

## Learning Objectives

*An understanding of the material in this chapter should enable the student to*

1. Explain what is meant by estate planning and the purposes that it serves.
2. Discuss obstacles to effective estate planning.
3. Describe the basic steps in the estate planning process.
4. Discuss the relationship between the financial advisor and the estate planning team.
5. Explain the eight-step selling/planning process.
6. Discuss methods of prospecting for estate planning clients.

## WHAT IS ESTATE PLANNING?

For many financial advisors, estate planning seems like a complicated area of planning that is best left to attorneys, accountants, and trust officers. Although estate planning can be very complex and does require the services of an attorney—and possibly other professionals—there is no reason for financial advisors, even relatively new ones, to avoid this important area of financial planning.

The purpose of this course is to introduce you to the basic concepts of estate planning and to familiarize you with them to enable you to serve the majority of your clients.

### Estate Planning Is a Process

#### estate planning

Planning the client's estate is an essential step in the ongoing process of financial planning. The traditional definition of estate planning focuses on the disposition of assets at death. In reality, it is much more than that. *Estate planning* can be defined as a

process that encompasses the accumulation, conservation, and distribution of an estate. The overall purpose of estate planning is to develop a plan that will enhance and maintain the financial security of clients and their families. It is the process of giving what estate owners have to whom they want and determining when and how the transfer should occur, while minimizing administrative costs, transfer costs, and taxes. The ultimate goal of estate planning is to fulfill the estate owner's wishes as closely as possible.

Estate planning is a part of lifetime financial planning; its goals are to increase the value of the client's estate and conserve existing assets. Estate planning should also seek to provide financial security during the retirement years and to facilitate the intended and orderly disposition of property at death. Because we do not normally know when death will occur, estate planning should begin as soon as someone has property or dependents. Although this is the ideal circumstance, estate planning concerns generally gain prominence later in the client's financial life cycle.

Estates are essentially property. An individual's estate is made up of all the property he or she owns and controls at the moment of death. Because the old adage, "You can't take it with you," is a fact of life, the property a person owns at death must be disposed of. Estate planning involves planning for that disposition, whenever it should occur.

Every estate is planned in a sense. The question is, "Who designs and drafts the plan?" With proper estate planning, the client and his or her advisors draft the plan. If no action is taken, the state and federal governments determine the plan. And that plan may not be consistent with your client's needs and goals, or in his or her best interest. With your help, however, a client can preserve and protect his or her estate and have his or her wishes carried out after death. Without purposeful planning, a lifetime of work and dreams could be squandered.

The estate tax has sometimes been called a voluntary tax. This is because with appropriate planning, there are many ways to defer and reduce its effects. Even with minimal planning, a will can be drawn, legal documents created, and steps taken to shelter an estate from taxation. In this course, we will discuss many techniques that can help your client lower income, gift, and estate taxes. This type of information will enhance your credibility. It can assist you in uncovering needs and making sales that would have otherwise been unavailable to you. This knowledge makes you more valuable to your client.

Estate planning is not just for the wealthy. It is for anyone who owns property and has preferences as to whom, how, and when that property is transferred at his or her death. It is true that your wealthiest clients are likely to reap the largest benefits from the tax aspects of estate planning. It is also true, however, that your clients with the smallest estates are likely to reap the most benefit in attaining financial security for their families through financial and estate planning.

Do not look at estate planning solely in terms of accumulated wealth. Rather, look at each client in terms of his or her individual needs. You will see that the concepts of estate planning can be applied to a broad cross-section of people. Even in estates that will not incur federal estate taxes, there may be a substantial need for liquidity to meet inflated final expenses, probate costs, state death taxes, and, of course, the income needs of survivors.

There is far more to estate planning than just saving taxes and estate administration expenses. Estate planning encompasses many more issues and raises the following questions for your client to consider:

- How do I want my property distributed?
- What happens if I just do nothing?
- Will there be huge bills to pay?
- Where will the money to pay these bills come from?
- Are there ways to reduce estate settlement costs?
- What will happen if I become ill?
- Who will make decisions about the type of care I receive if I become physically disabled or mentally incompetent?
- Are there sufficient assets to support a surviving spouse?
- Are there ways to ease the financial burdens faced by children?
- Is it possible to help provide for the education of grandchildren?
- How can I best make gifts to the charitable organizations I support?

For many clients, saving estate taxes is an important consideration, but it is not the overriding purpose of estate planning. Estate planning should be a concern for all individuals—not just the wealthy ones.

The estate planner must combine good relationship skills and sensibilities with technical expertise. To develop the necessary rapport with a client, the advisor must be able to deal delicately and adeptly with sensitive and deeply personal questions and issues. As a technical expert, the advisor must have a solid understanding of the tools of the field, including knowledge of

property and tax laws and financial and retirement planning. Advisors must put clients in touch with their true feelings, dreams, and aspirations in order to assist them in crystallizing their estate plans. Estate planning is inherently complex because of the technicalities of law, as well as the foresight required to develop a program that suits the client's immediate and long-term needs and desires.

Estate planning offers a unique opportunity to the financial advisor to be of real service to clients. This is an expanding market, as the financial knowledge and sophistication of American citizens increases, especially as the baby boomers enter retirement. Boomers have been able to amass significant assets and will inherit the vast wealth of their parents. They recognize that they must take steps to ensure a comfortable retirement and protect the assets they are accumulating. The boomers' children are now entering a productive stage of life and have increasingly expressed concerns about the Social Security system and the demise of the defined-benefit employer-provided retirement plan. These changes have increased the need to meet the future financial needs of these workers and their families.

Estate planning is an ongoing process. Clients' circumstances and objectives change, giving you the opportunity to continue the dialogue with the client and the prospective client, year after year after year.

## **Obstacles to Effective Estate Planning**

### **estate planning process**

The *estate planning process* is a systematic approach to identify estate problems and find workable and practical solutions. The following discussion is an overview of the common problems that estate planning should address. Some of the more typical obstacles to estate planning are as follows:

- failure to create an estate plan
- inadequate survivor income and asset transfer
- an outdated plan
- overlooked provisions
- improper tax planning
- improper ownership of assets
- failure to plan for disability or last illness
- failure to consider inflation
- lack of liquidity
- psychological impediments

### **Failure to Create a Plan**

#### **intestate succession statutes**

Most people do not realize that if they have not created an estate plan and executed the appropriate documents to implement their plan, the state in which they reside has created a plan and imposed it on them. Each state has drafted its own statutes for the disposition of its citizens' property at death in the event that the resident dies without a valid will or has not made a complete disposition of property. Such laws are called *intestate succession statutes or laws of descent and distribution*.

These laws for the distribution of property upon death are based on family and blood relationship to the decedent, rather than the deceased person's intentions and desires. For example, an individual may not leave property to a charity or friend without a will. The laws take no account of any special circumstances within families or special relationships with nonfamily members.

#### **will**

The most basic legal instrument of all estate plans is a *will*. Through a will, a person makes disposition of his or her property after death. One of the first steps in estate planning is the preparation of a will. Once a valid will has been executed, it largely replaces the intestate succession statutes. All states have laws that protect a portion of a decedent's property for a surviving spouse and children so that they do not become a burden to the state.

### **Inadequate Survivor Income and Asset Transfer**

**Providing for a Surviving Spouse.** Family relationships have altered significantly in the last five decades. What we used to call the traditional family—a wage-earning husband, stay-at-home wife, and two or three children—has changed. Today, the family unit is more than likely to have two working adults. Nontraditional living arrangements are increasing in number: single parents, blended families, same-sex partners, and so on have become increasingly common and present a new set of issues for estate planners.

For estate planning purposes, this has at least three implications. One, many of the older prospects you meet may be part of the tradition of a previous generation, where the husband was the breadwinner. There may be only one pension, for example, and most assets may be titled in the husband's name. Inadequate planning may threaten the economic security of the dependent spouse.

