

WEALTH

Estate Planning
in Uncertain
Times

—
Wealth in
America

—
Integrating
Health and
Wealth



Preserving the land

Leave a lasting legacy



Northern Trust

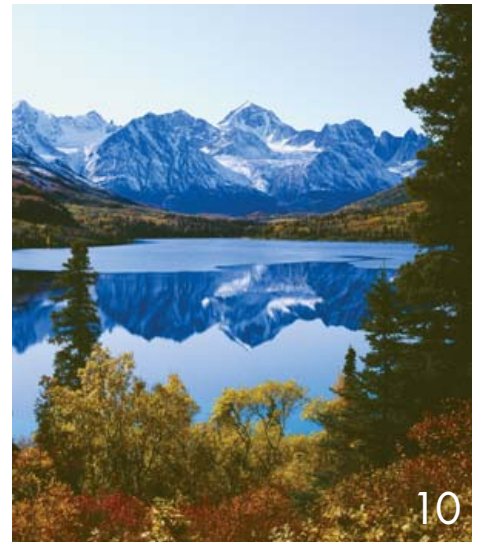
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FALL 2006

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Leaving a Legacy

While none of us can see the future, we do have the opportunity throughout our lives to make decisions that can have a lasting effect on the people and issues that matter most to us. In this issue of *Wealth*, we focus on several strategies you can use to create a lasting legacy and help ensure the fruits of your success are protected and used to benefit your family and community.

At the foundation of any legacy lies a long-term financial plan designed to help you achieve your goals, minimize taxes and protect your assets for future generations. An important part of any long-term financial plan is an up-to-date estate plan. In “Building on Shifting Sands,” we look at how the changing federal estate tax regulations may affect your estate plan. And depending on your goals and circumstances, using a Delaware Trust, as we discuss in our Information Exchange, may help you create a financial legacy for generations to come.

Creating your legacy sometimes means focusing on preserving something precious. With the combination of significant appreciation in land values and the rapid disappearance of open space, the idea of creating a legacy through land conservation has become appealing to many landowners. In “Preserving the Land,” we explore how using conservation easements or land trusts can ensure this irreplaceable asset will be preserved for future generations to enjoy.

We hope this issue of *Wealth* provides you with information and ideas you can use as you create or update your financial plan. To discuss these ideas in more detail, contact your Relationship Manager. We also encourage you to contact us with your comments about *Wealth*, by calling 866.296.1526 or by e-mail at wealthmagazine@ntrs.com.

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Published by
Northern Trust
50 South LaSalle Street
Chicago, IL 60603
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Illustration by Bruno Budrovic/Getty Images

The Return of Volatility

This Goldilocks economy is in for a difficult correction. But that doesn't signal that a bear market is looming.

*By Orie L. Dudley Jr.,
Chief Investment Officer*

In late spring, volatility in financial markets reappeared, in some instances with a vengeance.

Riskier asset classes — particularly emerging-market equities and commodities — experienced double-digit price moves, often over short periods. The S&P 500, while more stable, declined more than 7.5% in less than six weeks from its May 5 cyclical high, recovering only modestly by the end of the quarter.

A Forerunner of Future Instability?

The return of high volatility and the sell-off in risky assets could be viewed as a momentary spasm in ongoing bull markets. On the other hand, the recent financial market behavior may be a harbinger of more fundamental changes — the first steps in a risk repricing that could produce greater volatility and restrain potential returns from many assets going forward.

For more than three years, we have experienced an uncommonly supportive environment for prices in almost all asset classes. Among the reasons:

- To combat the economic slowdown at the beginning of this century, central banks injected significant amounts of money and credit into their economies, which spurred growth and encouraged financial risktaking.
- Global economic growth has been higher than projected, which has helped stimulate the economy.
- Inflation has remained contained.

This benign environment — often labeled a Goldilocks economy in the United States — is now at risk of changing. Among the growing list of challenges:

- Record current account imbalances,
- Increases in oil and commodity prices, and
- The risks posed by high — and, in many places, inflated — housing prices.

As Goes U.S. Spending, So Goes the World Economy

Spending in the United States, one of the key drivers of world gross domestic product (GDP), is now slowing. The American consumer faces rising energy costs, a cooling property market and higher interest rates.

The world economy may be resilient in the face of this slowdown, thanks to cyclical recoveries that appear underway in other countries, particularly in Japan and Germany. However, the growing links between U.S. consumption and Chinese production, the other key driver in world GDP, suggest otherwise.

Inflationary Pressures on the Rise

As uncertainty about the outlook for growth increases, inflationary pressures also are rising.

Exceptional global growth has been depleting “slack” in the world’s economic system. Authorities in the United States and Japan judge their economies to be running near full capacity.

The dollar’s continued depreciation, which we believe likely, will exacerbate this pressure in the United States. A weaker dollar should stimulate incremental demand for U.S. products in foreign markets.

Meanwhile, other sources of inflationary pressures have been building. For example:

- Housing prices have increased strongly in most countries during this economic cycle and continue to grow rapidly in many markets.
- The prices of energy and other commodities have reached record levels. This has created uncertainty as to whether the world is reaching a “tipping point” in its capacity to supply ever-greater quantities.
- Wages are now rising in most economies, including China and other emerging markets.

Worldwide Money Constrictions

Central banks around the globe have been tightening monetary policies in response to this combination of strong economic growth and increasing inflationary pressures. At last count, more than 20 central banks had enacted more than 60 separate interest rate hikes so far in 2006. We are now in the first synchronized

global monetary tightening cycle in more than five years.

The Federal Reserve is a key player in this unfolding global scenario and is emblematic of the issues most central banks are now confronting. The Fed began its tightening cycle early. That tightening now appears to be producing slower economic growth.

Inflation, however, remains troublesome, which raises the probability of more rate increases before the tightening cycle ends.

Correction Coming, But Bear Unlikely

Increased uncertainty about the future course of economic growth, inflation and monetary policy will probably produce the first meaningful correction in U.S. equities in more than three years. However, this correction and the accompanying repricing of risk in other asset markets is probably not the beginning of a new bear market. Why?

- Business is entering this period in the best operating and financial condition in decades.
- Profit margins stand at their highest level in post-war history.
- Corporate earnings have now reached a record share of national income.

This profitability, and its accompanying generation of cash flow, provides a solid foundation for capital markets. Dividend payments, share repurchases, and mergers and acquisitions are all at historic highs. This will provide additional underlying support for capital markets.

The Bottom Line for Your Portfolio

Increased volatility and sell-offs in many risky asset classes signal the possibility of more difficult financial markets over the short-term. In anticipation, we recommend reducing risk and increasing cash allocations.

From a strategic perspective, however, we would maintain equity allocations near longer-term norms. Expanding risk premiums typically create attractive return opportunities, and markets sooner or later adjust to less liquidity. The strong profit cycle and compelling valuations suggest such a scenario is likely to play out over the next six months. ■

The recent behavior of financial markets may be a harbinger of more fundamental changes underway.

The Delaware Advantage



Daniel Lindley has extensive Delaware trust experience and practiced law in Delaware for nearly 25 years. He was the principal author of Delaware's legislation repealing the Rule Against Perpetuities and permitting self-settled asset protection trusts.

Each year, wealthy families from across the country establish trusts in Delaware to take advantage of the many benefits not found elsewhere. Daniel F. Lindley, President of The Northern Trust Company of Delaware, explains why you, too, may want to consider a Delaware trust.

Why is Delaware considered such a good state for establishing trusts?

People wanting to establish a trust often are looking to find the most efficient way to minimize the effect of taxes on their trust, maximize the amount they are able to pass on to their heirs, and to do so with the least intrusion into their privacy. Delaware is the pre-eminent jurisdiction for establishing a trust because its trust-friendly environment and laws make achieving these goals much easier. No matter where you live, by establishing an irrevocable trust in Delaware you can enjoy several strategic advantages that may not be available in your home state: longevity, favorable taxation, flexibility, asset protection and privacy.

