AOF Financial Planning

Lesson 19

Estate Planning

Teacher Resources

| Resource | Description |
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| Teacher Resource 19.1 | Instructions: Role Playing |
| Teacher Resource 19.2 | Presentation and Notes: Introduction to Estate Planning (includes separate PowerPoint file) |
| Teacher Resource 19.3 | Short-Answer Test: Estate Planning |
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| Teacher Resource 19.5 | Key Vocabulary: Estate Planning |

Teacher Resource 19.1

Instructions: Role Playing

Print out this resource, cut out each of the role cards and give them to students who volunteer to play them. Instruct them to play the roles seriously, trying as much as possible to follow the directions on their card.

For the first scene, explain that a family is in probate court, where a judge is deciding who gets the assets of a woman who recently died without a will.

Before the second scene, explain that a person is in the hospital after a serious automobile accident. Head injuries have left the person paralyzed and unable to speak.

Scene 1: At the Probate Court

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| Scene 1/Role 1: The Judge  **Overview:** You are presiding over a probate court, where decisions are made about how to distribute people’s assets after they die. It is always more difficult when the person who died did not leave a will, as in the case of this scenario.  **Your goal:** To decide who inherits what!  **Your personality:** You are grumpy and serious. You just want to get this process over with. You don’t take kindly to people in your courtroom who are disrespectful and don’t follow your directions.  Your most common saying: “Order in the court!” |

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| Scene 1/Role 2: The Eldest Child  **Overview:** Your mother died last month, without a will. You are now sitting in probate court before a judge who will make decisions about who inherits the family house and about $100,000 in other assets.  **Your goal:** You want to inherit the largest amount, because you’re the oldest child in the family and you once loaned your mother $20,000, which she was never able to pay back. Unfortunately, you don’t have any proof of this loan.  **Your personality:** You are the most serious in the family. You think that your younger brothers and sisters are immature and selfish.  **Your most common saying:** “That’s not how mother would have wanted it.” |

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| Scene 1/Role 3: The Middle Child  **Overview:** Your mother died last month, without a will. You are now sitting in probate court before a judge who will make decisions about who inherits the family house and about $100,000 in other assets.  **Your goal:** You don’t want your eldest sibling to get more money. You think your younger sibling needs the most help to overcome some bad financial decisions.  **Your personality:** You don’t like to talk about money and find probate court an uncomfortable place. You are generally polite and try to be kind and fair to those in need.  **Your most common saying:** “Let’s talk about who really needs the money.” |

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| Scene 1/Role 4: The Youngest Child  **Overview:** Your mother died last month, without a will. You are now sitting in probate court before a judge who will make decisions about who inherits the family house and about $100,000 in other assets.  **Your goal:** You want all of the money, since you are in deep financial trouble, and your two other siblings are already doing okay financially.  **Your personality:** You are energetic, friendly, and charming. You usually get your way.  **Your most common saying:** “Please folks, I really need the money right now to get my life in order.” |

Scene 2: At the Hospital

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| Scene 2/Role 1: The Sick Patient  **Overview:** You are in the hospital after a serious car accident. You have not only head injuries, but your leg is seriously damaged. You can’t move or talk but can only groan quietly.  **Your goal:** To make sure that the doctors don’t cut off your leg.  **Your personality:** You don’t have much of a personality right now. While you can understand a bit of what is going on, things are hazy and confused. And, of course, you can’t talk or move.  **Your most common saying:** Low moans of pain. |

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| Scene 2/Role 2: The Friend  **Overview:** Your friend has been in a serious car accident and can’t move or talk. Your friend also has a badly injured leg. You are at the hospital because your friend has no close family members left alive and has asked you to make decisions for him if he is ever incapacitated. The doctor has recommended the leg be amputated. He has also told you there is a very expensive procedure to try to fix the leg, but the hospital doesn’t perform it and it would be risky to transport your friend to a hospital in another state to try the procedure.  **Your goal:** You don’t want your friend to lose his leg if you can help it.  **Your personality:** You are a loyal friend. You try to remain calm and friendly but can lose your temper if you feel you are being bullied or treated unfairly.  **Your most common saying:** “That can’t be the only option!” |

