

EVALUATING FINANCIAL  
PLANNING STRATEGIES

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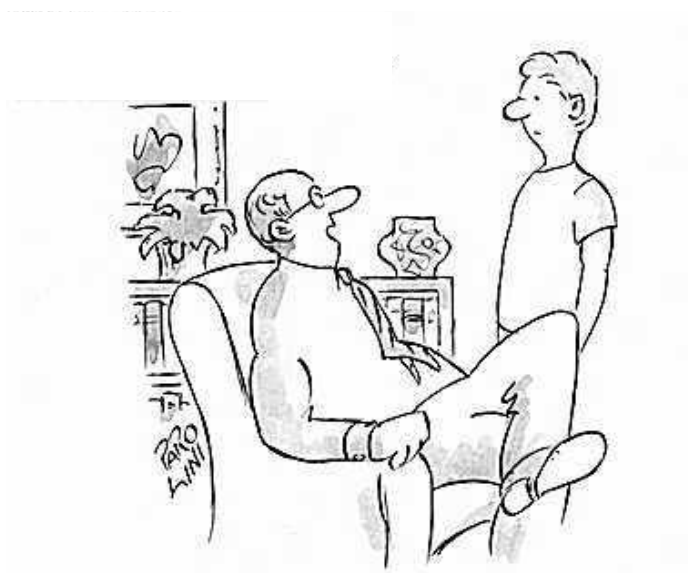


2009 TREASURY MANAGEMENT  
CONFERENCE

# Agenda

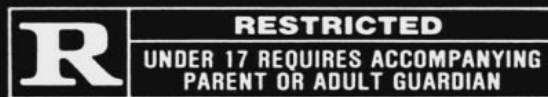
- Planning for Higher Education
- Planning for Wealth Transition

## Planning for Higher Education



"MY NET WORTH? DO YOU MEAN AFTER TAXES, OR  
OR AFTER I PAY FOR YOUR EDUCATION?"

**This motion picture would have been rated**



EXPERTS IN WEALTH MANAGEMENT AND FIDUCIARY CARE

## How Much Will College Cost?

Projected Annual Cost of Tuition, Fees, and Room & Board*		
	UNL	Creighton
2008-2009	\$13,689	\$35,798
In 5 Years	\$18,319	\$47,906
In 10 Years	\$24,515	\$64,109
In 18 Years	\$39,073	\$102,180

\*Based on an annual increase of 6% in Tuition, Fees, and Room & Board

## How Much Will I Need to Save?

Monthly Savings Needed to Fund Four Years at UNL			
Cost of 4 Years at UNL	Rate of Return		
	6%	8%	10%
In 5 Years: \$80,000	\$710	\$670	\$630
In 10 Years: \$107,000	\$500	\$440	\$390
In 18 Years: \$171,000	\$370	\$290	\$230

Monthly Savings Needed to Fund Four Years at Creighton			
Cost of 4 Years at Creighton	Rate of Return		
	6%	8%	10%
In 5 Years: \$210,000	\$1,850	\$1,750	\$1,650
In 10 Years: \$280,000	\$1,290	\$1,150	\$1,020
In 18 Years: \$447,000	\$970	\$770	\$600

Assumes 6% inflation on the cost of college. Also assumes you save an equal amount monthly through the fourth year of college.

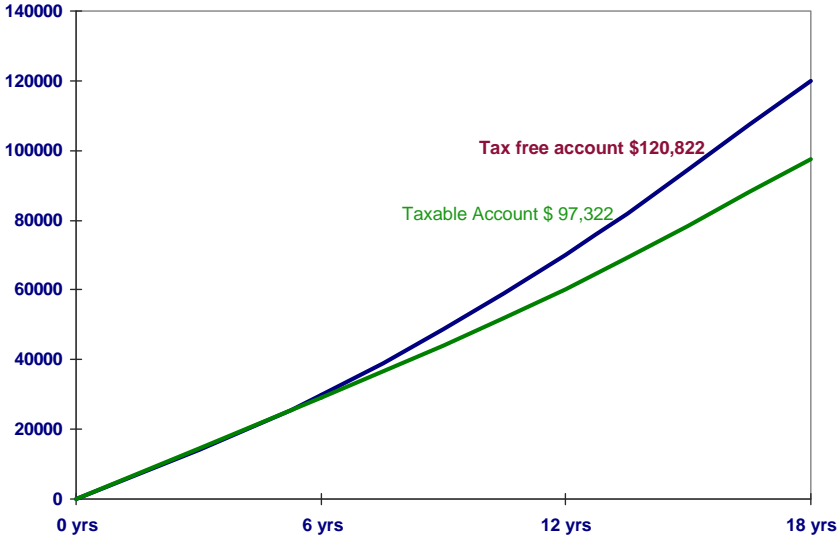
## College Savings Options

- 529 College Savings Plan
- Coverdell Education Savings Account
- Roth IRA
- Custodial Account: UTMA