How can establishing a perpetual trust benefit my family?

Assets passed along outside of a trust are subject to gift or estate taxes (and possibly generation-skipping taxes) each time the asset changes hands. Without a trust, by the time your assets are passed to your grandchildren, the value of your estate may have been reduced significantly.

Unlike many states that limit the duration of a trust (typically to less than 100 years), Delaware allows a properly structured trust to continue in perpetuity. So while a typical trust may allow you to minimize the effects of taxes for your children and grandchildren, assets transferred to a dynasty trust in Delaware can benefit countless generations of your descendants without incurring additional gift, estate or generation-skipping taxes.

What type of tax advantages do trusts in Delaware enjoy?

In addition to the extended gift, estate and generation-skipping tax advantages offered by a dynasty trust, Delaware has eliminated its income and capital gains taxes on trusts for beneficiaries who aren't Delaware residents.

This can be particularly advantageous if your beneficiaries live somewhere with high state or even city income tax rates. In normal circumstances, these beneficiaries may face substantial costs, on top of the federal taxes they'll owe, when they sell a large holding of appreciated stock or equity in a closely held business. As a result, the tax cost can significantly reduce the amount left

from the sale. With a properly structured trust in Delaware, however, your beneficiaries won't face state or city taxes when selling trust assets, which could reduce their tax burden greatly.

I would like a trust that will allow me to provide some income for my children now, but also preserve its value for their children and grandchildren. Is this possible?

Delaware's total return unitrust statute can allow you to satisfy the competing goals of providing regular distributions to current beneficiaries while still preserving trust assets for future beneficiaries. This statute allows trustees to invest in assets that may not produce current income, but instead have the potential to appreciate. It also provides a trustee with the unparalleled ability to adjust the unitrust rate periodically based on market conditions and the beneficiaries' circumstances.

What type of asset protection do trusts in Delaware offer?

Delaware law allows you to create a "self-settled" trust that offers asset protection benefits for your personal financial assets. You create the trust with your own assets and name yourself as the beneficiary. These assets then are safe from creditors after a four-year period, during which creditors can make a claim against the trust.

Even during this four-year period, if a creditor asserts a claim against assets in the trust, it also must say that funding the trust amounted to a fraudulent transfer. This is a heavy burden to prove. As a result, these trusts offer an alternative to the asset protection of an offshore trust, but without the expense, complexity and tax compliance obligations.

My family's privacy is very important to me. Is it possible to protect our financial information when establishing the trust?

For many families, privacy and discretion are of great importance in their financial dealings. Delaware law respects this need, and does not require trust agreements to be filed in court or trusts to be registered. Delaware also does not require

court accountings for living or testamentary trusts unless the trust instrument, will or a court order expressly requires accountings. These laws and a court that is generally sympathetic to requests for sealing records of any litigation combine to give you the privacy your family requires.

Do you see any other benefits to establishing a trust in Delaware?

Delaware's advantages go beyond just the law itself to the total environment. Delaware has a storied tradition of being a trust-friendly jurisdiction, with a court system that is highly responsive to the needs of trustees and beneficiaries, and a legislature that is continually refining and updating trust laws. ■



Learn More With Northern Trust's New Delaware Trusts Publication

Northern Trust has recently published *Delaware Trusts: Safeguarding Personal Wealth*, the first paper in its Wealth Management Strategies series. This paper provides an in-depth discussion of the favorable trust environment provided by the State of Delaware, as well as the benefits that may result from selecting a Delaware trustee. In particular, the paper examines the innovative Delaware judicial structure, administrative or direction trusts, savings on fiduciary income taxes, dynasty trusts, Delaware asset protection trusts, total return unitrusts and the power to adjust, and confidentiality and nondisclosure.

To order a copy of *Delaware Trusts: Safeguarding Personal Wealth*, contact your Relationship Manager, call 866.296.1526 or send a request by e-mail to wealthmagazine@ntrs.com. You also can preview a copy of this publication on our Web site at northerntrust.com/wealth.

building on *shifting sands*

ESTATE PLANNING IN UNCERTAIN TIMES

With the Senate's refusal to consider a full estate tax repeal and several bills in the works to find a compromise on reform, the fight over the federal estate tax remains unresolved. Regardless of what happens in the end, you need to know what the changing situation means to you as you build or remodel your estate plan.

As Congress continues to debate the federal estate tax issue, there is much speculation about what may happen and when, but little certainty. As the law is written currently, federal estate tax rates decrease and exemption amounts increase until 2010, when the estate tax is repealed for one year. In 2011, the repeal sunsets, and the rates and exemption amounts bounce back to their 2001 levels. (See *A Moving Target* on page 9.)

Last year, the House of Representatives voted to permanently repeal the tax, throwing the debate to the Senate, which refused to consider the option. Most recently, the House passed a compromise measure that would provide:

- A \$5 million per person exemption under the estate, gift and generation-skipping taxes,



The keys to successful estate planning today are flexibility and regular reviews.

- A rate equal to the maximum long-term capital gains rate (currently 15%, but set to increase to 20% in 2011) on the first \$25 million in an estate, and double the capital gains rate for any amount exceeding \$25 million, and
- A stepped-up basis at death for all the estate's assets.

Changing Rules, Future Impact

This compromise measure drew criticism from both sides of the political line in the Senate, where it did not receive enough votes for approval. Conservative Republicans were unhappy linking the estate tax rate to the capital gains rate, arguing future increases could lead to a high rate on wealthy estates, while many Democrats contended the plan was still too generous. Eventually, a compromise may be ironed out that will meet with enough support to pass the Senate, but when and at what levels the new rates and exemptions will be set remain unknown.

With all this uncertainty, building an estate plan that will help you meet your goals can be very challenging. Regardless of the final outcome, your plan will require regular reviews as federal and state legislators adjust the tax going forward.

Be Flexible and Review Regularly

Rather than using the uncertainty as an excuse to put off planning, or gambling on a permanent repeal, the keys to successful estate planning today are flexibility and regular reviews.

With federal estate tax exemptions scheduled to increase again in 2009, building flexibility into your plan is crucial, particularly if you don't live in a community property state. The executors and trustees named in your plan should be given enough discretion so that, no matter what Congress decides, your plan can be adapted to best meet the needs of your beneficiaries.

All the flexibility in the world won't help you, however, if you don't pay attention to how your assets are titled.

For example, if you are married, you should review your plan regularly to assure you're taking full advantage of the increased estate tax exemption. To be certain you and your spouse each are able to take advantage of the full exemption amount, you each must have assets equal to the exemption amount titled in your name. Neglecting this step could leave your family facing hundreds of thousands of dollars of additional taxes.

Kathy Brockston's family learned this the hard way. She and her husband, John, had a combined net worth of \$10 million, \$1 million of which was in Kathy's name. Because Kathy was much younger than John and in good health, they assumed John would die before her, and built their estate plan around that assumption. But when Kathy died unexpectedly at the beginning of 2006 (when the exemption amount was \$2 million), the Brockstons were only able to use \$1 million of Kathy's federal estate tax exemption amount. This left an extra \$1 million in John's estate, which ended up costing the family an additional \$450,000 in taxes (\$1 million x 45%) when he died a year later.

Watch Formula Bequests as Well

Many people's wills are written using what are known as formula bequests to take advantage of both the estate tax exemption and the ability to pass an unlimited amount to a spouse estate-tax free. Yet formula bequests must be designed carefully to avoid unintended consequences.

For example, your documents might call for a trust for your children to be funded with the entire exemption amount, with the remainder of your assets going to your spouse. If you died in 2006 with

an estate valued at \$4 million, your children's trust would be funded at \$2 million and your spouse would receive \$2 million. But if you died after Congress changed the exemption to \$4 million, your entire estate would pass to the children and your spouse would get nothing.