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| Scene 2/Role 3: The Doctor  **Overview:** You are the primary doctor treating a patient who has been in a horrible accident. The patient is paralyzed and can’t talk. The patient also has no family members left alive and has left no instructions for medical treatment. There is a very expensive procedure to try to fix the leg, but your hospital doesn’t perform it and it would be risky to transport the patient to a hospital in another state to try the procedure.  **Your goal:** To treat the patient to the best of your ability, which in this case may be to amputate the leg.  **Your personality:** You are professional and try to have good bedside manner. However, if anyone is causing a disturbance at the hospital, you are firm about dealing with it.  **Your most common saying:** “In my professional opinion, amputation is the best option.” |

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| Scene 2/Role 4: The Hospital Administrator  **Overview:** You oversee medical treatments at a large city hospital. One of your doctors is treating a patient who is paralyzed and can’t talk. The patient has no family members left alive and has left no instructions for medical treatment. The doctor has recommended that the patient’s leg be amputated. There is an expensive procedure to try to fix the leg, but your hospital doesn’t perform it and it would be risky to transport the patient to a hospital in another state to try the procedure. Also, your responsibility is to lower costs by avoiding costly medical procedures with a low chance of success.  **Your goal:** To provide basic medical care for the patient—in this case, amputation of the leg. You won’t pay for the expensive procedure to save the leg. Also, the patient’s friend has no power of attorney and no right to make medical decisions on behalf of the patient.  **Your personality:** You try to be professional and help the patient and his friend be at ease. However, you will not waiver in your decisions and will try to calmly explain your position.  **Your most common saying:** “I’m sorry, but that’s not possible!” |

Teacher Resource 19.2

Presentation Notes: Introduction to Estate Planning

Before you show this presentation, use the text accompanying each slide to develop presentation notes. Writing the notes yourself enables you to approach the subject matter in a way that is comfortable to you and engaging for your students. Make this presentation as interactive as possible by stopping frequently to ask questions and encourage class discussion.

