviving spouse. All property transferred to a surviving spouse is exempt from inheritance tax.*

We're Part of Your Life®

Indiana Farm Bureau Insurance has been a part of Indiana for more than 70 years. We have agents in every county in Indiana, and only Indiana. It's why every auto, home and life insurance policy we offer is based on your community, your values, your future. And it's why we can promise that from Elkhart to Evansville, Terre Haute to Richmond, we'll be there.

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Indiana Farm Bureau Insurance believes in investing in the youth of Indiana to ensure the future prosperity of our state. We are the only insurance company in Indiana to make a solid commitment to that future, through programs like the **Teenage Driver Safety and Education Program**, the **eXceL Awards** (formerly known as Project XL), and an exclusive corporate partnership with the Indiana High School Athletic Association.

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