



# FORUM

*For Financial Planning*

An Informational and Educational Publication of Ashland University, Ashland Theological Seminary and The Ashbrook Center

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*The Founders Tower, which was the original cupola on Founders Hall, has been adopted as the logo for the Forum for Financial Planning newsletter. The Tower, which served as a proud symbol of Ashland University from its beginning, now also serves as a symbol for the Founders Society.*

*The fragrance always stays in the hand that gives the rose.*

*Paul Ditlevson, Editor*

*The information in this publication is not intended as legal or tax advice. For legal advice, please contact an attorney. For information about taxes, please consult an accountant. You may also call the Legacy Estate Programs Office at 419-289-5090 or e-mail: pditlevs@ashland.edu.*

*Editorial*

## Estate Taxes — To Be or Not to Be? Is that a Question?

Even now, one does not have to pay federal estate taxes! It is a choice. With careful planning, no one needs to pay these taxes (usually state “death taxes” are harder to avoid, and they, too, are up for review). The argument before Congress rather focuses upon, “How difficult should it be for citizens to direct their monies, both before and after death?” That they should have total freedom to do so is not even in question. The fact is that just as times change, so too does tax and social policy. (For a history of the estate tax, request a copy by return card).

The debate most often heard in the news media focuses on: 1. “Can citizens be trusted to be generous enough to share their wealth with others not so wealthy and not use wealth to rule over others, at least not directly, for very long; or 2. Does government need to ensure this generosity, at least at death?” Convincing arguments and examples of inequalities can be seen on both sides of the issue. The debate in the charitable community is no less spirited as to whether or not a “tax club” must be held over heads to ensure proper funding for philanthropic endeavors.

Perhaps one negative side to the present debate is the perception by some that “death taxes” may be eliminated. They will not. Tax laws will be changed, however, as the current social, political and economical climate dictate it. The unfortunate result is many people are waiting for the politicians to make up their minds, so they can respond. It is a virtual cat and mouse game, the taxpayer being the mouse. Except in the cartoons, we all know who “wins” the game. The government will prevail, as it must, in order to govern.

To assist those who are contemplating estate planning, a digest of the current bill as passed by the House of Representatives may be obtained by requesting a copy by return card. This article demonstrates three things: 1. That planning continues to be essential to efficient transfer of assets; 2. The changes will (at best) restructure (and probably complicate) taxes on these transfers from generation to generation; and 3. It will take many years to accomplish a goal that will not be set in stone. Please remember that the Legacy Estate Programs Office is able to assist you by providing important information you request.

## Putting Together Your Estate Plan Financial Advisory Team -- Part IV

*(Part four in a series of five articles regarding how you can assemble your financial/estate planning advisory team. If you missed some or all of the previous articles, they may be obtained from the AU Estate Programs website at [www.ashland.edu/estate/pgiv.html](http://www.ashland.edu/estate/pgiv.html), in past FORUMS or by use of the return card.)*

Choosing a Financial Planner may be the most difficult of all five team members to confidently secure. First, the term has only come into vogue over the last 10 years. Second, those who declare themselves “financial planners,” may be certified or

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not. Third, “certified” financial planners (those who have met the necessary standards to be so designated and regulated), may be found practicing within accounting, insurance, investment and legal firms, and financial institutions. Or, they may be independent consultants. And, to make matters more complicated, even with certification, they have widely varying degrees of experience, expertise and available resources to assist you.

It is generally prudent to select a “certified” financial planner in good standing to be on your team, as there are distinct educational requirements imposed and monitoring of improper business practices (and penalties/suspensions). But, who needs a “certified” financial planner? Individuals with significant assets besides their home and retirement accounts or who have concerns about estate planning may find that this person is a great resource, especially if they understand this individual’s role. One certifying agency, the CFP Board of Standards, indicates that expectations and understanding of this role leaves a great deal to be learned, especially on the side of the consumer. They report that clients of their “certified” financial planners, in over 70 percent of cases, failed to set measurable goals and jumped into financial decisions without fully understanding the effects. Some 65 percent confused financial planning with investing and 37 percent waited until there was a financial crisis before seeking advice. Additionally, another study of the National Endowment for Financial Education pointed out that many people underestimate the time needed to prepare for retirement.