As undesirable as such an outcome can be, it could be an even thornier situation if, for example, your spouse isn't the parent of your children. "Your plan needs to take into account your real beneficial priorities, so tax law changes don't leave a lopsided estate plan," says estate attorney Joseph Rubinelli Jr.

Farm and Business Owners Face Special Issues

If a large portion of your family's net worth is in the form of real estate or a business, you may face other estate planning issues. For instance, changes in the tax law also may change your family's liquidity needs after your death. One common estate planning strategy for families who own farms or family businesses is to purchase additional life insurance to cover the estate tax. But if the estate tax reform becomes permanent, your family may not need that big payoff.

It's best not to be too hasty in canceling or modifying a life insurance policy, however. Congress can be notoriously mercurial when it comes to the tax law. And depending on age or health considerations, policies may not be reinstated once canceled. Of course, these insurance policies often serve other valuable purposes in an estate plan. But if Congress enacts more permanent estate tax legislation, you may want to consult with your estate planning attorney to reassess your liquidity needs.

Rethinking Your Gifting Strategy

Another common estate planning strategy — giving gifts beyond the annual exclusion amount — may also bear rethinking in light of the current estate tax

situation. Gifts given with a value up to the annual exclusion amount (currently \$12,000) are tax-exempt. Larger gifts are taxable at the same rate as the estate tax. But giving larger gifts of \$1 million or more is still a common estate-planning strategy because it removes the asset, and its subsequent income or appreciation, from your estate. However, this option may seem less appealing now, given the chance that the estate tax will be scaled back or repealed.

Keep on Planning

The uncertainty around the estate tax's future has only complicated the choices involved in estate planning, a burden many people would rather not bear. But don't let that provide an excuse for avoiding working on your estate plan.

No matter the fate of the tax, planning remains vital. Inadequate planning can greatly reduce the size of your estate. Your heirs could be forced to sell valuable family assets — and your legacy could end up out of your control. ■

A Moving Target

CURRENT FEDERAL ESTATE TAX RATES AND EXEMPTION AMOUNTS

<u>Year</u>	<u>Maximum Rate</u>	<u>Exemption Amount</u>
2006	46%	\$2,000,000
2007	45%	2,000,000
2008	45%	2,000,000
2009	45%	3,500,000
2010	0%	No tax
2011*	55%	1,000,000

* Barring enactment of new legislation, both the maximum estate tax rate and the exemption amount will revert to 2001 levels beginning in 2011.

The uncertainty around the federal estate tax's future has complicated the choices involved in estate planning.



preserving

Wouldn't it be nice
if you could
forever protect
the land you love
from inappropriate
development, leaving
it intact as a lasting
legacy that would
benefit nature,
your community
and your family?
With a conservation
easement, you may be
able to do just that.

Photography by Fred Hirschmann/Getty Images

John Bianco and Jane Rohman own 160 acres in the Berkshire Hills of western Massachusetts that have remained relatively undeveloped for the past century. And they're determined to keep it that way for years to come.

"We see all sorts of wildlife — bears, moose, turkey, coyote, mountain lions, fox, owls, eagles, etc.," says Rohman. "Whether our son ends up staying here or not when he becomes an adult, we know that he will return someday — hopefully with his own children — to visit his parent's park, nature conservatory or walking trails."

The couple first considered the idea of using a conservation easement to protect their land after reading a book on the topic and speaking with the author, Elizabeth Arnold, about their plans. "She really helped open our eyes up to the possibilities and the importance of leaving a legacy beyond anything we had even considered," says Rohman. "She drew us out in her questioning and made us realize that indeed our land and love of it most embodied our values and it was the best vehicle for leaving a living legacy."

A Growing Trend

Bianco and Rohman are part of a growing number of private citizens hoping to preserve the character of their land and their communities by using conservation easements or by working with or establishing land trusts. According to the Land Trust Alliance's 2003 National Land Trust Census, between 1998 and 2003 the acreage covered by private conservation easements increased by 266%. And the acreage pro-

the land

Preserving Hollinswood

The Hollins family has been committed to Florida's Citrus County, located on the Gulf of Mexico coastline just north of Homosassa Springs, since 1942, when they bought an 18,000-acre property now known as the Hollinswood Ranch. Since then, the family has sold parcels of the land and has run the family's ranching, timber and mining businesses from the vast acreage – providing jobs for both family members and area residents. Now the family has decided it is time to put a plan in place that will help preserve land for the community to enjoy.

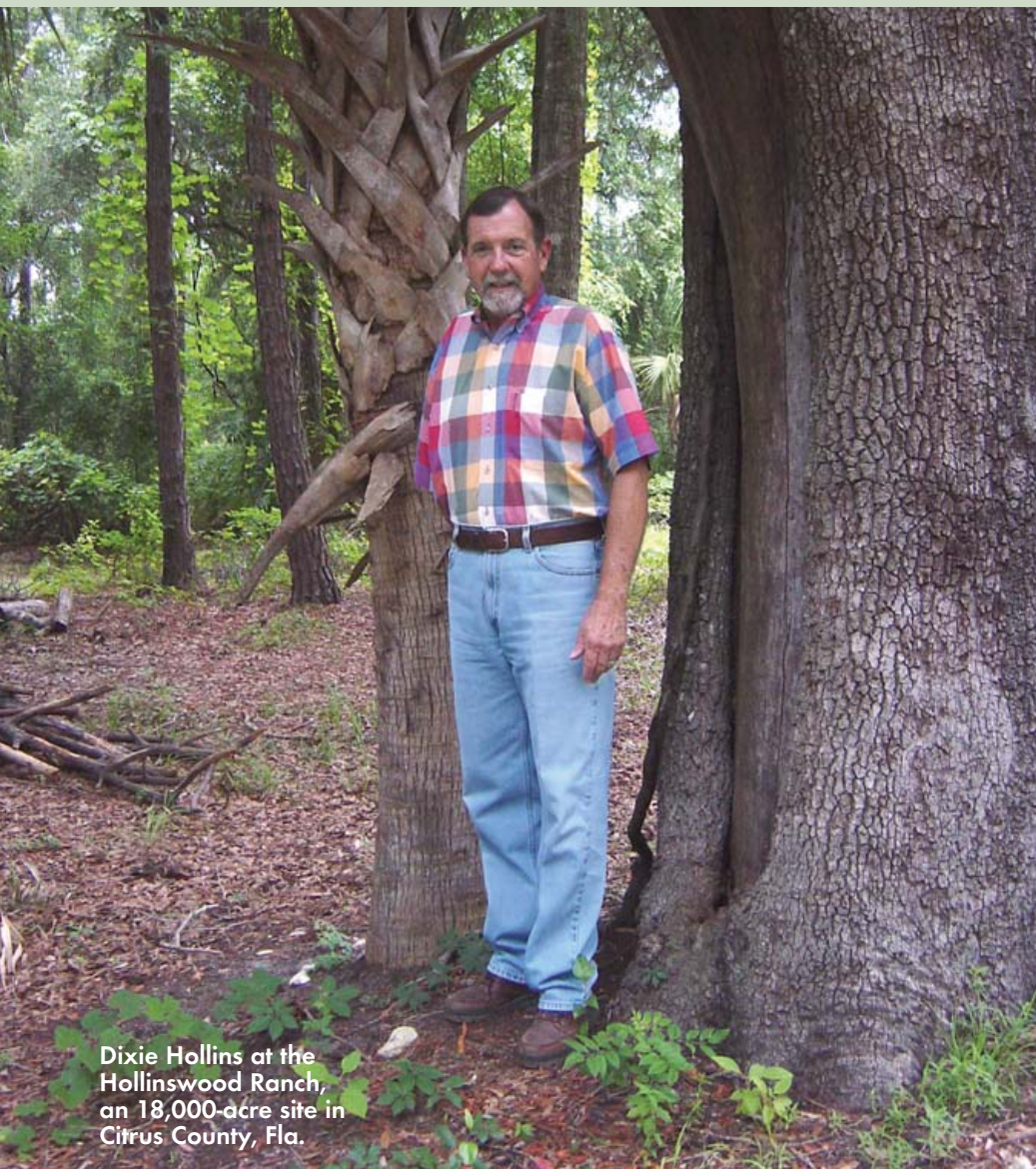
With the family's leased mining operations scheduled to cease within the next 30 years, current family patriarch Dixie Hollins has been working diligently to develop a plan for the land that will carry out the family's legacy. "We cannot do

this piecemeal – we have to see a big plan," he says. "For me, that plan has to ensure that the property adds value to the region and supports economic development."