Two, for younger couples, there is a greater chance that both spouses will have begun to establish some financial security. Each partner may have retirement benefits from his or her own employment. Still, when one partner dies, there will usually be a reduction in income for the survivor. Social Security pension benefits may also be reduced, and there must be adequate planning to compensate for the shortfall.

Three, nontraditional couples have a new set of planning concerns and will bring a wide variety of planning needs to the financial advisor.

***Providing for Children.*** In most estate planning, providing for children is the second major concern after providing for the surviving spouse. For small estates, the normal course of action is for all property to pass to the surviving spouse with distribution to children at the second death. For larger estates, planning for the ultimate distribution to children often begins while both the husband and wife are still living.

In most cases, there is an unlimited amount of property that can be transferred to a spouse free of federal gift or estate taxes. However, transferring all property to a surviving spouse may eliminate a critical opportunity to save estate taxes. Because each partner in a marriage has access to an estate and gift tax credit—called the applicable credit amount—it makes sense to design their estate plan to make use of the gift and estate tax credit for both husband and wife.

The most common approach is to distribute the applicable credit amount to the children at the first spouse's death, transferring the balance of the estate to the surviving spouse under the unlimited marital deduction, often through a trust arrangement. This strategy reduces the amount of the survivor's estate, thereby reducing the estate tax obligation. Failure to do this wastes the applicable credit at the first death.

This planning technique entails that parents consider how they want assets distributed to their children. Should the distribution take place at the time of the first death, or should it be deferred using a trust until the second death? If a trust is created, will the ultimate distribution be equal shares to all children, or will there be some other division of property? There is a tendency for parents to treat their children equally in the distribution, but this is not always the case. This is one area in which the advisor must listen carefully and help clients decide what they want to do.

In considering the distribution of their estates, business owners often face special challenges regarding children. Frequently, in family-owned businesses, one or more—but not all—of the children are involved in the business. This may present the business owner with some difficult decisions in estate planning. If the majority of the estate is the business interest, how should it be divided among the children? If it is left to the child or children involved in the business, other children may receive something less than an equal share of the estate. If, on the other hand, the business interest is divided equally, the child(ren) involved in the business may no longer have control of its operation.

Situations like this suggest at least two solutions, both involving life insurance. The first is to have the parent and the child(ren) involved in the business execute a buy-sell agreement funded with life insurance. At the parent's death, the insurance proceeds are used to purchase the business interest from the estate, leaving the child(ren) in control of the business and the estate with cash to divide among all the heirs in the manner prescribed. A second option is for the parent to purchase life insurance on his or her own life to equalize the estate. Note that the purchase of life insurance, if not handled correctly, will increase the value of the estate, creating or increasing the estate tax liability.

#### EXAMPLE

If a business is valued at \$500,000 and the parent-business owner has two children—one of whom is involved in the business and the other who is not—the parent-business owner can purchase a life insurance policy for \$500,000. He or she can will the business interest at his or her death to the child involved in the business, and the cash from the life insurance policy can go to the other child.

From a planning point of view, the disposition of a business interest can be difficult. Although many business owners dream of the day their children will take over the business, making that dream a reality depends on drafting a viable plan. Points to consider include the following:

- Is the child (or children) interested in and capable of managing the business?
- Will the business succeed without the involvement of the parent?
- If the business passes to a child, will there be enough income to support a surviving spouse?

**Children of Multiple Marriages.** With today's high divorce and remarriage rates, it is not uncommon to find families with children from different marriages. This can present some sensitive problems when it comes to planning an estate.

Consider the problem of a parent with children from two different marriages. Will all children be treated equally? If everything passes to the second spouse, will he or she distribute the assets to all the children or only to his or her natural children?

For couples faced with these kinds of decisions, specific planning may be needed. A common solution is to use trusts to provide for the surviving spouse while leaving the corpus (assets) in trust for the named beneficiaries of the deceased.

**Transfers to Grandchildren.** Some people may want to leave assets to their grandchildren rather than to their children. If this is the case, special care must be taken if those transfers trigger the generation-skipping transfer tax. This does not mean that the transfer cannot be made. Your primary goal is to help your clients understand the problems associated with their goals and then to assist them in finding ways to solve those problems.

### ***An Outdated Plan***

Although a valid will is a good beginning point for an estate plan, the will must be reviewed periodically to assure that a property owner's most recent intentions are honored at death. The birth of new children or grandchildren, the unexpected illness or disability of family members, and changes in the estate owner's objectives are typical reasons to revise an estate plan, will, or trust. Major tax law changes may affect the goals of an existing plan or the tax clauses contained in a will or trust. An owner may perceive beneficiaries and their needs differently over time. In addition, the estate owner's financial situation may change. Finally, guardianship for minor children or arrangements for special needs beneficiaries may also need to be altered.

### ***Overlooked Provisions***

Estate owners with minor children or family members with special needs should be sure to address the issue of guardianship. Frequently, a guardian is named for the minor's personal care while another (or others) supervises and invests the minor's property. Usually, guardians are named in the wills of parents and individuals who have the responsibility for other family members.

Clearly, arrangements should be discussed with potential guardians prior to naming them in the will.

The possibility of simultaneous deaths should also be considered in an estate plan. An owner should devise backup asset arrangements in case spouses and/or beneficiaries die in a common disaster.

A residuary (pour-over) clause is an important will provision that may be omitted. It provides for the disposal of remaining estate assets after payment of all debts and bequests. Even though the estate owner believes all property is provided for and arranged to pass according to his or her wishes, a residuary clause provides for the transfer of unexpected, unknown, or forgotten assets as well as assets acquired in the future.

Tax apportionment and allocation of estate administration and settlement costs are sometimes neglected in an estate plan. Advisors should make certain that clients carefully consider tax payment options and the sources from which tax payments and other estate expenses are to be made.

Furthermore, an estate owner should have provisions in place for contingent beneficiaries in case the primary beneficiaries are no longer living or legally competent at the time of the owner's death or incapacity, or in case the primary beneficiaries disclaim assets passing to them.

### ***Improper Tax Planning***

The potential estate and gift tax relief that changes in the 2001 federal estate and gift tax laws provided have many individuals thinking that they no longer need a carefully planned estate. This is no longer the case with the "sunsetting" of EGTRRA and the uncertainty of future changes in tax legislation. The truth is that only by utilizing the tax laws to maximum advantage through professional advice can property owners carry out their postdeath intentions and prevent the unnecessary erosion of their estates due to taxes and expenses. For example, the unlimited marital deduction allows an individual to pass an entire estate to a spouse free of federal gift and estate taxes. In reality, however, use of the unlimited marital deduction may be enormously expensive at the death of the second spouse, because property will pass unprotected by the marital deduction (assuming the surviving spouse does not remarry). Thus, the combined taxes on two estates may be greater than if the unlimited marital deduction had not been used in the estate of the first spouse to die. In short, the need for estate

planning does not depend, and has never depended, solely on whether there is a federal estate tax payable on the decedent's estate.

Although there are important tax planning options that can be used in estate planning, tax relief should not be assumed to be the primary objective of estate planning. The best estate plan is one that accurately reflects the client's wishes, needs, and objectives in a manner that reduces the potential tax liability to the lowest level consistent with the client's wishes. This means that various tax options must be balanced against rigidity, loss of control over assets, tax liability, family considerations, and so on. Tax options must also be explained to clients so they can understand both the limitations and the benefits of these options and can therefore choose those that meet their desires and intentions. An estate plan that reduces the estate tax liability to zero but distorts the client's wishes is a poor plan.

### ***Improper Ownership of Assets***

Life insurance is a prime example of an asset that is frequently improperly owned or positioned. If the insured retains any incidents of ownership in life insurance, the proceeds are subject to estate taxation. This unnecessary estate tax drain can be eliminated and more net dollars can be made available to the estate or its beneficiaries by removing all incidents of ownership from the insured and giving them to a spouse or trust.