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| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide1.JPG  One important role of a financial planner is to help people prepare financially for when they die.  This type of planning and preparation is called estate planning. An *estate* is the assets that the deceased person passes on (or bequeaths) to others.  This presentation covers the basic concepts in estate planning for financial planners, including:   * Wills * Living wills * Power of attorney * Inheritance taxes * Trusts | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide2.JPG  Few people know when they are going to die. Most of us will live well into and past our 70s, but some will die earlier. Because we don’t know such things, it is important even for younger adults to conduct estate planning.  Estate planning helps us to answer some important questions:   * What happens to our stuff when we die? * If we are too sick to make medical and financial decisions, who will make them for us? * Who will take care of our kids or our pets if we die?   As a financial planner, you can help people to make decisions about these important things. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide3.JPG  Estate planning principles and laws have been developing over thousands of years. Even the ancient Egyptians had complex estate planning!  One of the most common and important estate planning tools is the will. Among the important questions a will can answer are ”Who gets my stuff when I die?” and “Who will take care of my kids if I die unexpectedly?”  Another important tool is power of attorney. It answers the question of who makes medical and financial decisions for me when I am too ill to make them myself.  Financial planners or estate planning attorneys can help clients to prepare by advising them on the steps necessary to write a will, to create a trust, to give a trusted person power of attorney, and to choose someone to take care of their children if they die.  Together, these tools can help make tough times a little more smooth. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide4.JPG  Perhaps you’ve read in a book or seen in a movie the dramatic moment when the contents of a will are opened up and people are waiting anxiously to hear what is in it.  Wills are legal documents that provide a variety of instructions that are to be carried out by the will’s executor (the person assigned in the will to ensure that it is carried out). It is one of the most important estate planning tools.  It is not difficult to write a basic will. In some places, a simple handwritten will is permissible. However, because a will is a legal document, it is a good idea to get advice from a lawyer in creating a will. In most places, the signing of the will has to be witnessed by others to help prove it is authentic.  The most common instructions in a will are about how to distribute assets to family, friends, and charities. Some wills provide instructions on who should take care of minor children. Some even provide instructions on how to take care of pets.  While the image of relatives waiting breathlessly to find out the contents of a will is a staple of fiction, many experts recommend that the instructions contained in wills not be kept a secret, to avoid family disputes after the will is read. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide5.JPG  A will is a legal document used to provide instructions after a person’s death, and a living will is a legal document that provides instructions while the person is still alive but too sick or injured to be able to make medical and financial decisions on his or her own. For example, one common type of illness that can prevent seniors from making important decisions is Alzheimer's.  A living will usually contains instructions for doctors on what medical treatments the person wishes to have (or not have) performed. A living will can also contain instructions for assigning medical power of attorney or assigning a trusted person to make important medical decisions.  Note that in some states (Texas, for example) the term health care directive is used instead of living will. As before, a brief consultation with an attorney can help ensure that you do not create a document that has no legal authority. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide6.JPG  In addition to medical power of attorney, people can assign a durable general power of attorney for property in order to allow others to make financial decisions for them or even to administer all of their financial affairs.  There are two kinds of durable general powers of attorney for property (which includes financial affairs):   * Springing: The power of attorney becomes active if the set event occurs, such as an incapacitating illness or injury. Springing power of attorney only lasts until the person is capable of making decisions on his or her own again. * Nonspringing: The designated person is assigned power of attorney immediately and for a set period of time.   Most states give financial institutions wide latitude to reject a power of attorney. It is very important to confirm in advance with your financial institutions that they will accept powers of attorney. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide7.JPG  Assets that were passed on after death historically have been taxed with an estate tax if they exceeded certain thresholds. This threshold is called the exemption amount. Estates over this amount are subject to the tax. If a person has assets over the exemption amount, it is wise to plan so that taxation on the assets is reduced.  It is very wise to stay current with the thresholds so that the best strategies can be used to reduce any estate taxes. In 2014, the federal exemption amount was $5.34 million per person. Keep in mind that some states impose their own estate taxes that are completely separate from those imposed by the federal government, and the exemption limits of many states are significantly below the federal exemption limit. | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide8.JPG  One important way to pass on assets that can also reduce the taxes paid is through the creation of a trust.  A trust creates a legal arrangement whereby one entity, known as the trustee, holds and administers property for another entity, known as a beneficiary. The goal of the trust is to protect the assets placed in the trust and to distribute money or property to the beneficiaries. The creator of the trust has ultimate control in setting up the trust: determining what assets will be transferred into trust, who will serve as trustee while the person is living and after that person’s death, and how the trust property will be administered during or after that person’s lifetime. The creator of the trust assigns trustees, who benefit from the trust but who own the trust. The trust also assigns benefactors who benefit from the trust. The assets in the trust (often real estate) are not taxed directly, but the beneficiaries can utilize the rents, interest, and so on of the trust assets (though these are taxable). | Presentation notes |
| C:\Users\Mika\Documents\Pearson\2015\March\9\FinancialPlanning_Lesson19_Presentation_ROOT_030815\Slide9.JPG  An important role of the financial planner is to encourage clients to think ahead, even about things they may be uncomfortable pondering.  While most financial planners don’t write wills or create trusts (usually a lawyer handles these tasks), it is often the role of the financial planner to educate and encourage people to prepare for their future. | Presentation notes |

Teacher Resource 19.3

Short-Answer Test: Estate Planning

1. Jasmine, a young and successful business owner and mother, is skeptical about the need to write a will. List as many reasons as you can think of why writing a will is an important part of her financial plan.
2. Larry is a helpful person who likes to give friends advice on any topic. Larry tells Jasmine that she should get a trust in case she is ever injured and can’t make important decisions. He explains that a trust is a legal document in which you name a person that you can trust to administer your affairs. Is Larry correct? Can you give Jasmine the full explanation of what a trust is?
3. Lee is a very nice person, almost 80 years old, who is trying to find ways to transfer his assets to his grandchildren when he dies. He wants some advice on ways to do this so that his estate won’t owe too much in taxes. Please give Lee as many strategies as you can think of.
4. Linda is a United States Marine who is heading off for a tour of duty in a dangerous area. Linda is a single mother with a teenage son who is staying with her mother and father during her six-month tour. Every soldier faces the chance of dying or being injured while in service. What financial advice would you give to Linda before she leaves on her tour?

