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ORANGE Bank&Trust COMPANY

WE OFFER *Peace of Mind*

WEALTH MANAGEMENT

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Top ten trust questions

When you have a product or service that you hope to provide to the public, your job of selling is easier when the public is already familiar with your line of work. Everyone knows what an automobile is for, or what a barber does. When new products burst upon the scene—for example, in the consumer electronics arena—potential buyers have to be shown the uses and benefits before they become interested.

In the financial services marketplace, there can be a bit of consumer confusion. That's why an important part of our marketing efforts consists of listening to and answering questions, from our clients and those who might become our clients. The benefits of trust-based wealth management plans are not easily reduced to bullet points or sound bites. Here are the questions that we heard most often in the last year.

1. What is the purpose of setting up a trust?

A trust provides for family financial protection. It creates a structure for delivering financial resources to multiple beneficiaries over a span of time, sometimes generations. Current beneficiaries receive the trust income, and others receive the trust principal in the future, when the trust terminates. Many trusts also authorize the distribution of principal to current beneficiaries in some circumstances.

Within this framework, trusts can be remarkably flexible. See the "Checklist of possible trust purposes" on page 2 for a partial list of objectives that trusts may meet.

2. How is a trust different from other investment accounts?

A trust has an independent legal existence that makes it durable. It can survive the incapacity or death of its creator. The trustee continues to manage the trust according to its stated purposes, stepping into the shoes of the person who created the trust.

3. What is a living trust? I've seen lots of advertisements about them. Are they popular?

Living trusts are so named to distinguish them from testamentary trusts, which are created with a will and take effect after death. A living trust goes into operation during life. Usually, such trusts are revocable and created for the benefit of the grantor. Living trusts are popular for four key reasons:

- ***Sound asset management.*** The trustee will provide

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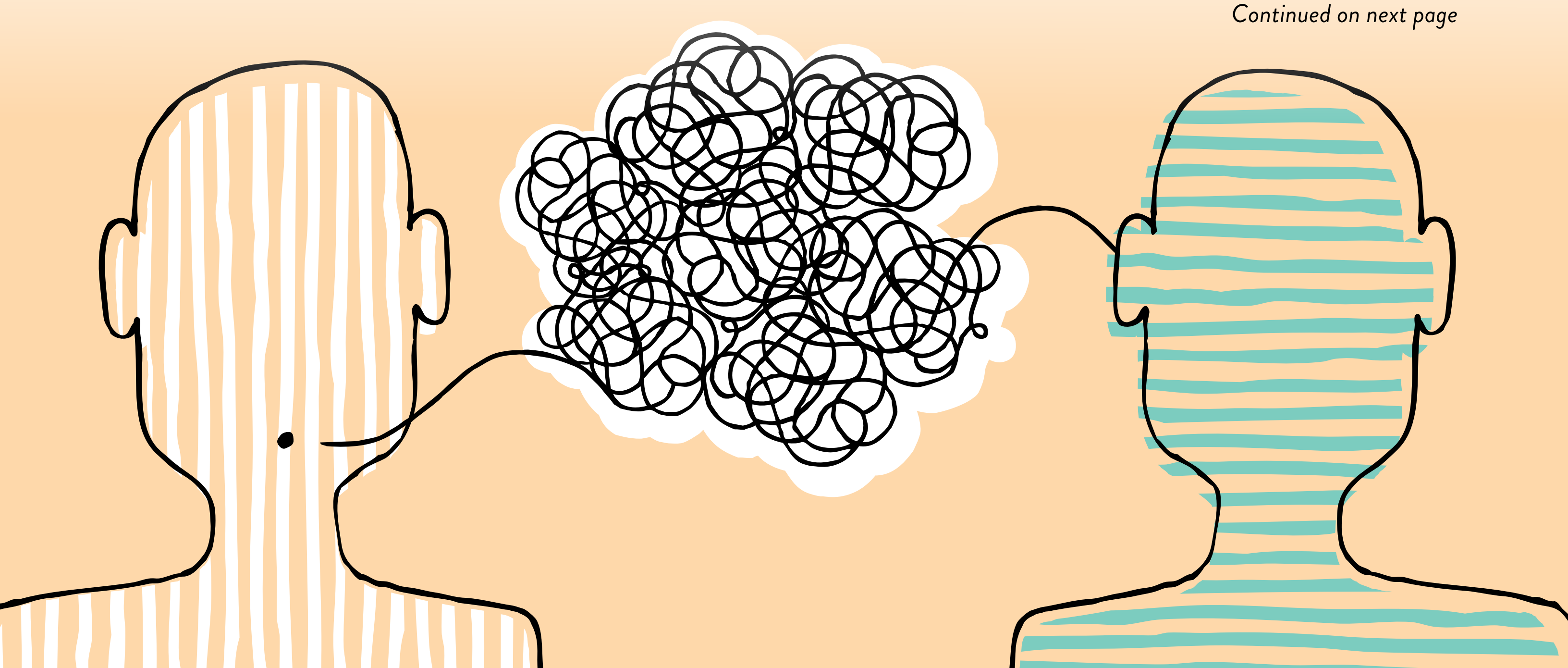

professional supervision of the portfolio, consistent with the grantor's vision.