Another form of property ownership that can be problematic in estate planning is joint ownership with right of survivorship. This includes ownership as joint tenants with right of survivorship (ownership by the deceased and any other person, including the surviving spouse) or as tenants by the entirety (a form of joint ownership restricted to married couples). The provisions in a valid will do not control the postdeath succession of property that is owned in either of these forms. Ownership is transferred automatically by operation of law to the surviving joint tenant or tenant by the entirety. If all or most property is owned in this form, it can result in an improperly balanced estate in which the surviving spouse may inherit too much of the property relative to the children, possibly triggering an excessive estate tax liability at the second death.

### ***Failure to Plan for Disability or Last Illness***

The cost of a protracted period of disability or a prolonged last illness may so erode an otherwise adequate estate that the estate owner leaves nothing to the beneficiaries at death except a crushing amount of debt. The ownership of adequate medical expense, disability income, and long-term

care insurance is an important consideration in planning any estate. In particular, clients often ignore, or misunderstand, disability income protection, despite the fact that statistically there is a greater likelihood of a significant period of disability before retirement age than there is of an early death.

### ***Failure to Consider Inflation***

Continuing inflation necessitates periodic reviews of existing estate plans to keep abreast of projected estate tax liabilities. It is also necessary to review asset valuations, anticipated income from assets held, and amounts of life insurance in terms of constant dollars to assure that the estate owner's family will continue to be adequately protected. An inflated economic climate will have a direct impact on all estates as the value of the dollar erodes. Failure to take inflation into consideration when estimating the adequacy of an estate in 10, 20, or 30 years into the future will probably make it impossible to carry out the estate owner's desires.

### ***Lack of Liquidity***

Three factors are particularly important in assessing liquidity needs in estate planning: (1) the amount and terms of debt of the estate owner, (2) the projected estate tax liability, and (3) the type of assets that make up the estate.

At the time of an estate owner's death, the amount and terms of debt for which a decedent is personally responsible may dramatically reduce either the actual assets or the net income stream that would be available to survivors. The same is true of the estate tax liability.

#### **EXAMPLE**

When a closely held business is the primary estate asset and is the source of income to the decedent and his or her family through the decedent's salary and bonuses, there is frequently a family cash shortage when salary and bonuses cease. This results in financial stress to a family that is trying to deal with a family member's death. It is critical to consider the possibility of such a situation prior to its occurrence. Both the estate owner and the family must make appropriate decisions to avoid these problems.

Salary continuation plans are one way to soften the financial shock of a business owner's death; additional liquidity may be available from retirement plans and life insurance proceeds. If the business is to be sold during the lifetime of the owner, it is imperative that a buy-sell agreement be put in

place. If no such advance planning is done, the estate may be forced to sell assets hurriedly to pay its bills or taxes, and these assets may have to be sold under disadvantageous market conditions at greatly reduced prices.

#### **Obstacles to Effective Estate Planning**

- Failure to plan for death
  - Not executing or updating a will
  - Not taking the time to think about who gets what and when
  - Believing the state succession statutes will cause property to pass the way the estate owner would want
- Inadequate survivor income and asset transfer
- Outdated plan
  - Birth and/or death of family members
  - Tax law changes
- Overlooked provisions
  - Guardianship
  - Simultaneous death
  - Tax apportionment
- Improper tax planning
- Improper ownership of assets
- Failure to plan for disability or illness
- Failure to consider inflation
- Lack of liquidity
- Psychological impediments
  - Dealing with mortality
  - Procrastination

#### ***Psychological Impediments***

***Dealing with One's Own Mortality.*** Many people avoid making an estate plan because it means planning for the transfer of assets after their death. It is almost as if they believe that by failing to participate in estate planning, they can avoid confronting the fact that death will happen to them. They perpetuate their denial of death.

Implementation of an estate plan requires an individual to acknowledge the reality of his or her mortality. Very few people can deal comfortably with this. There are many sophisticated and successful professionals who are quite at ease in the high-pressure atmosphere of finance and international business but are so reluctant to acknowledge the inevitability of death that they never implement a cohesive estate plan. Ultimately, members of the estate owner's family are the ones who suffer when this happens. Their standard of living is impaired at the decedent's death, or they are forced to impose some semblance of order on an estate that is in disarray.

***Procrastination.*** Although procrastination may indicate that clients are unable to confront their own mortality, a more common reason for this delay is the feeling that planning for the distribution of an estate is a task so great that it is impossible to achieve. The client can become overwhelmed and therefore simply do nothing. Under these circumstances, the advisor may shoulder a significant part of the responsibility to complete the estate plan and divide portions of the plan that the client must handle into manageable chores.

## **The Phases of Estate Planning**

There are three distinct phases of estate planning. Phase one is estate creation or accumulation. Phase two, estate conservation, begins once assets are accumulated and considers how best to conserve and increase these assets. Phase three is estate distribution to heirs and beneficiaries.

### ***Estate Creation***

Each of your clients probably has an estate that can be enhanced and optimized with proper planning. Estate planning begins with evaluating methods of asset accumulation. The financial advisor's role is to assist the client in devising strategies to accumulate an estate and determining risk management techniques to protect it. One important aspect of risk management is to ensure that the proper amount of life insurance is in place to create an estate if the client does not live to create it himself or herself. As the great Ben Feldman said, "The uncertain factor in success is time."

In determining the amount of life insurance a person should have, the traditional human life value concept simply discounts future earnings based on current income. The result is a declining value that supports a need for decreasing term insurance or, at some point in the future, indicates when accumulated wealth can replace the need for life insurance. The facts of life do not support this view. The individual can anticipate changes in

salary (generally upward), inflation, and lifestyle, for example, that make the traditional concept too simplistic.

Clients need to take a realistic look at their economic worth. Although every person's circumstances differ, many professional and business people will have a human life value, as well as an actual net worth, in excess of \$1 million, or they will accumulate that wealth over time.

Many people assume they do not have an estate tax problem. They may be reluctant to consider estate planning because they feel their estates are not large enough to warrant it. But they may need a larger estate to take care of their family's education and income needs in the event of their death. Recognizing this need and planning appropriately to meet it will cause the value of their estates to increase. In addition, even modest inflation may cause an estate's value to grow rapidly.

#### EXAMPLE

A new home that was purchased for \$60,000 in the early 1980s may now have a value of \$200,000 or more. Part of the growth was during a period of high inflation. Real estate values are increasing at a rate faster than the general inflation rate. Estate owners need to be aware of the impact that an increase in their home's value will have on the size of their estate.

The main point is that even individuals with modest estates need planning during the accumulation phase to help them create estates and avoid future problems when their modest estates become large estates.

### ***Estate Conservation***

Once an estate owner has created, accumulated, or inherited a fair-sized estate, the emphasis moves to estate conservation. There is no clear point, however, at which the transition from the accumulation phase to the conservation phase should begin. Moreover, the client should take steps throughout his or her life to facilitate estate conservation and accomplish estate planning objectives such as titling property appropriately and reviewing and updating wills and other legal documents periodically.

Generally, estate conservation has three major objectives:

- to minimize taxes and other transfer costs in order to maximize the estate that heirs will inherit

- to provide adequate liquidity to avoid the forced sale of estate assets
- to pass on to heirs income-producing property to replace, to the greatest extent possible, the earned income of the breadwinner

Note that these objectives are secondary to and must be developed within the context of the client's personal estate planning objectives. Note, too, that estate conservation is just as important in the smaller estate as in the larger one. In fact, the smaller the estate, the greater the need for conservation, particularly if a dependent spouse or children are involved.