Financial planners base their fees on differing payment methods. Probably the best person for you is one whose payment arrangement fits your situation. Fee-only planners charge either by the hour or the plan. They may also charge a percentage fee based upon assets managed if you choose them for this function as well. Fee-offset planners almost always charge a flat fee and then credit commissions generated on any products procured during the process. Commission planners usually charge nothing for advice but receive commissions on products purchased from them. A growing number of planners, particularly those with a demonstrated track record, are becoming fee-only planners. They believe their advice is worthy of payment and take great pride in not having to “push products” of their own. This does not mean that they do not have access to these products, nor should they be ignored when selecting them. They may be the best and most trusted persons to handle these transactions. However, they also may not be interested in this necessary part of the business. On the other hand, the remaining two categories of planners may be very ethical;

but the “human nature” effect may cause some clients hesitation in relying on their advice. You need to be sure of your own philosophical beliefs in these areas before selection.

Certain business management advisers claim that this professional area of endeavor will see tremendous growth over the next 10 years. Already, over 250,000 financial professionals refer to themselves as financial planners. To select a “certified” financial planner, some of the following professional designations may give you a starting point. The Certified Financial Planner (CFP) is awarded by the CFP Board of Standards. Those who claim this identity must complete a specified educational program, pass a comprehensive examination, sign an ethics declaration, have related work experience and fulfill continuing educational requirements. Chartered Financial Consultant (ChFC) is the designation given by the American College of Financial Planning. Ten courses must be passed and the professional must have at least three years of business experience in the area. Personal Financial Specialist (PFS) comes from the American Institute of Certified Public Accountants. Like others, professionals with this designation must have passed an exam, have certain experience requirements, have on-record professional and client references and meet a rigorous continuing educational requirement. A professional planner with the (IAFP) designation is listed as being a member of the International Association for Financial Planning. This individual must have at least one of the above-mentioned designations, be a Registered Investment Adviser (SEC registration) and have passed his/her exam. The National Association of Personal Financial Advisers (NAPFA) is only allowed for fee-based planners who have at least a four-year college degree, an above mentioned planner’s designation and three years of experience.

When you have narrowed the field of planners with the qualifications mentioned, an interview, preferably in person, should be the next step. Be sure to confirm the qualifications you have already investigated, ask for references and ask specifically about your concerns. You might wish to check the CFP Board for possible complaints or request the Form ADV (a document that states the planner’s fees, credentials, credit history, professional affiliations, disciplinary record, credit history and length of practice.) Requests can be made to Ashland University for contact numbers for additional information on confirming disciplinary actions and history.

But, perhaps most of all, it is important that the individual financial planner know that there is no “I” in the word team. They will be privileged to serve with others you have selected.



Three

## Successful Wealth Transfer is More Than Tax Efficiency

**R**ichard Tanner of The Koptis Organization in Cleveland, Ohio, makes the observation that tax laws alone do not ensure good transfers of wealth, regardless of amount. He offers some keen insights into fundamental planning issues that families should contemplate in the following digest, “Successful Wealth Transfer? Why Heirs Lose Their Wealth.”

We have observed that 95 percent or more of wealthy families focus their wealth transfer planning almost exclusively on minimizing taxes and drafting appropriate documents. They think that by using the most sophisticated planning and tax reduction techniques and drafting airtight legal documents, they can ensure the successful transfer of their wealth to their heirs. After such sophisticated planning, the wealthy must ask themselves this most important question. “Have we been truly successful in our wealth transfer plans if our heirs are not able to retain their inheritance?”

Recent studies have revealed some staggering statistics:

- 65 percent of the wealthy families have lost the family wealth by the end of the second generation.
- 90 percent of these families will have lost their family wealth by the end of the third generation.

It has been suggested that the primary culprit behind the disappearance of this wealth is the crippling estate taxes that are levied on wealthy American families.

However, Australia has almost exactly the same percentages as the U.S. Yet, Australia has one major difference: Australia has no estate taxes! Wealthy Australian families are still losing their wealth at virtually the same rate as wealthy American families. The United Kingdom has almost identical statistics as well.

Obviously, avoiding estate taxes does not ensure the successful retention of the wealth to the children or the grandchildren. So what is the reason for these pathetic results? The answer has nothing to do with how effectively you eliminate taxes or draft great legal documents. It has everything to do with TRUST and COMMUNICATION between parents and their heirs. The following is an illustration of this point:

A father has never turned over the responsibility of managing the family’s multimillion dollar investment portfolio to his sons.