## 529 College Savings Account

<b>Eligibility</b>	With most state plans, anyone is eligible. This is the case for both the Nebraska and Iowa 529 plans. Additional state tax benefits are also available for residents of the plan's state.
<b>Annual Amount</b>	For federal gift tax purposes, contributions to an account are considered a gift from the contributor to the beneficiary. This gift is eligible for the annual gift tax exclusion (\$13,000 per donee in 2009). Generally, an annual gift to one beneficiary greater than \$13,000 will erode your \$1 million gift-tax exemption. However, it is also possible to "frontload" your 529 plan by giving five years of annual contributions (\$65,000) in one year.
<b>Tax Consequences</b>	Withdrawals are federally <b>tax-free</b> when used for qualified higher-education expenses. In most states, withdrawals are also state tax-free. In Nebraska, residents also can receive up to a \$5,000 state tax deduction. Earnings on nonqualified withdrawals are taxed as ordinary income <b>and</b> subject to a 10% penalty.
<b>Investment Options</b>	Limited to the options provided by the specific 529 plan
<b>Beneficiary Changes</b>	Beneficiaries can be changed to family members of the original beneficiary, including cousins, without income-tax consequences. However, there are gift-tax consequences if the new beneficiary is in a younger generation than the original one.

# Tax-Advantaged Investing



**This hypothetical example illustrates a \$250 monthly investment earning 8% annually, compounded monthly for 18 years, with a 25% tax rate applied to the taxable account. This example is based on projections and does not reflect an actual investment.**

## Value of a State Tax Deduction

**The state of Nebraska offers a tax deduction of up to \$5,000 (married-joint or single) each year.**

- $\$5,000 * 6\% = \underline{\$300}$  in annual tax savings
- \$300 annual savings compounding at 8% for 18 years = \$11,235

## Coverdell Education Savings Account (ESA)

<b>Eligibility</b>	Eligibility phases out for contributors who are married, filing jointly with adjusted gross incomes (AGIs) between \$190,000 and \$220,000 and for singles with AGIs between \$95,000 and \$110,000. Children can contribute to their own accounts. Funding is prohibited once the beneficiary reaches the age of 18.
<b>Annual Amount</b>	\$2,000; if your income falls into the phase-out range, your contribution amount will be reduced proportionately.
<b>Tax Consequences</b>	There is no initial tax deduction for ESA contributions. Withdrawals are tax-free when used for qualified higher education, elementary, or secondary school expenses. Earnings on nonqualified withdrawals are taxed as ordinary income <b>and</b> subject to a 10% penalty.
<b>Investment Options</b>	Extremely flexible
<b>Beneficiary Changes</b>	Beneficiaries can be changed without tax consequences to family members provided the new beneficiary is under age 30. If the account still has money in it after the original beneficiary turns 30, it must be distributed to him or her or rolled over to a new beneficiary.

## Roth IRA...No Loans for Retirement

<b>Eligibility</b>	Any individual with earned income and an AGI of less than \$120,000 or \$176,000 for couples filing jointly.
<b>Annual Amount</b>	\$5,000 per person, with an additional \$1,000 catch-up for individuals 50 or older.
<b>Tax Consequences</b>	There is no initial tax deduction for Roth contributions. However, upon withdrawal of funds after age 59 ½, the proceeds will be tax free. At any time, the owner of a Roth IRA is allowed to withdraw, for any reason, all of their previous contributions free of any tax or penalty. If withdrawals of earnings occur before 59 ½ to pay for post-secondary education, the 10% penalty is avoided, but ordinary income tax is due on the investment earnings.
<b>Investment Options</b>	Extremely flexible
<b>Beneficiary Changes</b>	Not applicable

## Custodial Accounts: UTMA

<b>Eligibility</b>	Anyone is eligible.
<b>Annual Amount</b>	Contributions are unlimited, but any annual gift greater than \$13,000 per beneficiary will erode your \$1 million gift-tax exemption.
<b>Tax Consequences</b>	Regular tax rules apply, although generally at the child's tax rate. If the beneficiary (the college-bound child) is under age 24, s/he may be subject to the kiddie tax if annual investment income and gains exceed \$1,900 (for 2009).
<b>Investment Options</b>	Extremely flexible
<b>Beneficiary Changes</b>	The custodian controls the account until the minor reaches the age of termination, either age 18 or 21, depending on the state (21 in both IA and NE). The account cannot be transferred to another child. Any funds withdrawn from the account must be used <b>exclusively</b> for the benefit of the minor and can be used for any purpose, not just education.