Be aware that the role of life insurance in this phase of estate planning shifts from buying time and creating capital, to providing the funds to pay estate clearance costs and to deal with other practical considerations. In fact, people who have accumulated sizable estates will often need substantially more life insurance to preserve those estates than they had purchased during the creation phase.

### ***Estate Distribution***

The third phase of estate planning is estate distribution. The fundamental goal is to distribute the decedent's property in a manner consistent with his or her final wishes, ideally in the most cost-effective and orderly way. Even more important than minimizing settlement costs, this phase enables the client to accomplish his or her personal estate planning objectives.

There are a variety of costs associated with death and the distribution process. These costs include the following:

- final expenses
  - funeral costs
  - personal debts
  - final illness expenses
- administrative expenses
  - attorney's fees
  - executor's fees
  - appraisal fees
  - court costs
  - probate costs
- possible taxes

- federal estate tax
- state death tax
- income tax

#### Three Common Objections and Responses in Estate Planning

**Objection:** The law permits me to leave everything tax free to my spouse. I have no need for estate planning.

**Response:** Are you aware that there may be a substantial tax due at the subsequent death of your spouse that may consume up to 55 percent (2011) of your estate before it ever reaches your children? The impact of even moderate inflation on your estate may surprise you.

**Objection:** All I have is a mountain of debts. There's simply nothing to leave.

**Response:** Who will pay these debts after you die? Will your family be able to stay in their house? Will your children be able to complete school?

**Objection:** I have a will. That's all I need

**Response:** How long has it been since your will was reviewed? Are you taking advantage of the most up-to-date planning techniques, like a living will, health care power of attorney, or living trust?

## HOW IS ESTATE PLANNING CONDUCTED?

### The Estate Planning Process

In addition to the phases of estate planning, the process has a number of steps. First, data must be gathered. Any existing estate plan, if there is one, must be evaluated for potential shortcomings. Next, the advisor must design an estate plan, and the client must review and approve it. After the client approves the plan, it must be implemented. This stage includes the execution of any necessary legal documents and transfer arrangements for property. Last, there should be a periodic review of the plan, particularly when there are changes in the client's life or to tax laws.

The estate planning process parallels the selling/planning process. This process is the foundation for the advisor-client relationship, and this textbook is organized around this process. The estate planning process follows these steps:

1. Gather facts and data about the client:
  - Determine the client's assets.
  - Calculate the client's liabilities.

- Establish methods of property ownership.
2. Determine the client's goals and objectives:
    - List goals.
    - Prioritize goals (rank in order of importance).
  3. Analyze the facts and data you have collected:
    - Estimate estate tax liability.
    - Estimate liquidity needs.
  4. Select the appropriate planning tools:
    - Draft a will.
    - Create a trust.
    - Establish lifetime gifts.
    - Utilize other relevant tools.
  5. Implement the estate plan.
  6. Monitor the plan for changes:
    - Reevaluate the client's objectives.
    - Examine changes in the client's lifestyle.
    - Stay abreast of tax law changes.

The basis for all estate planning activity is gathering the facts. This is the heart of the process. Your knowledge of the tools of estate planning will give the client the confidence to provide you with these facts.

## **The Financial Advisor and the Estate Planning Team**

It is impossible to work successfully in the estate planning market without working with other professionals. At a minimum, planning an estate, even a simple one, must involve a qualified attorney to prepare the will. As the estate becomes more complicated, other expertise is required. Accountants and trust officers may be needed. If stocks are involved, it may be necessary to include a licensed broker.

Coordinating the efforts of these professionals can be an intimidating job, and it is one reason that individuals delay estate planning. The tasks involved in planning the estate can seem overwhelming. Yet a planning approach that enlists the assistance of a variety of advisors in comprehensive financial planning, including estate planning, can yield the greatest benefits and best results for many clients. If, however, the client is interested in estate or death planning only, the financial advisor should be able to perform those tasks.

Ideally, the client will be interested in more comprehensive planning than estate planning alone, but the advisor should not insist that the client either plan comprehensively or not plan at all.



#### estate planning team

The *estate planning team* has traditionally consisted of an attorney, an insurance specialist, a bank trust officer, an accountant, and an investment counselor. The attorney is a crucial member; no planning can be accomplished and no plan executed without relying on an attorney's knowledge of the law. Typically, the attorney drafts all the legal documents that are necessary to implement the plan. These documents virtually always include wills and may include trusts, buy-sell agreements, and other documents if a more sophisticated estate plan is elected. The attorney is responsible for assuring that the client's intentions are expressed in legally enforceable documents that serve as the basis for carrying out the client's postmortem plan.

The accountant has knowledge of the client's financial transactions. He or she is likely to have annual contact with the client through preparation of the client's income tax returns. This gives the accountant the opportunity to become familiar with the size, amount, and nature of the client's estate. The accountant may provide valuations for assets in the estate. Valuation might be particularly crucial if one recommendation in the estate plan is a buy-sell agreement to facilitate a transfer of a business interest upon death or disability. In addition the accountant may help prepare a final estate and income tax return. Accountants who have a CPA designation are typically the best choice for team members.

The trust officer may be the person to whom the client initially turned for information and estate planning services if professional management is desired in the administration of an inter vivos (living) or testamentary trust. A good trust officer will be familiar with estate planning and the various estate planning tools. As executors or trustees, trust officers have primary responsibility for settling the estate, investing estate assets during the administration period, and making distributions, as necessary, to the estate or trust beneficiaries. The bank trust department may also be responsible for filing estate and fiduciary income tax returns.

The life insurance specialist understands the unique features of the life insurance contract and the many ways it can provide a solution to estate planning needs. The insurance specialist plays an important role because he or she can provide products that give the estate the cash necessary to pay the estate tax and other liabilities and to fund the income needs of the surviving family. Life insurance may be the primary asset of some estates and, consequently, the major source for family income after an estate owner dies. Life insurance agents who have become CLUs are knowledgeable in the fields of insurance as well as estate planning and taxation and can offer an invaluable service as a member of the team.

More recently, the financial advisor has become a member of the estate planning team. It is frequently the financial advisor or the insurance specialist who makes the first contact with the client, enlightens the client to the need for estate planning, and motivates the client to become involved in the process. This is because both the financial advisor and the life insurance specialist commonly solicit new business.

The financial advisor may be an independent businessperson, or he or she may be affiliated with a large investment, insurance, or accounting company, or with some other institution. The most qualified financial advisors are those who have earned a ChFC® or CFP® designation. The advisor may provide services solely for a fee, or, if permitted by state law, the fees for planning may be offset, in whole or in part, by commissions on the sale of financial products.

Financial planning is a process for arriving at comprehensive solutions—encompassing a wide range of financial products and services—to a client's personal, business, and monetary problems. Therefore, a significant contribution to the estate planning team is the financial advisor's ability to cooperate with members in various disciplines to develop an overall plan for the client. The financial advisor is usually regarded as the quarterback who

leads the estate planning team, taking responsibility for implementing and coordinating the specialties of the various team members.

Of all the members of the estate planning team, the financial advisor should be the most people-oriented. He or she recognizes the importance of establishing rapport and developing credibility with the client. As a financial advisor, one of his or her regular activities is to help clients determine objectives. Thus, the financial advisor may be the prime motivator in getting a client to take action on plan recommendations.

The most important team member is the client. It is the client's objectives that must be met, and these objectives must have first priority. The most perfectly planned estate from a technical point of view may be a poor practical plan if it does not do what the client wants. The problem many estate owners have is that they have been so busy creating their estates and accumulating wealth that they have not taken time to clearly define their overall objectives. And even if they have, they usually do not have the skills to effectively plan their estates to conform to those objectives.