As a result, Hollins is putting a plan in action that will continue mining, and support a port center, a waterfront commercial/retail area and eventually homes. The first part will center on building a public marina close to the Barge Canal with direct Gulf of Mexico access for recreation and commercial fishing. While the family sees this as potentially being a thriving tourist area, Hollins also proposes to build this port as a Clean Marina, which – through the assistance of the Florida Department of Environmental Protection – maximizes the benefits of accessing the water while protecting the environment.

The industrial area will be along the well-traveled coastline roadway U.S. Hwy 19, and the residential area will provide a unique opportunity to appreciate wildlife, water and more. "In just the last couple of years, growth in Citrus County has changed the pace of our lives and, some say, the quality," says Hollins. "Because of the growth, we have more pressure on our natural resources and less access to the water – something that brought many people here in the first place. We must make sure that our quality of life is protected while still embracing sensible economic development. Fortunately we have the opportunity to choose a future that gives us the best of both worlds."

Part of what makes the Hollinswood project unique is that its different components require organizers to hold public hearings to gain public support as well as governmental approvals. "This is really a process by which we are establishing our own long-term land use plan, much like any community would establish," Hollins says. "While this adds a level of complexity that may not exist in simple land conservation efforts, it gives us a unique opportunity to work closely with our neighbors, county and city officials to create something that our family and community can be proud of for many years to come."



Dixie Hollins at the Hollinswood Ranch, an 18,000-acre site in Citrus County, Fla.

tected by local or regional land trusts doubled during the same period.

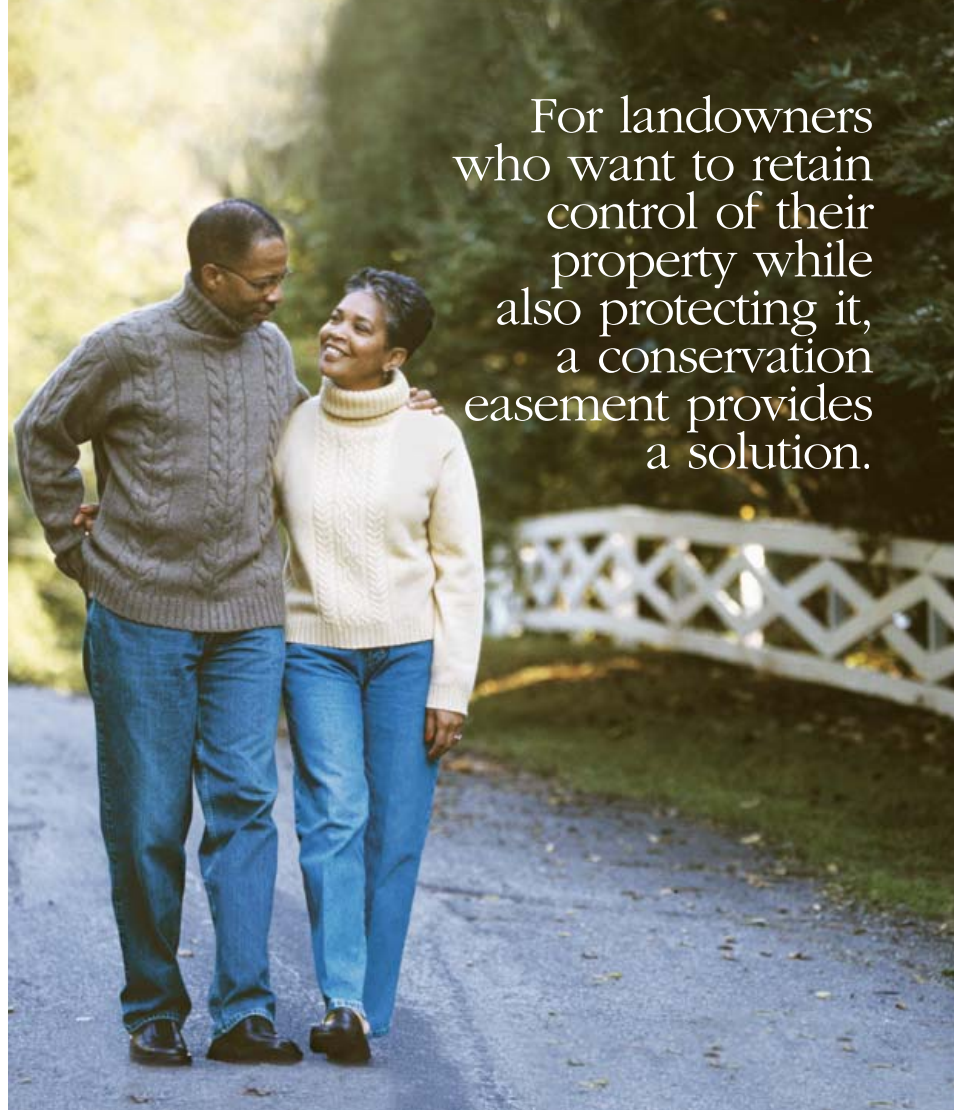
The explosion in conservation easement use has been fueled in part by the introduction in 2000 of tax credits for land protected by conservation easements, but also by a growing awareness of the role undeveloped land plays in a community's character.

Easements Offer Protection, Control

"People usually want to preserve the conservation integrity of the land over time because of its personal significance to them," says Bruce Boyd, executive director of The Nature Conservancy in Illinois. You can protect your land by selling or donating it to one of the nation's 1,500-plus land trust organizations, such as The Nature Conservancy, but this means you are also giving up control of the property.

For landowners who want to retain control of their property while also protecting it, a conservation easement provides a solution. A conservation easement is a legal agreement between a landowner and a land trust or government agency that permanently limits uses of the land to protect its conservation values. An easement allows you to continue to own and use the land, and to sell it or pass it on to your heirs. Any future owners are bound by the easement's terms, and the land trust or government agency is responsible for making sure future owners follow those terms.

Conservation easements can allow preservation of wildlife habitat by barring any development of the property whatsoever, or allow the construction of park facilities on a historical site. Some states also have programs that make it possible to sell conservation easements to government entities if you intend to keep the property as a working farm, need the cash-



For landowners who want to retain control of their property while also protecting it, a conservation easement provides a solution.

flow generated by the sale of the easement, and want to ensure it stays as farmland in the future.

Be aware, however, if you choose to sell your easement to the government that the long-term conservation of the land may not be guaranteed, says Bill Bullitt, a partner with the private client group of Drinker Biddle & Reath, a Philadelphia, Pa.-based law firm with experience in writing easements. "Future political pressure may encourage the entity

Photography by Ariel Skelley/Masterfile

LEGISLATIVE NOTE



On August 3, 2006, Congress approved an expansion of the federal conservation tax incentive for conservation easement donations, which President Bush signed into law on August 17. The new law only applies to easements donated in 2006 and 2007, but it:

- Raises the deduction landowners can take for donating a conservation easement from 30% of their income in any year to 50%;
- Allows qualifying farmers and ranchers to deduct up to 100% of their income; and
- Extends the carry-forward period for a donor to take tax deductions for a voluntary conservation agreement from 5 to 15 years.

