AlaskaUSA

Trust Notes

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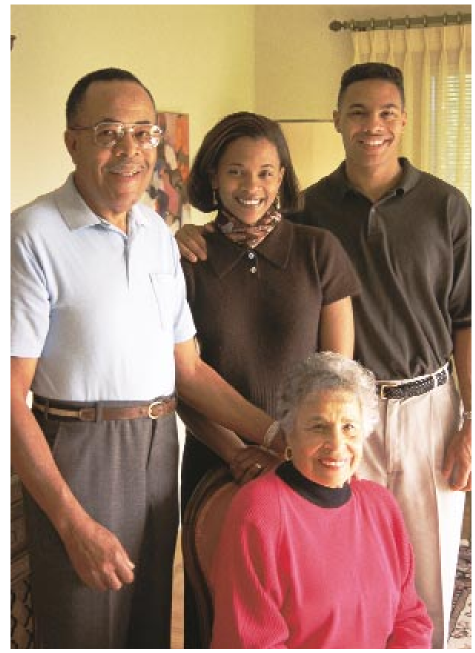
Estate Planning

Preparing for the Future



What will happen to your assets after your death, or if for some reason you are unable to manage your own affairs? Not everyone likes to think about these events, but estate planning is an important part of preparing for the future. Here are some of the issues you should consider.

Family communication. In many families, death and money are almost forbidden subjects. Yet some frank discussions with children (or parents) can help everyone be prepared for the unexpected. At a minimum, key family members should know the whereabouts of important documents and be aware of any medical treatment options you do or don't want.

Your will. This legal document dictates how your probate assets are to be distributed from your estate and can be used to designate legal guardians for dependents. These are decisions you, not the courts, should make. You can also use your will to name the executor of your estate. This person will oversee the estate until all assets are distributed and the estate officially ceases. You should choose someone that is capable of understanding and carrying out your wishes.

Your retirement accounts. You should carefully choose the beneficiary of any retirement plan you have, including IRAs. In most cases, the person who will receive the assets in your retirement account is determined by the beneficiary form you sign and not your will.

Irrevocable life insurance trusts. When you hear that life insurance proceeds are tax-free, it is only referring to income taxes. The proceeds of that policy are included in your taxable estate. With a properly structured irrevocable life insurance trust, the insurance policy is owned by the trust, therefore allowing the insurance proceeds to pass to your beneficiaries free of estate tax.

Durable power of attorney for finances. This document gives another person the ability to make financial decisions for you if you become incapacitated and unable to make your own decisions. If this power of attorney is invoked, that person can access your accounts, pay bills, write checks and handle your investments. Without it, it may be necessary to frequently go to court to enable transactions to be made. With this power of attorney, you should choose someone who is capable and knowledgeable enough to make decisions on your behalf. It may be an adult child, sibling or trusted friend. If you don't have someone like that, you may want to designate a qualified professional.

Medical directives. These documents direct how health care decisions are to be made if you are not capable of making them yourself. A durable power of attorney for health care gives another person the ability to make medical decisions and a living will tells your family and medical personnel how you are to be treated if you become terminally ill. It also states your wishes about being placed on life support.

Regular estate planning checkups. Estate plans should be reviewed on a regular basis. Many estate attorneys suggest a review every three or four years. If your situation changes (divorce, death of a spouse, birth of children or grandchildren, changes in wealth status), you may want to review your plan more often. In addition, if you move to another state, be sure to get an estate plan review.

Establish a personal trust. Creating a personal trust can be an important part of your estate planning. The primary difference between a will and a trust is that the assets placed in your trust avoid probate upon your death. Second, a trust can serve as a vehicle for managing your affairs should you become incapacitated or unable to manage your affairs—a will cannot. And, unlike probate, the assets in your trust are not exposed to public record, making it difficult for anyone to challenge the disposition of your estate.

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Your Guide to Understanding Individual Retirement Accounts

Individual Retirement Accounts (IRAs) can and should be a key part of the foundation of most people's retirement planning efforts. However, frequent changes to income tax laws can lead to confusion about IRAs. Here are some of the facts you should know to ensure you make fully informed IRA decisions.

- The annual contribution limit has been increased to $3,000 for 2002 contributions. The only requirement is that you have at least that much income from wages or salaries.
- Beginning with 2002 contributions, individuals ages 50 and older will be able to make catch-up contributions. These additional contributions can be up to $500 for years 2002 to 2005 and up to $1000 after that.
- Your contribution to a Traditional IRA is tax deductible if you are not a participant in your employer's qualified retirement plan. If you are a participant in a qualified retirement plan, the deductibility of contributions to regular IRAs is determined by your adjusted gross income. For married couples filing a joint return, the deduction is phased out at income levels of $54,000 to $64,000 in 2002. For single filers, the phase out is from $34,000 to $44,000.
- Earnings on funds within an IRA are not subject to income tax as they are earned. Tax deferral allows for the funds to accumulate faster. With a Traditional IRA, earnings are taxed when withdrawn from the IRA.
- You must begin taking distributions from a Traditional IRA at age 70½.

- IRAs were established to be long-term retirement planning accounts. As such, the IRS imposes a penalty tax of an additional 10% if funds are distributed before reaching age 59½. There are a few exceptions to this rule, including a first time home purchase.
- If you have established IRAs at different institutions over the years, you can consolidate them into one account to make it easier to keep track of your funds. If done properly, there are no income tax consequences to this consolidation.
- An IRA can serve as the account to receive a distribution from your employer's qualified plan when you change employers or retire. Tax deferral is maintained and you may have additional investment flexibility

Roth IRAs

A few years ago, a new type of IRA was created that has become an attractive alternative to the Traditional IRA. The Roth IRA has the same $3,000 annual contribution limit for 2002 and the same tax deferral benefits on earnings within the IRA. Similar to regular IRAs, catch-up contributions are allowed.

The biggest differences are that the contributions are not tax deductible and that distributions are not subject to income tax. When comparing Traditional and Roth IRAs, the trade-off is usually whether the loss of deductibility on current contributions is worth the benefit of never having to pay income taxes on the future earnings of the funds within the IRA. Roth IRAs also provide more distribution flexibility. For many, the Roth IRA can result in superior long-term benefits.

Self-Directed IRAs from Alaska USA Trust

Choose a self-directed Traditional or Roth IRA and invest in a variety of no load stock and bond mutual funds. Self-directed IRAs provide the potential for higher rates of return, but at higher risk. For more information on self-directed IRAs and the families of mutual funds available, call Alaska USA Trust Company at 562-6544 in Anchorage or (888) 628-4567 outside Anchorage..

Planning *continued*

A personal trust establishes how you want your affairs managed in the future, and can help preserve your assets, as well as ensure that your assets are distributed as you intend.
An estate planning attorney can help you design a trust document that meets your individual needs and specifications.

Consider professional trust management. In creating a trust, you are placing your assets, your wishes, and the welfare of your family in the hands of your designated trustee. Choosing the right person or institution to fulfill this trustee role is important. If a personal trust is part of your estate plan, consider Alaska USA Trust Company as your trustee for professional management of your trust assets.

For additional information regarding estate planning and personal trusts, go to www.alaskausatrust.com, or contact us at 562-6544 in Anchorage, (888) 628-4567 toll-free outside of Anchorage, for a free copy of *Selecting the Best Estate Planning Strategies* booklet.