- ***Protection in the event of incapacity.*** Trust management continues, even if the grantor becomes unavailable for any reason, such as medical problems.
- ***Potential probate avoidance.*** Estate settlement is necessarily a public process, and it can be a lengthy one. Living trusts help streamline the estate settlement process and may avoid probate completely, creating a zone of financial privacy. Such living trusts continue to function, providing financial resources to beneficiaries, while the estate settlement process continues.
- ***Financial privacy.*** The terms of a will become public during the probate process, while the terms of a trust normally are not publicized.

4. How old should you be to set up a trust?

There is no "best age" for setting up a trust. As a practical matter, a great many people first give serious consideration to establishing a trust as they approach retirement, or when they do their estate planning.

5. When I set up a living trust, do I lose control of my assets?

No, not unless you make your trust irrevocable. When your living trust is revocable, you're in the driver's seat. You can change successor beneficiaries, add more assets, withdraw assets, and make any other adjustments that you wish to make from time to time.

6. Can I be my own trustee?

Yes, you can be the trustee of your trust, or you can have a trusted family member be the trustee. But that's not a course we would recommend. Some very important reasons to let us be trustee of your trust are:

- To gain access to professional management of your assets.
- To have someone available to stand in your financial shoes should illness or incapacity strike.
- To provide financial support for your loved ones during your lifetime and beyond.
- To put all the chores of trust administration into experienced hands.

7. How much income does a trust generate?

Using a trust doesn't necessarily change the amount of income that an investment portfolio generates. In a traditional trust, "income" means collected interest and dividend payments. With that approach, as interest rates and dividend yields rise and fall, income changes with them. Changes in asset values—growth in stock prices, for example—accrue to the remainder beneficiaries.

Some trusts today take alternative approaches, defining income as a percentage of trust assets, or as a fixed dollar amount every year, or as a dollar amount adjusted for inflation—there are many alternatives to consider. However, if a fixed percentage is used to determine distributions, and the income falls short, the trustee will have to invade the principal to make up the difference.

8. Does a living trust eliminate the need for a will?

As a practical matter, no. One still needs a will to dispose of assets not placed in the trust, and to tie up loose ends. Keep in mind that a modest probate estate can have advantages. Once probate proceedings have given any alleged creditors their day in court, later claims against the estate are generally barred.

9. Is trust service expensive?

Not when you select us as your trustee. People are often surprised to discover their annual fees compare favorably with the annual fees of other investment managers, notably hedge funds. As one of our trust customers put it recently, "Do you know, I really feel like I'm flying first class for the price of coach."

10. How can I learn more about trusts?

Make an appointment to meet with one of our trust professionals at your earliest convenience. We will be pleased to tell you more.

Checklist of possible trust purposes

No single trust can do everything, but for almost any imaginable need, there is a matched trust solution. How many of these objectives do you have?

- ■ Continuous financial management in the event of incapacity
- ■ Professional investment management
- ■ Provide financial support for a special needs person
- ■ Financial privacy
- ■ Probate avoidance
- ■ Lifetime financial protection for a surviving spouse
- ■ Asset management for inheritances
- ■ Creditor protection for heirs
- ■ Inheritance for children from an earlier marriage
- ■ Lifetime protection for a disabled child
- ■ Future legacy for charity
- ■ Current income for charity, keeping assets in the family at lower cost
- ■ Protection from current and future estate taxes

Who pays the federal estate tax?

In October, the IRS released data from the federal estate tax returns filed in 2021. Most of those filings were for deaths in 2020, when the amount excluded from federal estate tax was $11.58 million. According to the CDC, some 3.4 million Americans died that year, and the IRS reports that 6,158 of the resulting estates filed an estate tax return. Put another way, only one estate in 557 filed an estate tax return, 0.18% of all estates.

Of those 6,158 estate tax returns, a majority—3,574 estates worth a total of just over $91 billion—were nontaxable, including 237 estates worth $50 million or more. A combination of the unlimited marital deduction, unlimited charitable deduction, and the federal estate tax credit (plus smaller deductions for administration expenses and state death taxes) was responsible for bringing the tax liability down to zero.

Some 43% of the taxable estates were worth between $10 million and $20 million. Only 14% were worth more than $50 million, but they provided over 60% of the net federal estate tax revenue.