The bill also includes reforms affecting the appraisal process for all donated property and tightens the rules for easements on historic buildings. As a result, it is important to work closely with your advisors and your appraisers to ensure you are in compliance with the new rules.

to sell the easement and development rights, and the landowner or her descendants may have no control over that decision.”

Find a Suitable Partner

It is important to remember that while well-prepared easements can provide flexibility, they also restrict your actions. Even if you are careful in preparing the documents, you may find yourself unable to use the land in the way you would want. “If [using an easement] is a fit,” Boyd says, “embrace the creativity and flexibility allowed when generating the document rather than just approaching this in a cookie cutter manner.” Working with an attorney who is experienced with writing easements can help ensure you meet your goals.

Choosing the right organization to receive the easement is also important. “You need to have a level of comfort that the group has the wherewithal, interest and ability to take care of the land,” Boyd says. You should also seriously consider a group’s viability, or your wishes may not be carried out. For example, if an organization fails to enforce the terms of an

easement, it could face litigation or other consequences. The government, unless restricted by law, has the ability to condemn land whether or not an easement has been placed on it.

Benefits Beyond the Legacy

While your primary motivation for creating this type of legacy is likely your love of the land or your community, doing so also carries tax benefits. The tax rules governing the contribution of conservation easements are more complex than those for straight donations.

With a conservation easement, the value of the donation is equal to the fair market value of the land before the easement, minus the fair market value once the land is encumbered. “This difference is the amount of the gift, and it can still be significant,” says Boyd. Land subject to a conservation easement also qualifies for a \$500,000 federal estate tax exclusion.

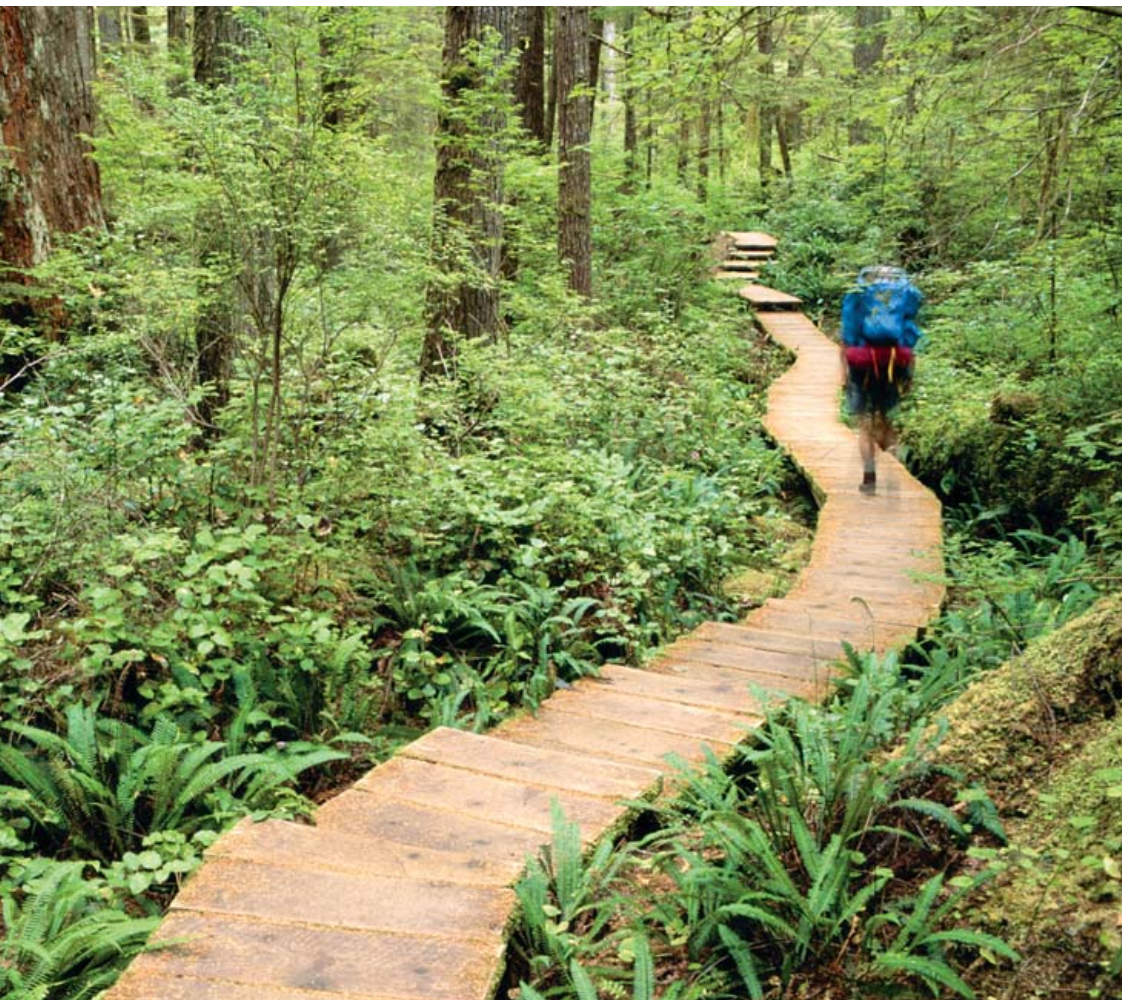
However, due to abuses of the conservation easement charitable contribution provision, the IRS is very stringent in its requirements. For this reason it is important to work with your estate planning attorney, a land trust organization and your tax advisor when creating the easement and valuing the property for tax purposes.

Some states also provide sizeable tax credits for qualified donations. In California, for example, offerings to state and local governments, or government-approved conservation groups, qualify for income tax credits on 55% of the property’s fair market value, in addition to any federal credits.

Fulfilling a Quest

Once you have determined your intent for the land in question, you can begin to iron out specifics — as Bianco and Rohman are — by now exploring conservancy relationships, easement options, and other tax and legal ramifications.

“So far we have just clarified our thinking,” Rohman says. “The initial draw was to develop some kind of meaningful legacy, now it is time to get down to the details.” ■





Wary about stock market returns and the economy and concerned about healthcare costs during retirement, high-net-worth investors are focusing on preserving wealth and pursuing their passions.

wealth in america



For wealthy investors uninspired by last year's performance on Wall Street, preserving wealth is taking precedence over trying to increase it in uncertain economic times, according to Northern Trust's landmark Wealth in America study.

Concerned, But Not Retreating

With growing uncertainty about the market in the United States and abroad, fears about inflation, and

lackluster stock market returns, millionaire investors are not retreating into fixed income or dropping out of the market. Rather, most are adopting an investment approach that balances the safety of cash with more aggressive strategies that typically boost returns.

The investors polled generally considered themselves conservative investors, and many had higher allocations to cash than average. Nevertheless, seven out of 10 high-net-worth households reported having

“Baby boomers aren’t traditional retirees; they plan to be active, whether that means working, volunteering or continuing to run a business.”

—Tom Hines, Manager of Northern Trust’s Financial Consulting Group

some exposure to alternative asset classes, including hedge funds, private equity and real estate, to diversify their portfolios and generate higher returns.

“While interest in cash-based investments is running high,” says John D. Skjervem, Chief Investment Officer of Northern Trust’s Personal Financial Services division, “we do see indications that affluent investors are feeling bolder and looking for opportunities to venture into alternative asset classes in hopes of earning greater returns on their money.” Most affluent investors in the survey indicated that saving for retirement was their primary financial planning goal, which makes this approach appropriate. Skjervem calls the combination of large cash holdings and more aggressive strategies a “barbell approach to risk and return” that can be ideal for investors who don’t rely on investments for income.

Retirement Has New Meaning

While it is hardly surprising that most affluent investors said retirement funding was their primary financial planning goal, their attitudes toward retirement are clearly different from those of their parents’ generation. Perhaps most interesting, nearly half of all pre-retiree affluent investors anticipate working either full- or part-time during retirement.