Teacher Resource 19.4

Answer Key: Estate Planning Test

1. Jasmine, a young and successful business owner and mother, is skeptical about the need to write a will. List as many reasons as you can think of why writing a will is an important part of her financial plan. Possible answers include 1) to designate a guardian for her child, 2) to decide who will inherit her assets, and 3) to assign power of attorney to a trusted person so that her financial affairs can be administered in her absence.
2. Larry is a helpful person who likes to give friends advice on any topic. Larry tells Jasmine that she should get a trust in case she is ever injured and can’t make important decisions. He explains that a trust is a legal document in which you name a person that you can trust to administer your affairs. Is Larry correct? Can you give Jasmine the full explanation of what a trust is? A trust is not a document in which you name someone to manage your financial affairs. The appropriate legal document for that is a power of attorney. A trust is a financial tool where you retitle assets, often real estate, into the name of the trust. When one or more of the trustees die, the trust remains in place to benefit the remaining beneficiaries. Creating a trust is a good strategy to avoid unnecessary taxation.
3. Lee is a very nice person, almost 80 years old, who is trying to find ways to transfer his assets to his grandchildren when he dies. He wants some advice on ways to do this so that his estate won’t owe too much in taxes. Please give Lee as many strategies as you can think of. Lee can give gifts to his grandchildren of up to $13,000 a year tax free. He can pay directly for their medical or educational expenses tax free. He can put his assets in a trust and make his grandchildren beneficiaries while he is alive. He can leave assets in his will for his grandchildren that fall under the limits for estate tax.
4. Linda is a United States Marine who is heading off for a tour of duty in a dangerous area. Linda is a single mother with a teenage son, who is staying with her mother and father during her six-month tour. Every soldier faces the chance of dying or being injured while in service. What financial advice would you give to Linda before she leaves on her tour? Linda should write a will designating a guardian for her son. She should designate power of attorney in case she is injured or unavailable to make important decisions herself. Linda should make sure she has enough insurance coverage to provide support for her son if she dies.

Teacher Resource 19.5

Key Vocabulary: Estate Planning

| Term | Definition |
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| advance medical directive | Written instructions that describe treatment preferences, including the designation of a substitute decision maker in the event that a patient becomes unable to make medical decisions on his or her own behalf. These generally fall into three categories: living will, power of attorney, and health care proxy. |
| bequeath | To leave or give property by will. |
| estate | All of the property, assets, and debts left by a deceased person. |
| estate planning | The act of preparing for passing assets and decision-making responsibility on to heirs or other individuals in case of death or incapacitating injury or illness. |
| estate tax | A name given to various taxes that arise on the death of an individual, also called inheritance tax or death duty. |
| executor | A person tasked with carrying out the instructions laid out in the will. The executor’s most common task is to guide the decedent’s assets throughout the probate process. If there is no will, or if the will does not name an executor, the probate or other court can appoint one. |
| exemption amount | A dollar-value threshold over which estate taxes are required. |
| health care proxy | A specific power of attorney that allows an agent to make health care decisions in the event that the primary individual is incapable of executing such decisions. |
| inheritance tax | A tax imposed on the transfer of property and assets from a deceased person. |
| intestate | A word that describes someone who dies without a legal will in place. |
| living will | Instructions covering specific medical directives as to the course of treatment to be taken by caregivers, or, in particular, in some cases forbidding treatment and sometimes also food and water, if the principal is unable to give informed consent due to incapacity. |
| power of attorney | An authorization to act on someone else’s behalf in a legal or business matter. The person authorizing the other to act is the principal or granter (of the power), and the one authorized to act is the agent or attorney-in-fact. |
| probate | The legal process of settling the estate of a deceased person, resolving all claims and distributing the decedent’s property. In some US states, after a person residing in that state has died without a valid will or trust, that person’s property immediately becomes the property of the spouse, if any, without the need for probate. However, in cases where the surviving spouse does not automatically succeed to the decedent’s property, it is usually necessary to probate the estate whether or not the decedent had a valid will. |
| probate court | A court that is primarily concerned with the proper distribution of the assets of someone who has died. It determines the validity of wills, enforces the provisions of the valid will, and provides for the fair distribution of the assets of persons who die intestate (without a valid will). |
| trust | A legal arrangement in which one person holds title to money or property, subject to an obligation to keep or use the property for the benefit of another. |
| will | A document by which a person regulates the rights of others over his or her property or family after death. |