## Factors to Consider

	Roth IRA	Coverdell	529	UTMA
Do adjusted gross income limits apply?	Joint Phase-out: \$166-176,000	Joint Phase-out: \$190-220,000	No Limit	No Limit
How much do I want to contribute?	\$5000 Limit	\$2,000 Limit	High Limit	No Limit
Is there tax free accumulation for education expenses?	No	Yes	Yes* state tax deduction also possible	No
Do I want the funds to be available exclusively for education?	Flexible	Education Only	Education Only	Flexible
Do I want the ability to change the beneficiary?	Yes	Yes	Yes	No
How much investment flexibility am I looking for?	Extremely Flexible	Extremely Flexible	Limited to plan options	Extremely Flexible

## Additional Resources

- NE 529: <http://www.planforcollegenow.com/>
- IA 529: <http://collegesavingsiowa.uii.upromise.com>
- <http://www.savingforcollege.com/>
- <http://www.collegeboard.com>

ESTATE PLANNING:  
PREPARING FOR WEALTH  
TRANSITION



2009 TREASURY MANAGEMENT  
CONFERENCE

- “If a man dies and leaves his estate in an uncertain condition, the lawyers become his heirs.”  
--Edgar Watson Howe

# What is Estate Planning?

- The ongoing process that serves to manage an individual's future needs in the event that he/she can no longer care for him/herself.
  - Involves people—your family, other individuals and, in many cases, charitable organizations of your choice
  - Determines how and to whom your assets will be distributed upon your death or incapacitation
  - Ensures that your children are raised in an environment of your choosing
  - Provides that your healthcare wishes are honored
  - Ensures that your financial affairs are handled properly in the event of your incapacity or absence

## Common Estate Planning Documents

- Last Will & Testament
- General Power of Attorney
- Medical Power of Attorney
- Living Will
- Revocable Living Trust

# Common Estate Planning Documents

## ■ Last Will & Testament

- Names a guardian for your minor children
- Identifies an executor/personal representative to help manage your estate
- Provides instruction on where and how your assets should be transferred upon your death

# Weirdest Wills

- Charles Vance Miller, a Canadian Lawyer, played his ultimate prank upon his death. His will left his Jamaican vacation home jointly to three men who hated each other for a period of ten years. After that, it was to pass to the Canadian woman who had the most children during the ten years. The home passed jointly to four women, each of whom had nine children during the ten years.
- Asia's richest woman, Nina Wang, was worth \$4.2 billion when she died in 2007. She left everything to her personal feng shui consultant. A prior will left everything to charity.
- When Iowa attorney T.M. Zink died, his will directed that \$35,000 be placed in a trust fund. After 75 years, Zink directed that the money be used to build the Zink Womanless Library, which would contain no books written by women and each entrance would state "no women allowed." Zink's daughter successfully challenged the will and the library was never built. Zink left his daughter \$5 in the will.

# Dying Without a Will

- If you do not have a valid will upon your death, you are said to have died “intestate.”
- The state will decide how to allocate your estate among your heirs.
- This varies greatly by state, and many are surprised to learn how their estate will be handled.

# Example of Intestacy

Tom was married with two children. At the time of his death, his estate was worth \$350,000. The following illustrates how his estate would be distributed according to state laws.

## State of Iowa

- \$350,000 will be allocated to Tom's spouse

## State of Nebraska

- \$200,000 will be allocated to Tom's spouse
- \$75,000 will be allocated to each child

# Common Estate Planning Documents

- Power of Attorney
  - Names a person(s) that will handle your financial affairs in the event that you can no longer do so
    - General (Durability Clause)
    - Limited
    - Springing

## Common Estate Planning Documents

- Medical Power of Attorney
  - Names a person(s) that will handle your medical decisions in the event that you can no longer do so

## Common Estate Planning Documents

- Living Will or Health Care Directive
  - A document used to make known your wishes regarding life prolonging medical treatment to your physicians and your family