#### **Financial Planning Team and Areas of Specialty**

In addition to the financial advisor, the estate planning team may include the following members:

- Accountant—tax advice/estate planning
- Attorney—legal advice/drafting documents
- Bank trust officer—trust tax advice
- Insurance professional—advice on estate planning/estate liquidity
- Investment specialist—advice on estate liquidity/taxation of investments

The creation of an estate plan is a highly rewarding experience for the estate planning practitioner, regardless of the discipline from which he or she comes. Although there may be a different emphasis in various estate plans stemming from the knowledge and background of the practitioner, the primary objectives should be to fulfill the client's wishes and implement his or her objectives. The client is the director of the plan. Members of the financial planning team are the producers.

An estate plan reflects the personality of the client. It may evidence the client's cares and concerns for other human beings, or it may indicate the client's own self-interest, grievances, and grudges. Much is revealed about

the client's character, philosophy of life, and attitudes by the types of planning options he or she selects and the reasons for which they are selected.

Estate planning has become vastly more complicated and challenging as a field of practice. To be an effective estate planner, the advisor must be familiar with applicable local and federal law. He or she must also have a working knowledge of property transfers, probate, wills and trusts, federal and state taxation, corporations, partnerships, business, insurance, and divorce. An estate planner must be able to explain relevant portions of these subjects in plain language to a client. If the advisor either speaks down to the client or expects him or her to understand highly technical jargon, the client will not feel comfortable with the advisor and may well abandon the project. The client has an absolute right to fully understand all the options and make his or her own decisions.

### **Strategic Alliances**

#### **strategic alliance**

A *strategic alliance* is a relationship that you, as a financial advisor, develop with another professional. These relationships enable you to have at your disposal an established team with knowledge in complementary disciplines to whom to refer a client when his or her financial situation requires their expertise and services. Strategic alliances are typically mutually beneficial: The client benefits from the services of competent, cooperative, and trustworthy professionals, and the advisor benefits from the additional clients resulting from the alliance.

If you have not already done so, you should establish working relationships with other professionals in your community who can complement and enhance your practice. This should be a continual process that allows you to expand these relationships and give your clients the best professional services in all disciplines to help them reach their financial and life goals.

#### **Mentoring**

Joint work with specialists who are more knowledgeable in other disciplines is an excellent way to gain experience, learn from experts, and provide competent, professional advice to clients who have needs and concerns outside of your area of expertise. These specialists can serve as mentors to you to enhance your practice. They can be from your own financial services area or from another area.

***Providing Professional Referrals***

When referring your client to other professionals, you should indicate the basis for the referral. Any referral to an advisor should be done with the client's permission and within the scope of the planning activities required by the plan recommendations. You have an obligation to keep client information confidential, as do other professionals. Therefore, you should not expect them to share or discuss information with you about the client's financial planning matters without his or her permission.

Before using a specialist for your clients or including this person on your team of specialists, perform due diligence and know the specialist's areas of competence and expertise. Ask all specialists about their experience, how long they have been in the business, how many cases similar to ones you might refer to them that they have worked on, and whether they have malpractice or errors and omissions insurance.

Once the plan recommendations have been agreed upon, your client may take all or part of the plan to other advisors, or to those who work with you for implementation. It is a good idea to prepare an additional copy of the plan for the client to give to these advisors, so that they can review the recommendations directly rather than depending on the client to explain them, thus reducing the chances of misunderstanding. In addition, a well-prepared and documented plan is less likely to meet with resistance from your client's existing advisors.

**OVERVIEW OF THE SELLING/PLANNING PROCESS**

In estate planning the financial advisor helps prospects and clients purchase suitable products to achieve their financial needs and goals. Thus, it is important for the advisor to excel in both selling and planning. For this reason, The American College has adopted an eight-step selling/planning process, which culminates in satisfying the prospect's needs and wants, and the conversion of a prospect into a loyal client.

Understanding and applying the selling/planning process will help you build a successful practice with satisfied clients. The eight-step process gives you a foundation on which to build your strategies for carrying out marketing, prospecting, planning, presenting, implementing and servicing activities. It

also acts as a reference tool to analyze your interaction with prospects and clients so you can identify your strengths and weaknesses.

Supporting the eight-step selling/planning process is a client-focused philosophy, which recognizes that the objective of establishing a long-term client-advisor relationship should be in the forefront of the advisor's mind. The relationship should be professional, ethical, mutually beneficial, and perceived as a vehicle for meeting the needs and goals of the client.

### The Eight Steps of the Selling/Planning Process

#### selling/planning process

The *selling/planning process* is the eight-step procedure for the advisor to follow—from identifying the prospect to completing the sale and servicing the client. It is very similar to the financial planning process; the processes are interrelated.



Because of the blending of the functions and procedures in the financial services industry today, the selling/planning process recognizes that the financial advisor needs well-developed sales skills, that the client-advisor

relationship typically involves a selling process, and that financial advising and counseling contain sales elements. Additionally, the financial services industry and the public both realize the comprehensive nature of our financial lives and the need to adopt an integrated approach to planning for our financial security.

The eight steps in the process are briefly explained below.

### **1. Identify the Prospect**

#### **prospecting**

In the first step of the process, you must identify whom you are going to approach and why. Long-term, mutually beneficial relationships begin with getting in front of prospects who have a probable need for your products and can afford them. These prospects appreciate you and your services and can be a source for repeat business and referrals. The secret to a successful practice is *prospecting*—a system to consistently find potential clients in target markets.

### **2. Approach the Prospect**

After you identify a potential client, contact the prospect by telephone, mail, e-mail, or face-to-face, and ask for the appointment, stating the reason why you are interested in meeting. As telemarketing and direct mail become less effective prospecting vehicles, client recommendations (referred leads) and other alternatives, such as seminars and referral events, become more critical than ever.

### **3. Meet the Prospect**

During the initial interview, you need to establish rapport with the prospect and explain your business purpose. Therefore, make brief, positive statements about yourself, your company, and the services you offer. Ask thought-provoking and challenging questions—and listen, listen, and listen. Impress upon the prospect what makes you different from other advisors and what you offer that is of added value. Let the prospect know what you can do for him or her in general terms, and help the prospect to see your value. You must answer the question, "Why should I do business with you?" The prospect must show an interest in pursuing solutions to uncovered needs if the selling/planning process is to move forward. Encourage agreement to proceed to the next step.

#### **4. Gather Information and Establish Goals**

Using a fact finder, ask questions that will uncover the prospect's goals, attitudes, and priorities, in addition to facts about the prospect's personal and financial life. Ask the prospect to define his or her expectations for your relationship. What results does he or she want? This will help you identify needs and recommend appropriate ways to meet them.

Information is required to define the prospect's current situation, determine what his or her desired future situation is and when it is to be achieved, and establish what the prospect is willing and able to do to accomplish those goals. This information must be accurate, complete, up-to-date, relevant to the prospect's goals, and well organized. Financial plans based on erroneous or incomplete information will be deficient, inappropriate, inconsistent with the prospect's other goals, or even dangerous to his or her well-being.

Goal setting is important to creating a successful financial plan. By guiding the prospect through the goal-setting part of the process, the advisor helps to establish reasonable, achievable goals and also sets the tone for the entire selling/planning process and the overall client-advisor relationship.

#### **5. Analyze the Information**

Once the relevant information about the prospect has been gathered, organized, and checked for accuracy, consistency and completeness, you need to analyze the prospect's present financial situation. The objective is to determine where the prospect is now in relationship to the goals that were established in the previous step. You must identify real problems, needs, and opportunities for which your products and services will provide real solutions.

An analysis of the prospect's situation may reveal a number of strengths. For example, the prospect may have excellent fringe benefits at work, including good life, medical, and disability income insurance benefits. The prospect may have just recently updated his or her will and installed a living will that includes provisions to carry out his or her wishes in the case of death or catastrophic illness. More than likely, however, your analysis will expose several weaknesses, or conditions that are preventing the prospect from achieving his or her goals. For example, the prospect may be using debt unwisely, amassing credit card and other debt, paying unnecessarily high federal income taxes, have no will, or be inadequately insured. The prospect's investment portfolio may be inconsistent with his or her investment objectives or risk tolerance.

