Tax and gift strategies for estate planning from the University of Wisconsin Foundation

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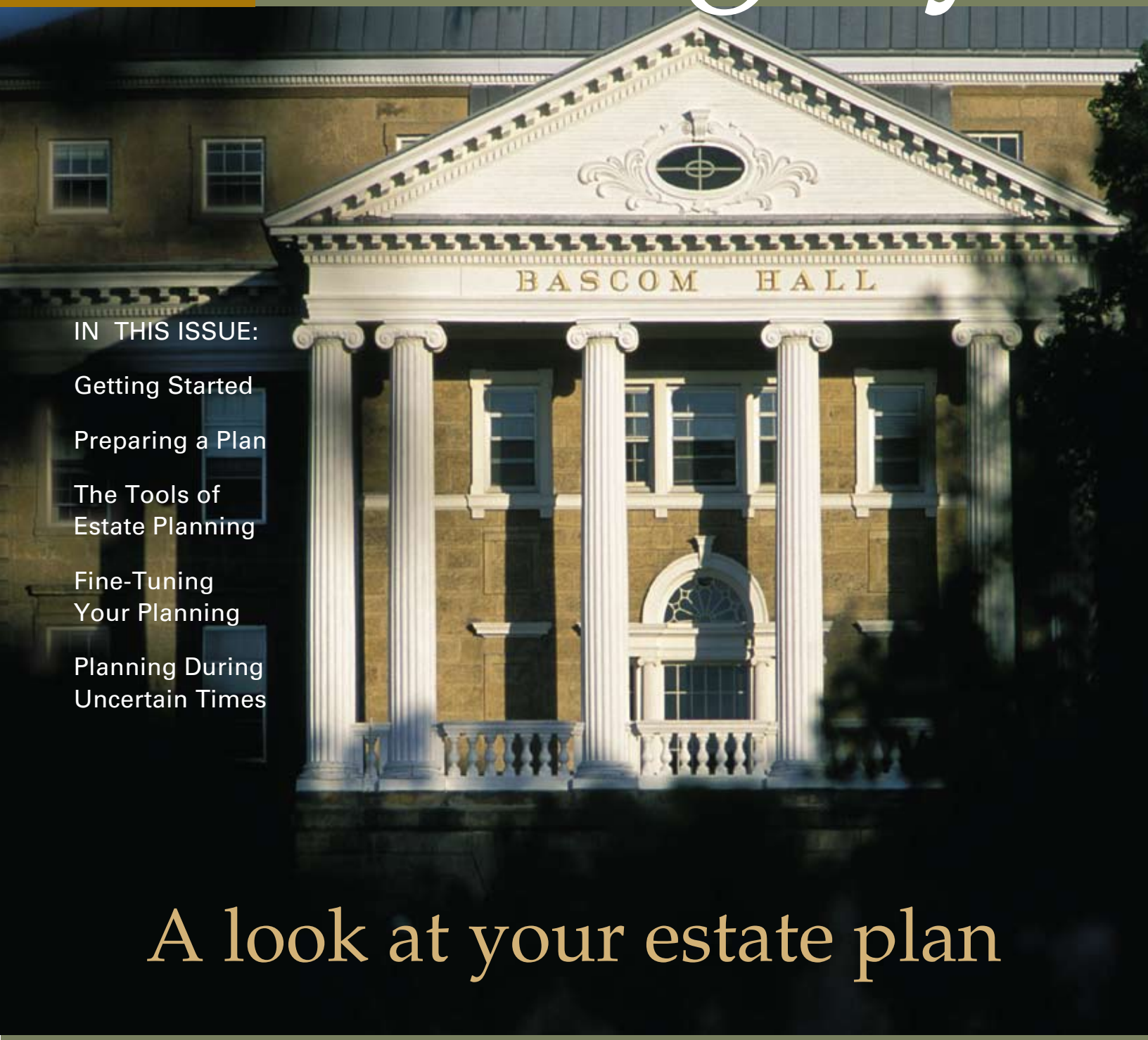
Wisconsin Legacy



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A look at your estate plan

Someone said: "Give me an hour with a person's checkbook, and I'll tell you what that person believes in.'' Likewise, an estate plan reflects one's enduring values.

