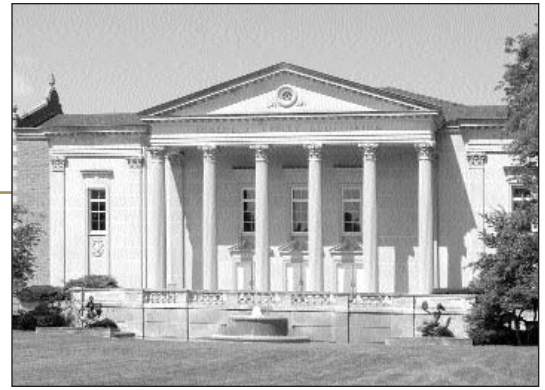




Perspectives on **FINANCIAL PLANNING**

Volume I, 2005



Dear Friends,

For many of us, estate planning is like a visit to the dentist's office: we approach it reluctantly, even though we know it's good for us.

We might prefer to put off making an estate plan because of the way it brings up thoughts of our mortality or the decisions that have to be made about the final disposition of the assets we have worked hard to accumulate. Actually, making a carefully considered estate plan gives each of us more control of those assets, allowing us to minimize taxes while maximizing our family, financial, and charitable objectives.

This issue of *Perspectives on Financial Planning* contains an informative and entertaining quiz to see how much you know about estate planning. We hope you enjoy this quiz and that it motivates you to take another look at your own plan.

As you consider your plans for the future, please remember that the generosity of people like you has allowed Culver to flourish and pursue its mission. We would be happy to discuss with you how charitable gifts can enhance your estate planning while providing valuable support for our work. All discussions are confidential and involve no obligation on your part.

Please call or e-mail today to see how you can help Culver while helping yourself and your family. We look forward to speaking with you.

Sincerely,

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The Culver Mission

Culver educates its students for leadership and responsible citizenship in society by developing and nurturing the whole individual—mind, spirit, and body—through integrated programs that emphasize the cultivation of character.

With careful management and preplanning, your hard-earned savings and investments can continue to produce positive results for your heirs and for Culver. It is generally a very good idea to seek the counsel of financial and legal advisors when making decisions about your estate. If it has been several years since you last updated your will or reviewed your retirement plan, this might be an excellent time to do so. Those who have chosen to support Culver through a trust, life insurance program, gift annuity, bequest, or any other planned-giving vehicle are recognized by membership in the Eugene C. Eppley Club. If you are interested in discussing options for your own gifts to Culver, whether outright or through planned giving, please contact a member of Culver's planned-giving staff or return the enclosed reply card and we will contact you.



See how much you know

Estate-Planning Quiz

Whether you consider yourself a novice or an expert when it comes to estate planning, this issue of *Perspectives on Financial Planning* will test your knowledge of a very important subject. After answering the questions, tally your score to see how comfortable you really are with this topic.

1. Approximately ___ % of Americans die without making a will.

- a. 10
- b. 30
- c. 50
- d. 70

Answer: (d) 70. It is surprising that the majority of Americans die without executing a valid will.

2. If a person dies without a valid will, his or her assets will pass to:

- a. A surviving spouse, if married
- b. Children
- c. State and/or federal government
- d. Beneficiaries determined under state law

Answer: (d) Beneficiaries determined under state law. If you do not make a will, your state legislature, in effect, will make one for you. Each state has its own laws that determine how your assets will be distributed if you die without a will. These *laws of intestate succession* represent your state legislature's best guess as to how you would have wanted your assets distributed.

Chances are, the state's plan will not exactly reflect what your choices would have been. No person or charitable organization will share in the assets except relatives. You must make specific provisions if you want assets to pass to friends or favored charitable organizations.

3. Your will controls distribution of:

- a. Real estate and other personal property
- b. Probate assets
- c. Investment accounts
- d. IRAs, other retirement assets, and life insurance

Answer: (b) Probate assets. Your will does not control the disposition of all of your assets. It only controls the distribution of what are known as "probate" assets. These are assets that are not effectively disposed of by other means.

The disposition of some assets is determined by contract, such as beneficiary designations for retirement-plan assets, life insurance, or trusts. The beneficiary designation you make for these plans supersedes what is in your will. If you own real estate, brokerage accounts, or bank accounts jointly with right of survivorship with another person, the survivor will automatically own the entire property regardless of what is in your will.

All other property that you own outright in your own name constitutes your "probate" estate and will be subject to the provisions of your will or state law if you do not have a will.

4. You do not need a will if you own your assets jointly and/or if the disposition of your assets will be determined by beneficiary designations in retirement plans, insurance policies, trusts, or similar documents.

- a. True
- b. False

Answer: (b) False. There is a host of potential problems in relying on this kind of "plan."

The joint owner(s) may predecease you. In this case, absent a will, the property will pass under the laws of intestate succession of your state.

Your intended beneficiary may not survive you. In this case, you may want assets that would have passed to that person to be redirected to someone else.

Executing a will gives you the opportunity to state your preferences about vital issues such as naming a personal representative to carry out the terms of your will or appointing a guardian for minor children. Many people are first motivated to make a will to express preferences about the person who will serve as the guardian of any minor children who survive them. If there is no qualifying parent, a court would be left to exercise its own best judgment as to the appropriate person.