It may be that the prospect cannot realistically attain the goals stated, and they need to be revised. For example, the prospect's income and resources may prevent reaching a specified retirement income goal or retirement starting age. In this case, the advisor should help the prospect revisit the goal and revise it, or discuss what needs to be done to achieve that goal. Postponing retirement, saving more money, seeking higher returns, or deciding to deplete principal during retirement may be four ways to help the prospect achieve his or her retirement income goal. When alternatives are presented, the advisor can help the prospect restate the original goal in terms that will more likely make it achievable.

### **6. Develop and Present the Plan**

After you have analyzed the information and confirmed—and, if necessary, revised—the objectives, the next step is to devise a realistic plan to move the prospect from his or her present financial position to the attainment of those objectives. A good plan must reflect the prospect's needs, attitudes, and goals. The plan must be the prospect's plan, not yours.

In this step, you will meet with the prospect, present your recommendations, and help the prospect realize the importance of taking action to solve the problems you have uncovered. Here, you can demonstrate just how much you know about resolving the issues you have discussed.

#### **Preparing to Present the Plan**

Before presenting your plan to the prospect, be sure to do the following:

- Review your prospect's needs, wants, and goals.
- Restate the current and desired situations to confirm your understanding of them.
- Identify the solutions and any additional alternatives that will cover the needs, including advantages and disadvantages of each.
- Develop your recommendations.

There is often more than one way to achieve a prospect's financial goals. When this is the case, the advisor should present alternate strategies and explain the advantages and disadvantages of each strategy. It is not likely that any individual advisor can maintain an up-to-date familiarity with all the strategies that may be available and suitable for a given prospect's situation. Based on his or her education, experience, training, and area of specialization, the advisor is likely to rely on a number of proven strategies

and products that have worked in circumstances similar to the prospect's. When additional expertise is needed, the advisor should always consult with a specialist in the field in question to help design that aspect of the prospect's plan. In the area of estate planning, at the very least, legal counsel will be necessary.

Presenting a large number of recommendations could overwhelm a prospect and sabotage the implementation of the plan. To avoid this, the advisor can help the prospect prioritize his or her concerns and find ways to address them proactively. Besides identifying the recommendations that should be pursued first, this may entail breaking the most important recommendations down into smaller and more manageable steps.

### ***7. Implement the Plan***

After you present the plan and review it with the prospect, you must ask the prospect to implement the plan (or parts of the plan) and commit to purchasing the appropriate financial products and services. It is the advisor's responsibility to motivate the prospect to act—that is, to acquire the financial products and services necessary to put the plan into action. Therefore, you should be prepared to address concerns and obstacles that may prevent the prospect from implementing the plan.

For advisors who are compensated for their work through product sales, implementing the plan will also mean completing any necessary paperwork, explaining the purchasing process to the prospect, and verifying that the prospect understands the product and process. If the plan is limited in scope or complexity, it may be within the advisor's ability to implement the plan entirely. Otherwise, it may be necessary to rely on additional specialized professional expertise, where needed. For example, legal instruments such as wills and trusts may need to be drawn up and executed, requiring the services of a licensed practicing attorney.

### ***8. Service the Plan***

This may be the most important step in preserving your hard work and expanding on it. Advisors should reaffirm the client's purchasing decision by reviewing the problems solved by owning a particular product. In addition, the advisor should review the service that he or she will provide the client. Finally, the advisor should take advantage of any opportunity to obtain referrals.

It is important to familiarize the client with all the services and products provided and their additional costs. The advisor should communicate the

service standards that the client can expect the advisor to meet. How long will it take the advisor to return a phone call or e-mail? How long will it take to process various types of requested changes?

The advisor should also review the plan periodically (typically annually). The review should check the client's progress in implementing the plan and assess the plan's performance in meeting the client's goals and objectives. Furthermore, it should be a time for the advisor to examine any changes to the client's personal situation, financial situation, and the world around him or her (economic, tax, or financial environment) that would warrant making any changes to the plan.

*Note: For some financial advisors, a prospect becomes a client after step 3, meet the prospect. For others, the prospect becomes a client after step 7, implement the plan. For simplicity, from this point forward, this course will use the term client unless we are discussing marketing or prospecting*

## PROSPECTING AND MARKETING METHODS FOR ESTATE PLANNING

### Researching Your Market

Although your current client base may not totally support an estate planning practice, you can be ready to perform some basic estate planning at this point in your career. This course will help you get there.

The first step in the selling/planning process is to identify the prospect. A haphazard approach to identifying prospects will most likely result in a shortage of prospects and a great deal of frustration for the advisor. Therefore, it is important for you to create and implement a target marketing plan that will generate a flow of the types of prospects you want to approach.

#### **target market**

A *target market* is an identifiable and accessible group of people with common characteristics and common needs who regularly communicate with one another. The group must be sufficiently large so that you do not run out of prospects but small enough so that your reputation as a trustworthy and competent advisor precedes you.

The more you know about your target market, the more successful you will be in it. Research on your target market will stimulate ideas about how to

develop it and find the estate planning prospects you want. There are at least three sources for the information you need to gather:

- interviews with people in the target market or related to it
- internet, library and chamber of commerce research to identify demographics and meeting schedules
- research from formal organizations, associations, or large companies

Here are some of the things you want to know about your market:

- demographics
- common characteristics
- common needs
- how the market communicates
- who the key players are
- who the competition is
- how to prospect and approach market members

You should then evaluate your target market, asking these questions:

- Is the market likely to provide affluent estate planning prospects?
- What are the typical business and estate planning problems these prospects face?
- Do the prospects in the market know their estate planning needs, or do these needs have to be demonstrated?
- Are there organizations or associations to which many belong; newsletters, trade journals, or other periodicals they read; meetings they attend; and so on?
- What attorneys, accountants, and bankers do the members of the market most frequently use? How can these persons be reached?
- What is the best way to build relationships in this market?

After you have completed your research, you must next develop and implement a plan to penetrate the market in a way that will get you in front of its estate planning prospects.

## **Target Marketing for Estate Planning Prospects**

Target markets are based on a common thread that ties people in the market together—for example, the same profession or business, or membership in the same club or organization. The dentists in your city may comprise one target market, for instance, while the plumbers will make up another. The

members of a target market often have their own network of communication, and this can increase your sales efficiency. It is one way you can become known to the membership.

An advantage of target marketing is that it enables you to become a specialist in solving the problems that face members of that market. For example, the challenges and problems that confront the owners of small construction firms are often similar.

By definition, people who need estate planning are not a target market. Their need to plan for the distribution of their assets when they die does not provide enough of a common link to constitute a target market. These prospects, therefore, will exist as a subset of the prospects in the target markets you have identified. As you become an expert in meeting the needs of your target markets, you are also becoming an expert in meeting the estate planning needs of each market's members. Your success, of course, depends on how well you can penetrate each target market.

### **Creating an Ideal Client Profile**

Identifying the type of prospect you want to approach will enable you to focus your prospecting and allow you to work with prospects who will become long-term clients. The advantages of creating an ideal client profile are as follows:

- Your job will be easier because you will receive more referrals.
- You will work with prospects who are likely to become clients.
- You can avoid prospects with whom an advisor-client relationship would be difficult, unproductive, or improbable.
- Your business will be more profitable

Now, let us look at how to create an ideal client profile.

#### ***Look at Yourself First***

Who is a prospect? Every advisor may have a different answer to this question. Your definition of a prospect is dictated by your abilities, background, personality, likes, dislikes, needs, and so forth. A prospect is someone who has financial problems and needs that you can help him or her recognize, analyze, understand, and solve.