You may find that your financial affairs are a fairly accurate barometer of your hopes and dreams, and that just as your hopes and dreams are modified by your daily experiences, your estate planning also is a dynamic process. Any number of life's major experiences —marriage, the birth of a child, a career change, an inheritance or even stock market fluctuations—should cause you to take another look at where you are headed with your estate planning. When you find yourself facing such events, you need to reassess your plans.

Each time you do so, it is important to review your overall objectives. A comprehensive look starts with returning to some basic questions:

- Where am I?
- Where do I want to go?
- How do I get there?
- Do all the pieces fit?

As you make decisions that change your strategies, be sure they help you to move in the path that you have chosen.

Getting Started

With your overall objectives in mind, you need to take a careful inventory of your assets before you can make wise decisions.

Surprisingly, few of us have a very accurate picture of our assets. Certain things come readily to mind—the family home, savings accounts and stocks and bonds. Other items, such as automobiles, furniture and appliances, are easier to think of as necessities of daily life rather than as assets of an estate.

Still others are easily overlooked altogether. Intangible assets such as life insurance and retirement benefits are among those most likely to fall into this category. Yet these assets often make up a significant portion of an estate.

Whether you are taking stock of your house or some other asset, the important point is this: Once you have a current, objective assessment of the value of all your assets, regardless of how obvious or obscure, you will need a realistic projection of future increases in value on which to base your planning.

Take real estate, for example. A personal residence is often considered to be one of the best investments an individual can make. As your mortgage balance declines and your property appreciates in value, your equity steadily increases year after year.

Preparing a Plan

With a clear picture of your assets, you can begin to put together your estate plan. You need to think about three major stages: accumulation, preservation and distribution.

Everyone who wants to enjoy financial security needs to have **a plan for accumulating assets.** Granted, most people do give significant time to their careers and to their investment activities. A good estate plan, however, goes far beyond this single goal and does not fail to give appropriate attention to other aspects of planning.

It is just as important to develop **a strategy for preserving assets.** Careful planning for income, gift and estate tax effects is crucial for retaining assets to meet personal, family and charitable objectives.

The third major objective is **planning the distribution of the estate** in accordance with the estate owner's wishes. Those who make the effort to plan will find this stage extremely rewarding. Knowing your assets will be distributed to achieve your goals is the real payoff for all the hard work that has gone into building and preserving your estate.

Careful planning can help reduce your taxes.

Nevertheless, the majority of individuals choose to forfeit this opportunity and, in effect, abdicate the responsibility to their state legislatures, which have developed "estate plans'' of their own. If an estate owner has failed to formulate a plan through a will or trust, the state can only guess what he or she might have wanted. Rather than attempt this impossible task on a case-by-case basis, each state provides for the distribution of assets according to an inflexible formula that rarely reflects the wishes of any given individual.

The Tools of Estate Planning

Undoubtedly, the cornerstone of any good estate plan is a carefully planned will. A will is a powerful document that gives you control over many important matters.

For instance, with a will you can make provisions for beneficiaries such as friends and charitable organizations, which would receive nothing from your estate through your state's assignments. A will also gives you the opportunity to name the person who will serve as personal representative of your estate. Further, a will gives the opportunity for parents of minor children to choose a guardian should the need arise.

It is just as important to realize what a will cannot do. The distribution of some assets is determined by law. For example, property owned jointly with a right of survivorship passes automatically to the surviving joint owner. Any provisions regarding the distribution of such property in a will are ineffectual.

Similarly, property acquired during marriage in certain states is deemed to be "community property,'' which means that each spouse owns an undivided one-half interest. A spouse can dispose of only his or her half interest as he or she pleases.

In addition, the passing of some assets is a matter of contract. A prime example is a life insurance policy. The policy is a contract between the policy owner and the insurance company. The beneficiary designation in the policy takes precedence over conflicting provisions in a will.