“They could never manage money as successfully as I

do,” the father thinks.

He’s correct. He’s correct now, and he’ll be correct after he’s dead. The sons will never learn to manage money because dad never trusted them to try or communicated to them how to be effective money managers. So the first time the boys get their hands on the money, dad, who could have been their best teacher and coach, is dead. He has left them adrift at sea with millions of dollars, no idea how to manage it, and no one advising them. No trust. No communication. This is not an isolated example, unfortunately. It is almost routine among wealthy families.

Another example is the dad who never tells his children how much wealth the family has because he doesn’t trust them with that kind of sensitive information. They finally learn about the amount of wealth mom and dad have in the lawyer’s office after the last parent dies. They are completely ill-prepared to manage the family’s wealth. No trust. No communication.

It is quite common among wealthy parents for their children to be resentful of that wealth. They see dad as filled with greed, consumed with power and living an opulent lifestyle. They see wealth as evil. They take the side of those who are down and out – the weak and the poor. They see their parents as the enemy. These children intentionally go to the other extreme in their lifestyles, rejecting this cursed disease of “affluenza.”

What they have never seen or understood is that their parents annually give over one million dollars away to help the poor in their community – a gift only made possible because of dad’s brilliant business prowess. They do not know that dad pays his employees very well and provides them with very generous benefits which give their families a better and happier life. The kids do not see any of this, and they just do not know. Why? They do not see because there is no trust. No communication. Their parents have chosen not to include them in charitable giving. The children do not understand how their family’s wealth can be used to help others.

If wealthy families are going to successfully keep their wealth in the family for future generations to enjoy and use for good, they must do more than simply implement financial techniques and strategies. This traditional approach to planning guarantees nothing except a 90 percent failure rate.

*It takes less time to do a thing right than it does to explain why you did it wrong. – Henry Wadsworth Longfellow*



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*Great opportunities to help others seldom come, but small ones surround us daily. – Sally Koch*

## Estate Tax Planning Works Already!

The Wall Street Journal, in an April 15, 1997, article titled, “Eliminate the Middleman,” records two practicing attorney partners’ lament that they had just sent a check for \$1,285,000 to the IRS nine months after the wife’s father died. Realizing that it would be spent in under 30 seconds, they wished for an opportunity wasted to direct it to those who might have used it more as they or their loved one had wished. It is a pity that they and the parent had not taken the opportunities available to them. The following is an illustration of what can and hasn’t been done:

### Involuntary Philanthropists

	Gross Estate	Estate Taxes	% Lost to Taxes
Conrad Hilton Hilton Hotels	\$199,070,200	\$105,782,217	53%
Charles Woolworth F. W. Woolworth Co.	\$16,788,702	\$10,391,303	62%
Jessica Savitch NBC News Anchor	\$2,175,463	\$1,111,132	51%
Total Average	\$72,678,000	\$39,094,666	55%

### Voluntary Philanthropists

	Gross Estate	Estate Taxes	% Lost to Taxes
John Rockefeller, Sr. Founder, Standard Oil	\$557,905,182	\$17,124,988	3%
William R. Hearst Publisher	\$57,115,167	\$3,728,346	6%
William Danforth Purina Pet Food	\$5,831,131	\$152,953	2%
Total Average	\$206,950,490	\$7,002,095	3.7%

(Provided by Margaret M. Holman, Holman Consulting, Inc., N.Y., NY)



## It Takes a Violin to Make a Trust

Long time music faculty director Calvin Y. Rogers and his wife, Helen, have chosen a rather unusual way in which to establish an endowed fund at Ashland University. Seeing his playing days in the highly acclaimed Colorado Springs Symphony coming to an end, Cal laid down his bow with a flourish and gifted his beloved Poggi violin to a charitable remainder trust, the charitable beneficiary being Ashland University. The Poggi violins are considered to be the premier Italian violins made in the 20th century and are in high demand from those who truly treasure fine string instruments. A personal visit to and pictures with the violin maker himself, and a letter of authentication all add not only emotional but real value to the instrument, made in 1935. The Rogers felt that gifting the violin in this manner was a fitting tribute to their beloved association with Ashland University.

*Ashland University President G. William Benz (left) congratulates Cal Rogers on receiving an Honorary Degree in from AU in 1999.*