# Common Estate Planning Documents

## ■ Revocable Living Trust

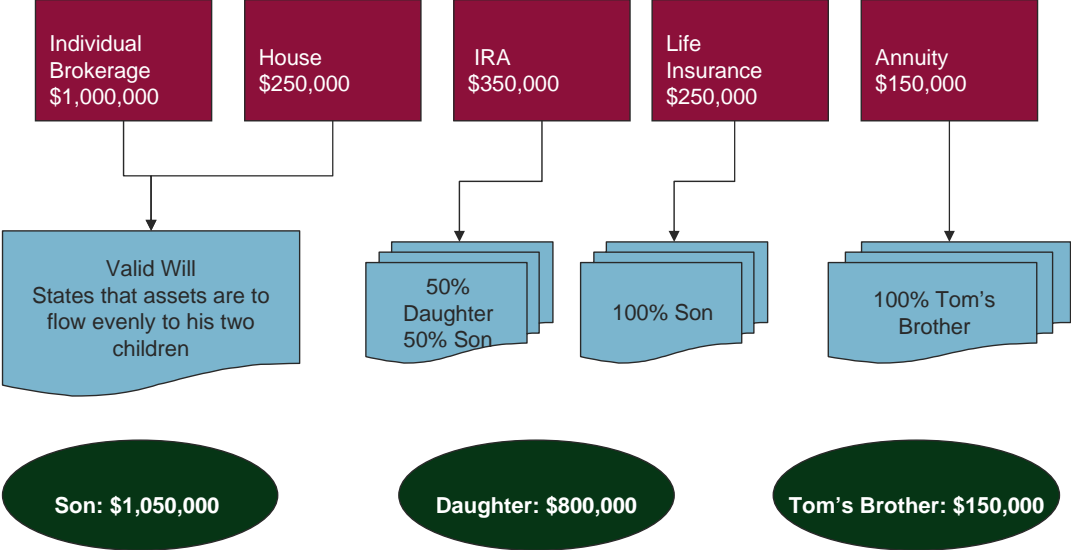
- Can be used to hold and manage your assets during your lifetime
- Upon your death, provides instruction as to what will happen to the trust assets
- Avoids the probate process (If funded)
- Can be changed at anytime while you are living, becoming irrevocable upon your death
- Protects against incapacity
- Contents not available to the public

# Common Estate Planning Mistakes

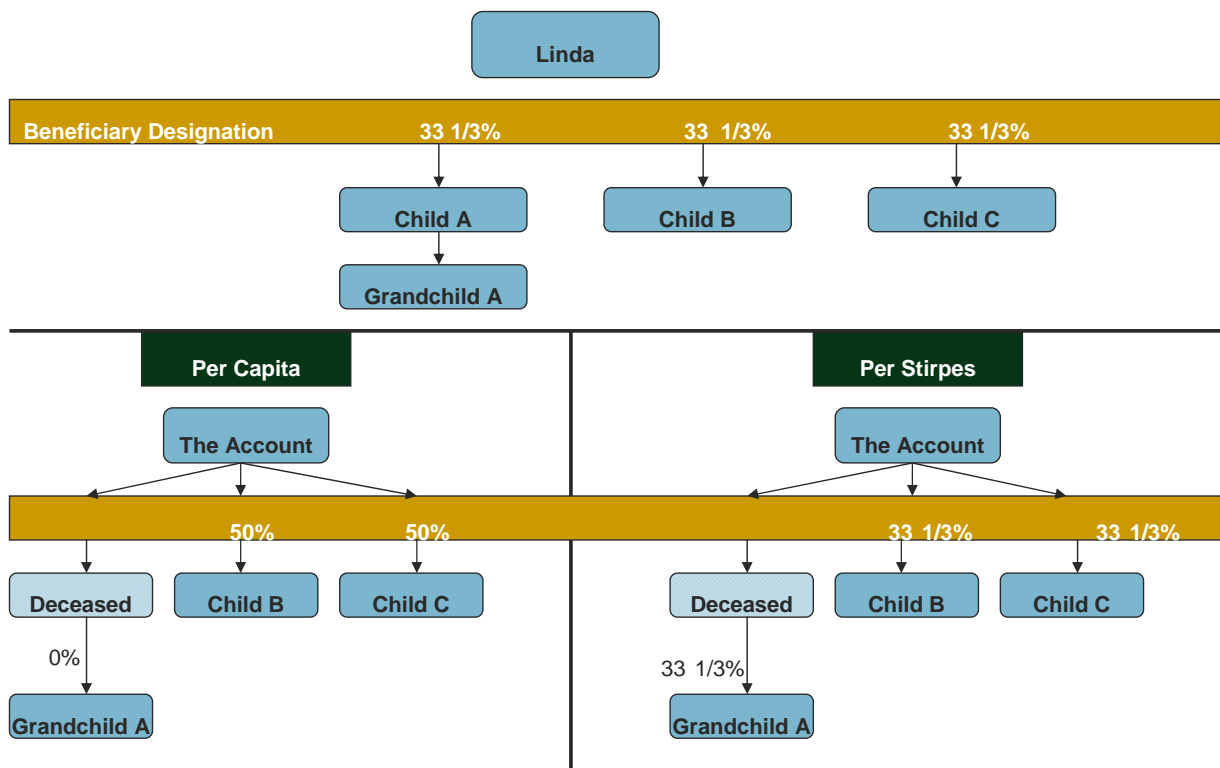
- Incorrectly Naming your Beneficiaries
  - Beneficiary designations supersede the will.
  - Life Insurance, Annuities, Retirement Accounts, and Payable on Death accounts all rely on a beneficiary designation to determine where assets go at death.
  - If the beneficiary designation contradicts other documents, the beneficiary designation wins.
  - Life changes, and so too should your beneficiary designations.