Beyond ensuring a comfortable standard of living during retirement, today’s millionaires want to be able to enjoy social activities, spend time with their children or grandchildren, pursue personal interests and hobbies, and maintain an active social life.

“We’re beginning to appreciate that baby boomers aren’t traditional retirees; they plan to be active, whether that means working, volunteering or continuing to run a business,” observes Tom Hines, Manager of Northern Trust’s Financial Consulting Group.

As a result, their retirement planning is tied more to personal goals than to financial ones. “For many affluent investors, finances and investing are a means to achieve their personal goals in retirement, rather than the primary goal,” says Bill Whitt, Director of Personal Financial Services Strategic Planning and Market Research at Northern Trust.

This goal-based focus means retirement plans for these families can no longer follow the old formulas for how much to save. Today’s plans need to focus much more on flexibility and providing cash flow to help them pursue their interests.

Soaring Healthcare Costs Seen as Threat

Although their retirement planning is focused on achieving personal, rather than financial goals, nearly all high-net-worth households see rising healthcare costs as a potential threat. Nine out of 10 affluent families are concerned that spiraling healthcare costs may affect their ability to enjoy retirement. And nearly as many reported that concerns about health — their own or their spouse’s — may affect their retirement.

“This research shows how critical the issue of healthcare costs is to everyone, regardless of income,” says Hines. With life expectancies continuing to increase, it’s important to begin thinking about the added costs of long-term care as early as possible, he says. “Without addressing these possibilities, healthcare costs can rapidly deplete your hard-earned wealth and possibly jeopardize your estate plan.” (See *Health and Wealth*, page 18.)

More Knowledge, and More Complexity

Another aspect of the changing retirement landscape is that investors are taking greater personal responsi-



the millionaire snapshot

In mid-year 2005, some 4.8 million households had \$1 million or more in investable assets. Northern Trust's landmark Wealth in America study presents a picture of the attitudes of these wealthy investors about investing, retirement, philanthropy and success — attitudes that are changing the investing and retirement landscape in the United States. You can learn more about our Wealth in America study at northerntrust.com/wealth.

- Average age: **55**
- Average investable assets: **\$3.375 million**
- Average net worth: **\$4.646 million**
- Average total assets: **\$5.584 million**
- Employed full-time: **45%**
- Retired: **34%**
- Own business: **24%**
- Own professional practice: **13%**

bility for their retirement funding, and that income is now coming from multiple sources.

Wealthy individuals are expecting to receive less help from Social Security and Medicare. As a result, most are relying on personal retirement accounts, such as individual retirement accounts (IRAs) and 401(k)s as primary sources of retirement income. And with many baby boomers planning to continue working well into retirement, these retirees will have multiple sources of retirement income.

“The complexity of retirement today makes it important for high-net-worth individuals to work with their advisors well before retirement to see how best to structure their finances to minimize taxes and maximize cash flow,” Whitt says.

Measuring Success

Financial and personal goals clearly are tied for most wealthy investors: The primary purpose of their wealth is to help them achieve their personal and family goals. The majority of high-net-worth families said they defined their own sense of accomplishment by having rewarding personal relationships, raising successful children and achieving a positive work/life balance.

To a lesser extent, these investors defined success in financial or professional terms, Whitt says. But

that's not to say families aren't concerned about their finances. They are. More than three-quarters said success had a strong financial component. And that was especially true of men and of younger investors.

Most wealthy individuals also believe success is largely within their own control. They attributed their success to personal characteristics such as hard work and personal ambition. They also highlighted talent and education, while dismissing factors such as luck, religious faith and social connections.

The New View: Wealth in Context

Overall, wealthy investors seem to consider their wealth in the context of their overall enjoyment of life and family. Their focus on saving for a comfortable retirement, their views on success, and their investing focus on preserving wealth while still pursuing some aggressive investment strategies to help them meet their financial goals all reflect their views that wealth is a means to an end — an enjoyable life for themselves and their families. ■

Northern Trust's Wealth in America survey was conducted by Phoenix Marketing International among households nationwide with \$1 million or more in investable assets. A total of 1,014 online questionnaires were completed in November 2005.

Health & Wealth



Don't let rising healthcare costs threaten your financial health. An age-by-age holistic approach can be the best strategy.

W

ith 90% of high-net-worth households* concerned that rising healthcare costs could hurt their ability to enjoy retirement, it is obvious healthcare costs can affect everyone's financial plans, regardless of income. As our life expectancies increase, we face not only the possibility of our own health-related expenses, but also increasingly those of our parents. For this reason, it's wise to take a holistic approach to your physical and your financial health at each stage of life.

While You Are Getting Established

Many people in their 20s and 30s give little thought to their health, but this can be a costly mistake. Laying the groundwork now for both financial and physical health is important. Even simple steps like maintaining a healthy lifestyle and going to the doctor for regular checkups can save you money down the road.

From a financial planning standpoint, one of the mistakes many people in this age group make is neglecting to protect their current income. While many people associate disability with aging, government statistics show that a 20-year-old has a 30% chance of becoming disabled before retirement. And while Social Security covers most employees, its benefits are generally inadequate for people with a high standard of living. For this reason, ensuring you have adequate disability insurance is important, even when you are young.

Starting your retirement savings when you are young is also crucial to avoiding having your retirement plans derailed by healthcare costs. Many

younger people overlook the importance of maximizing their contributions to tax-deferred retirement plans. But making contributions while you are in your 20s and 30s maximizes the power of tax-deferred compounding within these plans. And if your income falls within the limits for establishing a Roth IRA (between \$95,000 and \$110,000 if you are single and \$150,000 to \$160,000 if you are married filing a joint return), you can take advantage of many years of tax-free growth on your contributions.

And if you are an entrepreneur, working to start your own business, you may not be covered by a corporate health insurance policy. If so, you may want to consider opening a Health Savings Account (HSA). HSAs were created by the 2003 Medicare bill, and are designed to help people covered by high-deductible health insurance save for future qualified medical and retiree health expenses on a tax-free basis. And money in an HSA can continue to accumulate and grow tax-deferred (or tax-free if used to cover qualified medical expenses) until you need it.

Assuming your greatest healthcare needs will be post-retirement, you should pay current healthcare costs with after-tax dollars and allow HSA contributions to build tax-deferred until after retirement, says Mark Hall, professor of law and public health at Wake Forest University. “Fund it, but let the money accrue,” he says. “Don’t spend it unless you have to.” This can allow you to accumulate a sizeable pool of money for covering your post-retirement medical expenses.

Feeling the Squeeze

For baby boomers in their 40s and early 50s, also known as the sandwich generation, the dual responsibility of caring for their children and for their aging parents can bring unique health-related financial burdens. First and foremost, don’t neglect your own health as the demands of caring for others press on your time. Regular doctors visits and keeping up to date on screenings are as important to your financial health as they are to your physical well being.

Beyond that, people in their 40s and 50s can employ several smart financial strategies to help cover healthcare expenses now and in the future. One of the first may be to consider how to cover the costs of long-term care — both for yourself and for your aging parents.

There’s no doubt that long-term care costs can seem daunting. The annual cost of staying in a private nursing room was \$74,095 in 2005, according to the MetLife Mature Market Institute. “If you’re in a nursing home for a number of years, particularly with a chronic disease, such as Alzheimer’s, you can be in there for 10 years,” says Lewis Mandell, a finance professor at the University at Buffalo School of Management. “That can drain close to \$1 million of your net worth.” And receiving care in your own home can be even more costly.

Long-term care insurance provides one option for covering those expenses, but not everyone agrees on its value to wealthy retirees. Conventional wisdom was that people with more than \$1 million in liquid assets could afford to self-insure for long-term care. But today, many affluent people are considering long-term care insurance as part of their asset protection strategy.