Almost everyone is a prospect for estate planning at one time or another. An excellent place to start looking for estate planning prospects is with

your existing clients. Calling on existing clients makes good sense for the following reasons:

- You already have a positive relationship with them.
- By now, you know some of their needs and the financial products, such as insurance and investments, that they have or do not have.
- If you do not provide estate planning services for them, another advisor will.

Any of a prospect's financial problems indicate a buying need. Your ability to recognize these financial needs and goals, help prospects understand their needs, present evidence to confirm your analysis of their needs, and develop the appropriate solutions are selling/planning skills you must possess. Thus, your prospect is someone whose buying needs will coincide with your selling/planning skills.

### ***Your Selling/Planning Skills***

An important aspect of prospecting is not simply determining if a prospect needs your financial services or products, but evaluating whether that person's needs and goals are ones that you as a financial advisor can understand, relate to, provide solutions for, and explain to your prospect. In order for you to develop your definition and profile of a prospect, therefore, you must understand yourself and your skills relating to the financial services. Assess these skills carefully. Understand your strengths and weaknesses in your planning specialties. Consider the following attributes.

***Product Knowledge.*** Do you really know your product well, in great depth and detail? Do you understand your competitors' products? Are you as knowledgeable as you need to be?

***Technical Skills.*** Do you understand the associated technical, tax, and legal implications of your products in the specialized estate planning area? This is critical in developing appropriate solutions for client needs. For example, do the client's objectives require that an irrevocable trust be named the owner of a life insurance policy rather than subjecting the proceeds to administrative costs and the claims of creditors if policy proceeds are paid directly to the executor?

***Presentation Skills.*** In any selling situation, your presentation should be so well organized that no distractions will keep you from covering all the important points clearly and accurately. For example, does your presentation

cover alternative solutions, the advantages and disadvantages of each alternative, and the tax and legal implications of each one?

**Service Skills.** Continuing service is the key to happy and loyal clients. Do you periodically update clients' programs? Can you go even further, by providing technical assistance on regulatory matters associated with the client's estate plan?

**Value System.** Your values are what you believe in. You may have the technical and administrative skills to make an estate planning sale, but if you do not really understand or value this area of financial planning, making sales in the estate planning market may be frustrating and infrequent for you.

### ***The Ideal Estate Planning Prospect***

A common notion regarding prospecting in estate planning is that only people with large amounts of accumulated assets are prospects. This is a very limited and misguided approach. There are many estate planning prospects who are in the process of accumulating assets and thus will have large amounts of wealth in the future. Additionally, there are individuals whose specific situations require postdeath planning. But in a more general sense, all individuals need to plan for what they want to happen after their death in terms of property transfer and fulfilling their personal wishes concerning their estates.

There are prime prospects for estate planning who recognize the need to plan their estates more readily than other prospects do. These prospects include upper-level business executives, business owners, professionals, farm owners, and those who have inherited wealth or accumulated wealth.

You must analyze your personal "ideal" client, based on your own knowledge, experience, strengths and weaknesses, and markets. Individuals who may be good estate planning prospects are likely to have many of the following characteristics. They

- are aged 30 or over, age being positively correlated to a need for and an acceptance or awareness of estate planning
- are married with children
- live in an expensive home
- have accumulated money and possessions
- earn a better than average income
- are accessible through personal acquaintance or direct referral

Typical estate planning needs that a financial advisor can help a prospect address and satisfy are as follows:

- making cash available for estate settlement costs
- paying estate indebtedness
- creating capital for family income, educational costs, emergencies, or future investment opportunities
- arranging to provide legal documents, such as a will, trusts, living will, medical directives, and powers of attorney, that will carry out an individual's wishes. (These documents, of course, must be drafted by a competent and licensed attorney, but the advisor can be instrumental in facilitating their completion.)
- providing income in the event of disability
- setting up a retirement plan

### ***Practical Applications of an Ideal Client Profile***

The most obvious use of your ideal client profile is to focus your prospecting activity. Compare your new or current prospects with the profile to determine whether you should continue to pursue them, eliminating those who do not match the profile. In addition, you should periodically repeat the profiling process to see if your ideal client has changed. For example, you may discover that you are now working predominantly with prospects who have investable assets of \$150,000 or more instead of the \$70,000 or more you had originally listed on the profile.

Another application is to determine who your "A" clients are—that is, those clients to whom you provide your top level of service and who give you the most business and referrals. This will enable you to create a service strategy that caters to these top clients. Additional worthwhile applications of your ideal client profile are as follows:

- Use the profile to guide you in your marketing strategies and materials.
- Post your ideal client profile on your Web site and in your office.
- Give the profile to friends, family, centers of influence (COIs are defined later in this chapter), and current clients so they know with whom you want to work.

### ***Creating Estate Planning Prospect Profiles***

One way to concentrate on the kind of prospects with whom you want to do estate planning is to develop prospect profiles for different target markets. A

prospect profile identifies the characteristics you are looking for in a prospect for estate planning, and it can be used to help you target individuals within your target markets.

For example, let's say that your target market is small contracting and construction firms. Through your efforts, you have already developed good rapport within the market, but many of your clients are young and still building their businesses. Although all of them have protection needs for themselves and their families, you may want to focus on a subgroup for estate planning emphasis. Perhaps you want to pinpoint only those owners who are 50 or older, or only those who have been in business at least 10 years. Maybe you are looking for those who have a child who has joined the business.

Create profiles for use with each of your target markets. Title them "My Ideal Estate Planning Prospects," and have copies made on your letterhead that you can give to centers of influence (COIs) and clients. Customize the profile for each target market. When you talk to clients or COIs in that market, share the profile with them and then ask for referrals.

***Instructions***

*Get referrals using client profile.*

***What You Say***

I'm trying to expand my service in the area of estate planning, and I've developed a profile of the kind of prospects I'd like to work with. [Show the profile.] When you look at that the profile, who are the people who come to mind?

Estate Planning Profile
XYZ Insurance Agency 123 MAIN STREET SMALLTOWN, ALASKA JOHN DOE, LUTCF Ideal Estate Planning Prospect Contractors and Construction Company Owners <ul style="list-style-type: none"> <li>• Over 50 years old</li> <li>• 10 or more employees</li> <li>• In business at least 10 years</li> <li>• One or more children in the business</li> </ul>

## **Identifying Target Estate Planning Markets**

Now that you have developed your ideal client profile, you need to identify your target markets—that is, large groups of people who match your ideal client profile. Chances are, you are already working with one or more target markets.

The process of identifying target markets involves the following steps:

- Identify and segment your natural markets.
- Research potential target markets.
- Write a description of your potential target markets.
- Test potential target markets.

### ***Test Potential Target Markets***

Before you spend time and money targeting a market in earnest, test it out. Identify several prospects in the market and approach them to conduct informational interviews. These discussions with members of a target market enable the advisor to dig deeper into the characteristics and workings of the potential target market to determine if it is worth investing additional resources. It will be helpful if the advisor has a COI or supportive acquaintance who can introduce the advisor to members of the target market. Evaluate them as a sample of the market to determine the following:

- How much income can you expect to generate from members of this market?
- How many referrals can you expect members of this market to provide?
- How responsive are the members of this market to your products and services?
- How accessible are the members of this market?
- What are the your success ratios (calls per initial meetings, initial meetings per fact-finding sessions, and so forth) in this market?
- How much do you enjoy working with members of this market?

Moreover, you should keep gathering information about your potential target market to determine how to position your practice, effectively build prestige and create awareness, and prospect efficiently.

## **Developing Your Estate Planning Market**

You have to sell yourself before you can sell your products and services. Individuals prefer to do business with people they know. If the prospects in your market know, respect, trust, and have confidence in you based on your personal contact with them or your reputation with their COIs, they will be more willing to see you. They will also be more willing to share their financial information with you and to follow your recommendations.

