

HARMONIZE THE INTERESTS OF YOUR CURRENT AND FUTURE BENEFICIARIES

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Janet passed away in the early 1990s and the trust was established, producing about 2.6 percent in income per year after taxes – or \$1.3 million – for Janet's children. Each child received about \$325,000 per year in income. Although this amount would be more than sufficient for most beneficiaries, Janet's children could not maintain their current lifestyles and requested more income. With interest rate declines and cutbacks on stock dividends, that simply wasn't possible.

To make matters worse, two of Janet's grandchildren began expressing concerns that their financial futures were in jeopardy of being compromised by their parents' request for increased income. The family was stuck in the unenviable position of looking for a way to increase the trust's income to satisfy the children while preserving the trust's assets for the grandchildren.

Janet's four children went to the trust's corporate trustee for help. They asked about changing the investments or using some of the trust's principal to make both groups happy. The trustee explained that they had structured the portfolio to get the highest income they could for the four children, and that the trust's language did not allow the distribution of principal to increase income payouts. The children began to worry that the animosity between them and their own children would worsen if the situation were not resolved quickly.

Finally, the trustee found a solution after reading about the recently enacted Total Return Unitrust (TRU) statute in Delaware. The statute, passed in June 2001, made Delaware the first state to permit the conversion of an existing irrevocable income-only trust to a Delaware Total Return Unitrust.

Back in the 1970s when middle age was settling in, Janet Wentworth decided that it was time to make some serious estate planning decisions. Her four children were well-respected and successful professionals on their own merit, yet they were accustomed to a certain lifestyle that their family's considerable wealth had afforded them. Janet's objective was to provide a steady stream of income to her children while ensuring that the future needs of her grandchildren were met. She established a traditional, irrevocable income trust in the amount of \$50 million that would become effective upon her death. Each of Janet's children would receive an equal share of the trust's income during their lifetimes, with the trust's assets passing to Janet's grandchildren in equal portions upon the death of each child.

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The trust's investment consultant then made a 10-year cash flow analysis comparing the two trusts. The results convinced Janet's children to convert the income trust to a Delaware Total Return Unitrust – with the agreement of Janet's grandchildren, the future beneficiaries.

The trustee was able to reallocate the trust's assets to achieve a greater total return, no longer needing to rely on income alone to meet the payout requirements. Each year, the trustee will value the assets. And, to offset depressed prices, the payments will be based on the average year-end market value for the previous three years.

Even though Delaware would allow higher payouts, the trustee worked with Janet's children to specify a 4.0 percent income stream. They agreed that this

would be sufficient and were comfortable knowing that, regardless of the trust's yield, they would receive a consistent payout throughout their lives. By converting to the TRU, the trust could generate a payout of about 23 percent more per year for the benefit of Janet's children – and 63 percent more over the next 20 years. At the same time, it could also increase the ultimate payout to her grandchildren by a little over 1.3 percent over the 20-year time period.

Janet's family found the most effective solution for everyone involved by utilizing the TRU – higher income for the children that will keep up with inflation and the assurance that the future beneficiaries' interest will continue to grow over time.



The Total Return Trust Solution

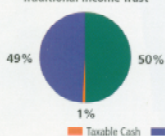
Many individuals established trusts in the 1960s through the 1980s to provide current income for their families and to pass assets to future generations. However, over the past several years, a large number of current beneficiaries have seen their incomes drop or not keep pace with inflation. Oftentimes, these beneficiaries requested the trustee to permit principal distributions as a way to make up for their lost proceeds. But what about the future beneficiaries? Should they be expected to sacrifice their future inheritance to meet the cash-flow requirements of the current beneficiaries?

An increasingly popular solution for such a dilemma is a Delaware Total Return Unitrust (TRU). With a TRU, the current beneficiaries could receive payouts based on a predetermined percentage of the trust's assets. And since their payments will be calculated based on the value of the trust's assets rather than on income alone, there is the potential for rising distributions throughout the years.

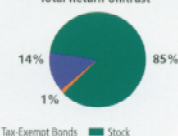
The structure of a TRU allows the trustee to select investments that can provide a greater total return and increase the trust's value. Therefore, future beneficiaries can expect their interests to grow as well. The investments are valued each year to determine distributions. And, to compensate for down markets, the payouts can be based on the trust's average year-end market value for a specific number of prior years.

Comparison of a 20-year \$50 million Traditional Income Trust vs a 20-year \$50 million Delaware Total Return Unitrust

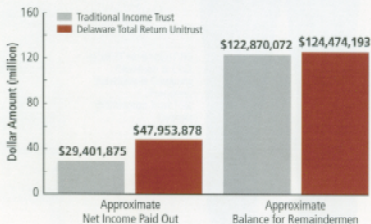
Asset Allocation of Traditional Income Trust



Asset Allocation of Delaware Total Return Unitrust*



*Assumes administration as a Delaware Total Return Unitrust over 20 years with Unitrust payments of 4%, with the beneficiaries paying the capital gains taxes while utilizing a "smoothing" period of 3 years.



Figures reported are net after tax.