Learn about estate planning!

5. Who should I list as beneficiary of my IRA or other qualified retirement plan upon my death?

- a. My spouse
- b. My children
- c. A charity whose work I support
- d. It depends on my overall objectives

Answer: (d) It depends on my overall objectives. Your choice of beneficiary should fit with your overall estate plan, but there can be significantly different results depending on the person or charitable organization you choose. For example, you can get a marital estate-tax deduction for the value of any such assets left to your spouse.

The identity of the beneficiary can also determine the time frame over which benefits must be paid out at your death. Generally, you can stretch out the period of time that benefits can be paid out—and retain the benefit of continuing tax-deferred growth—if you name individuals rather than your estate as beneficiaries.

If your estate plans include provisions for charity, retirement-plan assets are a wonderful choice to fund your gift. **Reason:** These tax-deferred assets are subject to ordinary income tax at the time of receipt, whether received by the owner or by his or her estate at the time of death. However, if you leave those assets to a nonprofit organization, because of its tax-exempt status, the income-tax liability will be avoided. This ensures the full use of the funds you donate and is more tax-advantageous for your loved ones, to whom you can direct other assets.

6. Estate planning refers to the process of:

- a. Maximizing your assets during your lifetime
- b. Reducing taxes both during life and at death
- c. Planning for the orderly distribution of your assets to your intended beneficiaries
- d. All of the above

Answer: (d) All of the above. Estate planning is a comprehensive process that addresses important needs and represents your values at each stage of your life. Typically, the process includes strategies to build your assets to the greatest extent possible and to reduce the amount of income taxes you pay each year *within the scope of your overall personal, family, and charitable objectives.*

For many of us, supporting important charitable causes during lifetime and at death is an important goal. The benefits, in terms of both personal satisfaction and tax savings, often make personal philanthropy an important part of our estate planning.

The final goal of a good estate plan is to ensure that your assets will ultimately pass to your intended beneficiaries, with as little tax and administration cost as possible, consistent with your objectives.

7. I already have a will, so I have addressed all of my estate-planning issues.

- a. True
- b. False

Answer: (b) False. A will only addresses what will happen to your assets when you are gone—and even then it may control the disposition of far less than you may think. Good estate planning requires creating a plan for managing and maximizing your assets during your lifetime, as well as disposition of your assets upon your death. Consultation with trained professionals can be helpful.

8. You need to be engaged in estate planning:

- a. Regardless of the amount of your net worth
- b. If your net worth is greater than \$100,000
- c. If your estate is greater than \$600,000
- d. If your net worth is greater than \$1,500,000

Answer: (a) Regardless of the amount of your net worth. Many people think estate planning is an exercise for the wealthy—or at least for those who are subject to federal estate tax. For 2005, there is an effective exemption of up to \$1,500,000 of taxable transfers for federal estate-tax purposes. If a person dies with a taxable estate that exceeds that threshold, the tax kicks in at an initial rate of 45% and can go up to as much as 47%. People potentially subject to this tax have a lot to gain financially from careful estate planning.

However, it may be just as important—if not more so—for those with smaller estates to plan prudently to maximize the goals that can be achieved with fewer resources. Remember, final disposition of assets is just one part of the process. Wise investing, appropriate protection from risk, and competent management of your assets during life can greatly increase the objectives you can fulfill with your assets.

Estate planning is especially important if your goals include providing for persons who are not related to you or charitable organizations at your death. Without specific direction in a will or trust or a beneficiary designation in an insurance policy or retirement-plan account, such persons or entities will not be entitled to any of your assets under state law.

9. You should begin your own estate-planning process:

- a. Immediately
- b. When you get married
- c. When you have children
- d. When you retire

Answer: (a) Immediately. Estate planning is a dynamic process. In many ways it is ongoing, changing as your family circumstances and your goals and objectives change. The best time to start planning is right now, based on your current circumstances and objectives.

Don't be discouraged by thinking that you need to do everything at once. You can start taking small steps now:

- Review your will and make necessary changes, or execute a will if you don't already have one.
- Analyze investment accounts to make sure your investments are appropriate for your current objectives.
- Make sure the beneficiary designations in your life insurance policies, trusts, or retirement plans are consistent with your goals.
- Consider life-income gifts to meet your current or future cash-flow needs, and those of other intended beneficiaries.

10. Which favorite charity might I include in my estate plan?

- a. Culver, where students are educated for academic excellence, leadership, and responsible citizenship in society.
- b. Culver, where students are developed and nurtured as whole individuals—mind, spirit, and body.
- c. Culver, where students can ...
 - pilot a plane for a “flyover” at the end of a Sunday parade.
 - ride a horse in a presidential inaugural parade.
 - sail on Lake Max.

Answer: We hope you will consider Culver in your plans.

How prepared are you?

Correct Answers	Status
0-3	Novice
4-5	On the right track
6-8	In good shape
9-10	Thought of becoming an estate-planning attorney?

We hope you had fun with this quiz. Despite the lightness of the final question, we also hope this exercise was a helpful reminder of the importance of estate planning. For more estate-planning information, including a complimentary copy of our new booklet, *New Tax Perspectives in Estate Planning*, please return the enclosed card or call Mary Kay Karzas, director of development, at 574-842-8233.

You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

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