About 1,000 estate tax returns were filed by estates below the tax filing threshold ($11.58 million for 2020 deaths). Such filings were likely made in order to claim the Deceased Spousal Unused Exclusion (DSUE). Here's an example of how that works. Husband dies with an estate of $20 million, leaving it all to Wife. With the unlimited marital deduction, there would be no federal estate tax, so Husband's estate would have used none of his exclusion. Wife inherits the unused exclusion, which will be applied in her estate after her death, as well as her own exclusion. In that way, the couple gets the advantage of two estate tax exclusions instead of just one. But to get that benefit, an estate tax return must be filed, and an election made.

Over $2.7 billion of DSUEs were claimed on 2021 estate tax returns, with 75% found on the nontaxable returns.

Because women live longer than men, one would expect that the estates of women would pay more estate taxes than the estates of men, because those estates can rely on the marital deduction to eliminate the tax. The IRS statistics bear this out. The aggregate value of men's estates was $117 billion, which generated $8.9 billion in estate taxes. Women's estates were worth $64 billion, and they paid $9.4 billion in estate taxes.

The IRS also categorized the occupations of the 2021 decedents wealthy enough to file an estate tax return. The top ten categories are listed in the table below. Note that "Retired" means that no specific occupation was listed, most of the decedents were in fact retired.

Total estate tax collections, according to the report, came to $18.4 billion in 2021, an amount that is scarcely a rounding error in the multi-trillion dollar federal budget. But to the families required to come up with that tax payment, it was a very big deal indeed. That's why estate planning remains very important.

The amount exempt from federal estate tax is $12.92 million in 2023, which may seem like plenty of tax shelter. However, the exemption amount falls in half in 2026, and so estate taxes then will come due from many more estates.

Decedent occupations from 2021 federal estate tax returns

	Men		Women	
Occupation	Number	Net worth	Number	Net worth
Business and financial operations	1,743	$63,323,396	393	$12,645,053
Management	410	$14,760,553	94	$2,548,014
Health care practitioners	240	$4,689,697	65	$1,291,620
Arts, design, entertainment, sports, and media	105	$3,231,169	107	$3,296,623
Legal	238	$4,833,525	35	$857,264
Education, training, and library	69	$1,457,025	136	$2,814,048
Office and administrative support	13	$567,703	80	$2,560,951
Farming, fishing, and forestry	211	$4,091,785	52	$2,480,021
Sales and sales related	177	$5,622,567	49	$924,926
Retired, no occupation listed	113	$2,678,349	652	$15,569,647

Source: https://www.irs.gov/statistics/soi-tax-stats-estate-tax-filing-year-tables

Fine art for the long term?

A portion of the art collection of Microsoft co-founder Paul Allen was sold at auction for $1.6 billion in November. When Allen was assembling his collection in the 1990s, prices for fine art were relatively low. He died in 2018, but the estate waited until this year to hold the auction, evidently believing that demand for these works has grown. For example, a Cezanne that Allen purchased in 2001 for $38.5 million sold for $137.8 million.

Seeing that this single work more than tripled in value, one may wonder whether fine art might be as valuable as an investment as it is to own and display. Writing for Axios (https://www.axios.com/2022/11/11/paul-allens-blockbuster-art-sale), Felix Salmon notes that because Allen purchased most of his collected art at auction, his purchase prices are known, and a rate of return may be determined. According to Salmon's calculations, the annualized rate of return for the pieces that recently went under the auctioneer's hammer came to 6.2%. The growth rate for the S&P 500 over the same period was 8.9%.

But you can't show off an index fund in your home to your friends and neighbors. The financial benefits of collecting art must remain the secondary objective for the collector.

Winter has arrived

One year ago, the cryptocurrency industry (Bitcoin, Ether, and similar digital currencies) were worth roughly $3 trillion, according to CNBC. One Bitcoin was worth $68,000. But when the Federal Reserve began raising interest rates to fight inflation, the value of cryptocurrencies began to fall. Bitcoin fell 19% in December 2021, and followed up with a 17% drop in January.

In January 2022, David Marcus tweeted: "It's during crypto winters that the best entrepreneurs build the better companies. This is the time again to focus on solving real problems vs. pumping tokens." That brought the phrase "crypto winter" into the lexicon.

The market for digital currencies went downhill from there. As interest rates continued to rise, more and more investors rotated out of their cryptocurrency investments, and values fell throughout the year. By November, the value of one Bitcoin had reached $18,000, a two-year low. CNBC estimated that the industry value had fallen by over $2 trillion. If that wasn't enough, in November the cryptocurrency exchange FTX went bankrupt, and some customer money went missing. Investigations are pending as of this writing.

Trust in digital currencies has taken a severe hit. The future of cryptocurrency probably includes government regulation, regulated exchanges, and greater protections for ordinary investors.

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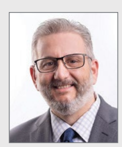

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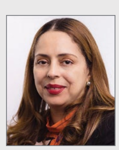

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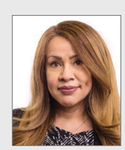

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