# Estate Flow Example

Tom's Estate at His Death  
His desire is to split his assets equally between both of his children



# Beneficiary Designations Require Some Thought



## Remember to STRETCH

- Naming the proper beneficiary is paramount if you want your heirs to be allowed to “STRETCH” your IRA.
  - A spousal beneficiary is allowed to rollover an IRA into their own account.
  - Non-spousal beneficiaries can roll an IRA into a beneficiary IRA. If done properly, they can stretch out the withdrawals over the course of their life expectancy.
  - The longer the money stays in an IRA, the longer the magic of compound interest gets to work.

## STRETCH IRA Rules

- Must have a named beneficiary.
- Beneficiary must be a real person, as opposed to an entity.
- IRA custodian must allow the stretch.

# Stretch IRA Example

When Tom died in 2009, he had designated his newborn granddaughter, Amy, as the beneficiary of his IRA worth \$100,000. Assuming Amy takes only the required minimum distributions and the account grows at the rate of 8%, the following table displays the possibilities.

Year	Amy's Age	Value of IRA	Amy's Life Expectancy	IRA Required Min. Distribution	Cumulative IRA Distributions
2009	1	\$100,000	81.6	\$1,225	\$1,225
2010	2	\$106,677	80.6	\$1,324	\$2,549
2026	18	\$292,918	64.6	\$4,534	\$45,893
2048	40	\$1,050,147	42.6	\$24,651	\$317,470
2058	50	\$1,734,988	32.6	\$53,220	\$703,152
2073	65	\$2,971,306	17.6	\$168,824	\$2,263,804
2083	75	\$2,770,040	7.6	\$364,479	\$4,905,142
2091	83	\$0	\$0	\$0	\$8,167,629

## Common Estate Planning Mistakes

- Improperly Titling Assets
  - Can result in unwanted taxes, and loss of stepped-up basis.
  - When it comes to insurance, it could unnecessarily increase the size of your estate making it subject to the estate tax.
  - Make you vulnerable to creditors or others.

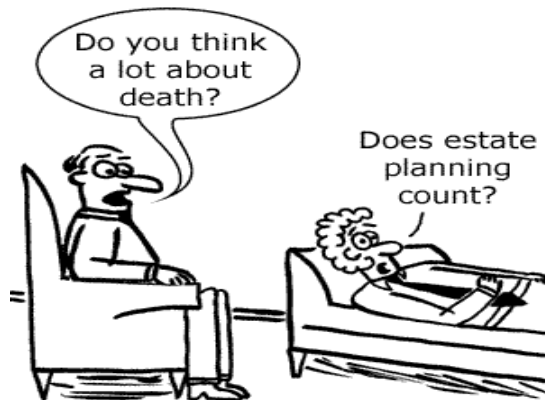
# Common Estate Planning Mistakes

- Failure to utilize the federal exemption:  
Twice
  - Married couples, with proper planning, can shield double the state and federal estate tax exemption amount from the estate tax
- Leaving all assets to your spouse
  - Could result in unnecessary estate tax
  - In the event of a second marriage, it could result in leaving out your children

# Common Estate Planning Mistakes

- Procrastination

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