The same is true of retirement plan benefits and assets placed in trust. Provisions in the contracts control distribution of the assets, so you should exercise your right to change beneficiaries to fit in with your changing estate plans.

Each of these tools should work together to achieve your estate planning objectives. For instance, assume your intention is to divide your estate equally between your spouse and your child. A provision in your will giving half your assets to each will not meet your objectives if your spouse also is the beneficiary of a large insurance policy.

Take time to determine what passes to each of your beneficiaries by law, by contract and by will. Then review the totals to be sure your estate plan reflects your intent.

Fine-Tuning Your Planning

A well-conceived estate plan lets you do far more than just determine the distribution of your assets. With careful planning, you may be able to achieve multiple objectives.

Most likely, a primary objective is to provide for the financial security of your spouse. Perhaps you feel your spouse should have access to the full value of your estate. At the same time, you may have a strong desire to make a meaningful gift to the UW Foundation. At first blush it may seem difficult to reconcile these two objectives. Good planning and coordinated use of estate planning tools could make it possible to do both.

The cornerstone of an estate plan is the will.

Here's how: With a provision in your will, you can create a charitable remainder trust that would provide a stream of payments to your spouse for life. At the death of your spouse, the remaining principal in the trust would pass to the UW Foundation. ***Result:*** Both objectives are accomplished. Your spouse has the security of receiving payments for life, and you have made a generous gift to support the University of Wisconsin.

Planning During Uncertain Times

If you don't like the direction the financial market is taking, wait a minute. That's the feeling many people have when they look at the ups and downs in the marketplace.

The potential for such major shifts certainly calls for a review of

Example 1

Mr. A has an estate composed entirely of stock. At the time Mr. A drafts his will, the stock is worth $500,000. Mr. A makes specific bequests of $50,000 to each of his four nephews and leaves the residue to his wife. Immediately after Mr. A's death the value of his stock drops by 50 percent to $250,000. Each of the nephews still receives $50,000, but Mrs. A receives only the remaining $50,000, not the $300,000 Mr. A had contemplated.

The problem could have been mitigated had Mr. A used percentage bequests rather than specific dollar amount bequests. For instance, if he had left each nephew 10 percent with the remaining 60 percent going to Mrs. A, each nephew would have received $25,000 and Mrs. A would have received $150,000.

If you have made bequests of specific dollar amounts, you may want to review your will. Perhaps percentage bequests are better suited to your needs during market turbulence.

estate plans by everyone. In fact, it underscores some fundamental tenets of estate planning.

One factor: The need for liquidity. Every estate needs cash to pay claims, taxes, expenses and other costs associated with administration. An estate that relies too heavily on stock can face serious problems. The estate could be forced to sell on market lows to raise needed cash. Even worse, a major market drop could wipe out a significant portion of an estate's value.

Another potential danger during times of financial uncertainty: Making bequests of specific dollar amounts to secondary beneficiaries and providing for a primary beneficiary with a residual bequest. This means the secondary beneficiaries get a specific sum of money while the primary beneficiary gets what is left over. Under such a strategy, the residual beneficiary bears the brunt of a market drop. (See Example 1, page 3)

Dear Friends,

What does your estate plan say about you?

Are you prepared for major life changes such as marriage, the birth of children or grandchildren or retirement? Have you provided for the people, organizations and causes that are most important to you? Or does the lack of an estate plan indicate you're a brave individual willing to risk the whims of chance —or simply a procrastinator?

Truth is, anyone who desires financial security needs an estate plan. The specifics will change as your needs, situation and goals change, but generally any well-designed plan will take into account the accumulation, preservation and distribution of assets.

This issue of *Legacy* explores ideas that you should consider as you formulate or change your estate plan. You may discover that making a charitable gift to the University of Wisconsin Foundation can accomplish multiple objectives, such as providing for loved ones, reducing your taxes and helping us successfully continue with our mission.

We look forward to hearing from you.

Sincerely,

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