Purchasing long-term care insurance while you are younger lowers the cost of premiums. It also

can help ensure that, should you need long-term care during your life, you will be able to have above-average care in your home or a private facility without depleting your estate. You may even be able to better leverage your investment by considering paying for the coverage up-front or over a shorter period.

If your parents are still in relatively good health, you also may want to explore the possibility of purchasing long-term care insurance for them. Although the premiums will be higher because they are older, having this coverage will protect their assets and yours. (See the sidebar, *Caregiving Strains*, right.)

Readying Yourself for Retirement

Faced with longer life spans and spiraling healthcare costs, affluent baby boomers in their late 50s and early 60s are increasingly aware that their savings and investments might not afford them the comfortable retirement they have in mind. Especially if you have not incorporated healthcare costs into your financial planning previously, it’s important to build a plan now to address these costs.

Perhaps the largest potential medical cost most people face is not hospitalization, as many assume. Rather, it is the cost of medication and the possibility of an acute illness that will require long-term care. If you are 55 years old today, research by the Employee Benefits Research Institute shows that you can expect to pay \$210,000 for supplemental Medicare insurance and out-of-pocket medical expenses between the ages of 65 and 90.

Seven out of 10 affluent individuals plan to tap into Medicare benefits, according to Northern Trust research. But they should make plans for those medical expenses Medicare will not cover. “Medicare is pretty good at paying for hospital stays,” says Mandell, but it may be less effective at covering pharmacy costs, which represent the bulk of medical expenses for many retirees.

To help provide a remedy to the widely touted prescription drug coverage problem, the government introduced the new Medicare prescription drug coverage, also known as Part D, which is available to all Medicare beneficiaries. This coverage can be a cost-effective approach to



Photography by Ron Chappel/Getty Images

Caregiving Strains

As Americans live longer, many of us eventually will care for elderly relatives. In 25% of U.S. households, at least one adult cares for an elderly person, according to the MetLife Mature Market Institute. In the next several years, the number of working caregivers will rise to between 11 million and 15.6 million — representing one in 10 employed workers.

Those costs can represent a significant drain on retirement funds. Over a lifetime, caregivers can lose more than \$660,000 in income and benefits, including \$566,000 in lost wages, according to a MetLife survey in 2001.

Juggling all the different responsibilities can be complex, notes Brent Neiser, director of collaborative programs for the National Endowment for Financial Education in Greenwood Village, Colo. People should take stock of all assets and study how they’re being managed, he says. Evaluate your parents’ current health and any chronic conditions. Obligations don’t end there, however. Medical care and cost considerations also should factor in for children, siblings and other relatives.

managing prescription costs, but it does leave some gaps in coverage. The widely cited “donut hole” in Part D coverage means Medicare does not cover drug expenditures from \$2,251 to \$5,100 per year.

For this reason, you may want to look at options outside Medicare. Insurance plans such as Medigap also can provide good coverage for prescription drugs. It is important to compare the features and costs of the Medicare prescription plans you are considering because the plans are not all alike.

“One of the basic elements of insurance says if your downside liability is only a few thousand dollars, you may be better off self-insuring,” Mandell says. “Insure for the very large unexpected losses and don’t insure for the small anticipated losses.”

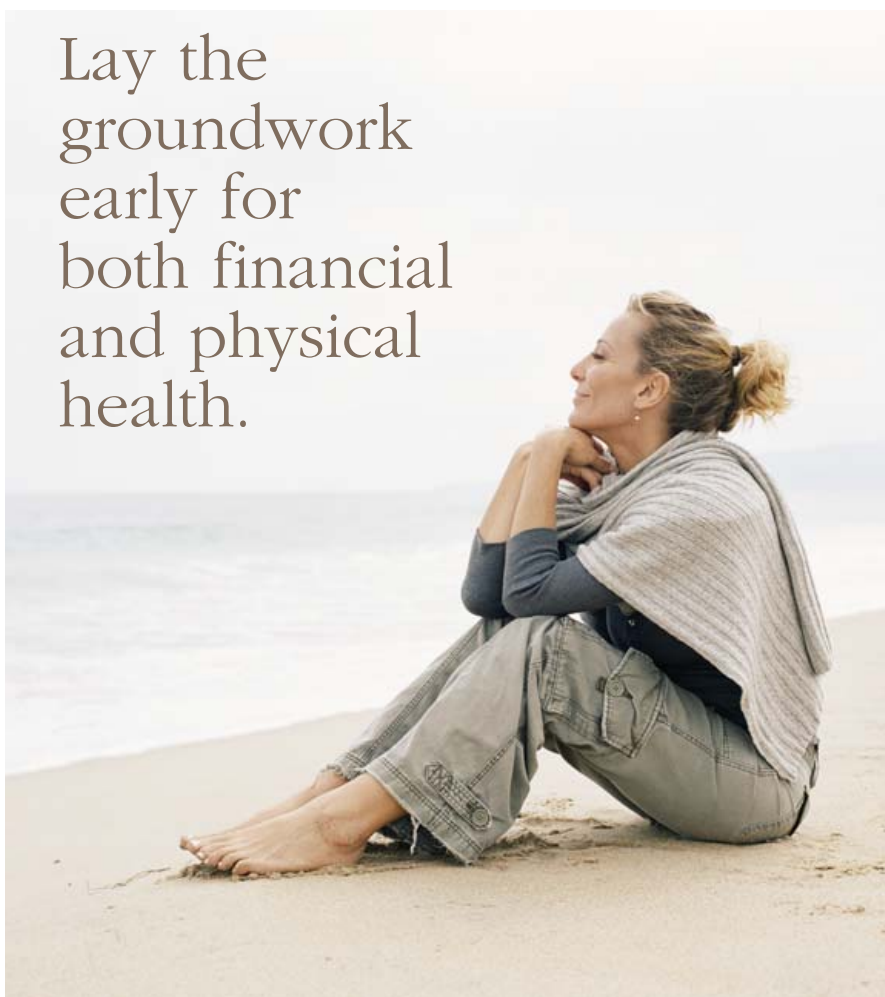
Planning Is Key to Security

Regardless of your age or income, including health considerations and healthcare costs in your financial planning for you and your family is an important part of ensuring your financial security. ■

* According to Northern Trust’s Wealth in America survey in November 2005 of 1,014 households with investable assets of \$1 million or more.

Lay the groundwork early for both financial and physical health.

Photography by Seih Joel/Getty Images



Holistic Health and Wealth Planning, Age by Age

	Financial Planning Considerations	Health Planning Considerations
Getting Established		
Ages 25-39; balancing act	<ul style="list-style-type: none"> Purchase disability insurance. Establish a Health Savings Account, if appropriate. Save 10% to 20% of income in a tax-deferred plan. Establish a Roth IRA. 	<ul style="list-style-type: none"> Learn to manage stress. Maintain a healthy lifestyle. Develop good communication with your partner.
Feeling the Squeeze		
Ages 40-54; stress of caregiving	<ul style="list-style-type: none"> Evaluate the purchase of long-term care insurance for yourself and your parents. Work with a retirement planner to establish how much you will need to meet your goals. 	<ul style="list-style-type: none"> Make a commitment to self-care and stress reduction. Consider outsourcing or sharing family responsibilities; communicate with siblings.
Preparing for Retirement		
Age 55+; changing lifestyle	<ul style="list-style-type: none"> Sign up for Medicare Part D or purchase Medigap insurance for prescription drug coverage. Engage in scenario planning to manage cash flow; estimate living to age 90. 	<ul style="list-style-type: none"> Create an active prevention plan for injury and illness. Take an integrated approach to your medical support.

To provide you with information about important trends affecting health and wealth planning at each of stage of life, Northern Trust has partnered with PinnacleCare, a leader in personal healthcare advocacy, to develop “A Well Lived Life: Health and Wealth Planning, Age by Age,” which will be available in late October. To preorder your copy, please contact your Relationship Manager or send a request to wealthmagazine@ntrs.com.



At Your Service

Elite concierge services offer members more than just access.

When billionaire Steve Mattlin* travels to Bavaria on a 10-day trip next summer, he plans to have lunch with the president of BMW and test-drive cars at the company's secret test track. Mattlin didn't secure the exclusive arrangement through his business or social connections — it comes courtesy of his well-connected concierge.

"Money and access are not an issue with Mint

Lifestyle clients," says Steven MacGeachy, co-founder of the Los Angeles-based luxury travel and concierge service. "They don't come to us for reservations at their neighborhood restaurant. They come to us wanting reservations at the top restaurant in Barcelona — at places they've never been or aren't aware of."

MacGeachy's customers are looking for a level of access that's truly unique and memo-

rable, or what is above and beyond what they could arrange for themselves. “Typically, it’s not about the client getting [to a place] or staying there. They’ve all done it,” MacGeachy says. “They’ve stayed at the Dorchester. They’ve stayed at the Ritz.”

Dru Jensen-Jones, president of Concierge Concepts International in Jacksonville, Fla., provides “one-stop shopping” for her clients. “They call us for anything and everything they need,” Jensen-Jones says. This includes anything from performing regular housekeeping or pet sitting, to buying sold-out concert tickets or getting quotes for a new roof.

At Your Beck and Call

Do you want a personal chef for a dinner party? Are you looking to charter a luxury yacht, or to take your nephew for a ride in a jet fighter?

Today’s concierge is “the assistant’s assistant at the extreme level,” MacGeachy says. His clients are often billionaires with powerful connections, but securing hard-to-get reservations are not their first priority. “They’re well-connected people who know how to leverage their relationships,” he says of his clients. “They’re also extremely busy.”

Jensen-Jones says the number one reason her clients call on her is to buy more time. “One of our clients called last week from her second home in South Florida to say that she and her husband would soon be returning to their primary home here,” she says. “They asked us to stock their refrigerator with their favorite gro-

ceries, re-engage their newspaper delivery, turn down the air conditioning and ensure their decorator had completed the punch-list of items they had left her before their trip.”

Personal-assistant services can range from these types of mundane, daily activities, to the more specialized. Jensen-Jones ordered and delivered 18 Maine lobsters for a 50th birthday party. For another client, in Atlanta, she arranged grocery delivery for a sick friend 300 miles away.

Sara-ann Kasner, president of the National Concierge Association, a professional association for concierges in the United States, says clients pay her for smaller duties such as having their closets organized, but tasks are just one part of the job. They’re really calling her for the level of advice and expertise she provides.

At a minute’s notice, she says she can plan an anniversary dinner for two or a tenants’ party for 2,500. “The biggest thing we do for our clientele is save them time. We do all the research – we’re one-stop shopping,” she says. “My clients think I walk on water, and I don’t let them think anything else. They can call me for anything.”

Have Concierge, Will Travel

Another important area of expertise offered by today’s concierge services involves travel assistance. Whether you’re looking for a romantic getaway, planning a business trip or seeking an adventure, a concierge service can help take the headaches out of travel. This also is the area that calls for a particularly high level of expertise.

BEYOND JUST THE EXTRAORDINARY

Concierge services are able to fill extraordinary requests. But they also offer their busy clients invaluable help with many of life’s ordinary needs.

EXTRAORDINARY

- Flying in designer couture from Paris.
- Hiring a premier cellist for a private concert.
- Planning a trip around the world with your son.
- Finding the perfect Stradivarius violin to complete your collection.

DAY-TO-DAY

- Picking up your dry cleaning.
- Sending flowers to a loved one.
- Making reservations at an ultra-hyped, impossible-to-get-into new restaurant.
- Sending a get-well telegram to a business partner’s wife.





Photography by Paul Vrant/Getty Images

Steven MacGeachy is quick to point to this skill as a must-have for any modern concierge service, including his own.

For the 250 families that are his clients, MacGeachy uses his influence to create unique experiences and provide expertise in the best the world has to offer. He says he started his business “to cater to the wants, whims, needs and desires of a select and finite number of clients.”

When a client planned a three-week trip to South Africa, he asked MacGeachy to charter a private jet for his family of 11. Instead, the concierge recommended another option: Why not book the first-class cabin of an airline instead? That first-class cabin rental cost about \$200,000, or one third of the price of chartering a Boeing business jet. It was also an option the client hadn’t considered.

“We thought a little outside the box,” MacGeachy says. “Clients, regardless of wealth,

don’t like to be taken advantage of. They want to know they have a sense of value.

“Many people don’t realize that just because something is in a certain hotel guide or boasts a certain number of stars doesn’t mean that it’s necessarily going to live up to your expectations,” MacGeachy says. “When they come to us, they have the benefit of being able to specify verbatim what it is they’re looking for, and having me — someone who has actually been to all of these places — give them a first-hand account of the airlines, the hotels and the restaurants that fit those specifications.”

Jensen-Jones concurs. “We’ve done our due diligence to establish a network of experience and contacts across the globe, and it’s because of that legwork that we are able to deliver anything our clients need,” she says. ■

Wealth Wins Award of Excellence

Wealth magazine has been awarded an APEX 2006 Award of Excellence for a Custom Published Magazine. APEX 2006 – the 18th Annual Awards for Publication Excellence – is an international competition that recognizes outstanding publications from newsletters and magazines to annual reports, brochures and Web sites. According to the judges, “Each year the quality of entries increases. Overall, this year’s entries displayed an extraordinary level of quality.”

The APEX awards are based on excellence in graphic design, quality of the editorial content and the success of the entry in conveying the message and achieving overall communications effectiveness.



Top Corporate Citizen

Business Ethics magazine has again named Northern Trust to its 100 Best Corporate Citizens list in 2006. This closely watched survey has gained national recognition as an indicator of best practices in corporate social responsibility, and reflects Northern Trust’s commitment to diversity and fairness in the workplace, and to the business integrity of its employees around the world.

The 100 Best Corporate Citizens are chosen from firms in the Russell 1000, the S&P 500 and KLD’s Domini 400 Social Index. These firms are ranked on their performance in eight stakeholder categories including shareholders, community, governance, diversity, employees, environment, human rights and product. This is the fifth time Northern Trust has been named to the list.



NORTHERN TRUST LAUNCHES THREE MULTI-MANAGER EQUITY FUNDS

To address the increasing desire of individual investors to allocate their portfolios among a range of managers, Northern Trust recently launched three new multi-manager equity funds in its family of mutual funds: the Northern Multi-Manager Small Cap Fund, the Northern Multi-Manager Mid Cap Fund and the Northern Multi-Manager International Equity Fund. The three funds provide access to optimized portfolios of external investment managers previously available primarily to institutional investors. Accordingly to Andrew

C. Smith, chief investment officer of Northern Trust Global Advisors, “our multi-manager approach takes advantage of Northern Trust’s expertise in constructing portfolios of specialty investment managers that complement each other, add diversification and offer the possibility of superior performance.” If you would like to learn more about whether Northern Trust’s new multi-manager funds would be appropriate in your portfolio, contact your Relationship Manager or the Northern Trust location nearest you.



Northern Trust

WEALTH PASSPORT

Northern Trust’s new Wealth Passport enables ultra-high-net-worth families, their family offices and their advisors to know exactly what they’re worth at any given point in time. Delivered through the Wealth Management Group, this state-of-the-art technology provides data aggregation, general ledger reporting and other powerful features. An integrated financial management system, Wealth Passport can significantly reduce the 44 hours spent by the typical family office each month to gather, consolidate and integrate data into a single financial and net worth statement. To learn more about Wealth Passport and the benefits it can provide your family office, contact your Relationship Manager.



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Private Banking | Asset Management | Financial Planning
Trust Services | Estate Planning Services | Business Banking