Your objective in cultivating your markets for estate planning is to build a reputation for being a professional who imparts sound financial advice. As you develop your target market, you should communicate who you are, where you have been, what you are doing, and how the market members can benefit from what you have to offer. You particularly want your COIs to perceive you as a resource who brings value to market members above and beyond the quality of your products and services.

A critical part of developing a market is building relationships. Find ways to associate yourself with your market and adapt yourself to the way the world works for the people in that market. Build your business by being with them. Make frequent contact. Look for opportunities to help. Here are some market development activities you might want to try:

- community involvement
- advertising
- publishing articles
- press coverage and announcements
- public speaking
- seminars
- trade shows
- mail campaigns

As you implement your market development activities, you should be networking your way toward the estate planning prospects in those markets. Spending time to prospect in your target markets for potential estate planning clients will pay off, because it lays the foundation on which to build a successful sales effort. You want to be certain you are approaching the people who can most benefit from the solutions you have to offer. By the same token, the more effective the solutions you have for your client's estate planning problems, the more likely you are to get referrals.

### ***Acquiring Market Lists***

Generating names of qualified people is the lifeblood of prospecting. Market lists are a good starting point for almost every prospecting strategy. However, once you get the lists, you need to qualify the names on them.

There are many ways to obtain lists, depending on your markets. Your research should turn up the best sources. Here are just a few techniques:

- Buy the names and addresses of subscribers, publishers, or mail services in markets you want to target.
- Request membership lists from your target market trade or professional associations and affiliations.
- Use the Yellow Pages to look up your target professions or businesses.
- Ask licensing and certifying associations and boards for lists of professionals in your target market area.

Clients and COIs are among the best resources for qualifying the names on your market lists. You will benefit greatly if you can persuade a client or COI to examine your list and indicate the people who most closely meet your estate planning prospect profile.

### ***Prospecting through Advisors***

It will help you get in front of more prospects if you develop a solid relationship with other professionals in the estate planning field. Look for attorneys and CPAs who are starting their practices and build a relationship with those with whom you are comfortable working.

Do not expect attorneys and CPAs to refer clients to you until you have proven yourself to them. Let them know about your company and what you do. Just as you need to have confidence in them before you make a referral, you must gain their confidence before you can expect them to refer their clients to you. Earn their trust. Remember that referrals are a two-way street. One of the best ways to create a working relationship with another professional is to refer one of your clients to him or her. By referring a client, you get the chance to work with the professional as you enhance your relationship.

It is important to develop relationships with a number of different attorneys and accountants. Although there will likely be one with whom you are the most comfortable working, you will probably want to give your prospects a choice.

### Centers of Influence

#### center of influence (COI)

By definition, a *center of influence*, or *COI*, is an influential person who knows you favorably and agrees to introduce or recommend you to others. Although a client may become a COI just as a COI may become a client, it is not necessary for a COI to be a client for the relationship to be beneficial. In general, you will find that COIs

- are active in the community or a sphere of influence
- are sought out for advice by the community or within their sphere of influence
- seek to communicate with others
- are givers, not takers

A good COI knows the people in your target market, regardless of the COI's own occupation or profession. For example, the COI may be a member of a golf club or a voluntary organization. If there are occupations and professions that deal directly with your target market, finding COIs in these occupations and professions could prove very profitable. Four types of COIs who can be particularly helpful to you in the estate planning market are

- public accountants
- attorneys
- commercial bank officers
- property and casualty agents

**Public Accountants.** Your best public accountant contacts are likely to own their firms or participate in small- to medium-size practices. Their specialty is the small business owner. The accountant assists clients in making both business and personal financial decisions, and it is for this reason that accountants are most likely of all advisors to have the greatest influence over the decisions made by business owner clients. This relationship and influence can be extremely rewarding for you.

**Attorneys.** Your best attorney contacts are apt to be members of small local firms. These individuals probably have deep contacts within the local community. Their contacts will include ordinary citizens, affluent individuals, community leaders, executives, and business owners.

These professionals are likely to serve as advisors to many individuals regarding their estate plans and investments. For example, many local

attorneys combine the specialties of estate planning and real estate. Their practice frequently demands that they draft wills and settle house closings.

**Commercial Bank Officers.** All commercial banks have a department that seeks out new customers, especially business owners. Their strength is to make loans available for their new clients. They market themselves by cold calling, networking, and seminars. To cultivate the loan officer as a potential COI, suggest insuring the bank's loans with inexpensive term insurance. Offer to collaborate on and participate in a joint seminar before the local business community.

**Property and Casualty Agents.** Successful property and casualty agents can be excellent COIs because they control the property and casualty coverage for many local business owners. They also cover worker's compensation, which can identify the most successful businesses in your community because it provides a list of incomes.

These agents also provide property and casualty coverage to many of your community's most affluent households. Because of the information available through these records, agents are often able to identify individuals with hidden assets such as valuable coin and jewelry collections. These are the very type of individuals who are concerned with estate and retirement planning issues. Explain the support you can offer these individuals, emphasizing your own special expertise.

### ***How to Meet Professional Advisors***

There are several ways to meet professional advisors. Often, a relationship with a professional advisor begins when you meet with that advisor concerning a personal matter. For example, you may have a close professional relationship with an attorney that began when you purchased your home or made your will; you may have similar professional relationships with a banker or accountant. Make sure these people are familiar with the work you do and understand the expertise you have to offer. You may want to take them to breakfast or lunch, or arrange a meeting where you can demonstrate what you do.

A second way to access COIs is through existing clients. You may know attorneys or accountants who work with your present clients. Include them on your newsletter list. Show them the kind of work you do and how you may help their clients. They may even need assistance in putting their own financial affairs in order.

These individuals, in turn, can introduce you to other professionals. Professionals who join associations, clubs, and other organizations know many individuals in their own and other professional fields. They refer their clients to these professionals to maintain close relationships. They need knowledgeable financial advisors as part of their advisory teams. Networking is common in these situations.

Do not overlook the opportunities in your own personal environment. You may already belong to clubs and organizations that offer opportunities to meet people, make friends, and help the organization or community. Members in these clubs and organizations are the kind of people you should get to know. Many of them will be professionals or have close contacts with professionals who can serve as COIs.

### ***Building the Relationship with a Center of Influence***

Working with a COI requires a business relationship and sometimes a personal relationship. Monthly or, in some cases, weekly meetings are required, depending on how actively the relationship progresses. The process involves continual education on products, sales ideas, and tax legislation that affect the COI's clients.

#### **10 Tips for Working with Another Advisor**

1. Elicit the advisor's thoughts about the client's current estate or retirement plan.
2. Clarify the advisor's role in the process.
3. Establish your and the advisor's professional boundaries.
4. Ascertain what technical issues the advisor perceives in the client's case.
5. Determine what business and personal issues the advisor sees in the case.
6. If technical issues are identified, ask the advisor what type of help he or she might like.
7. Verify what information the advisor expects you to provide.
8. Discuss what products the advisor has used in the past to satisfy needs similar to the client's.
9. Provide the advisor with a summary of your recommendations before presenting them to the client.
10. Incorporate the advisor's feedback into the recommendations you give the client.

There must be complete communication when you and the COI have a mutual client. Both you and the COI should review all proposals and recommendations prior to presentation to the client.

Remember, too, that you can be a COI and giver of referrals. Refer your own clients to other professionals within your circle of professional relationships, if possible. The professional partnership philosophy is a must, and its rewards compound over time.

## **Positioning Your Practice**

Thus far, you have defined the product, created an ideal client profile, and identified target markets. Now you need to decide how to position your practice in your target market.

### ***Study the Competition***

As part of your market research, you should inquire about your competition. Your position in the market is always relative to the competition. At a minimum, you need to know the following:

- Who is your competition?
- What do they identify as their unique value? Or what do they give as the reason to do business with them?
- How long have they been targeting this market?
- How are they gaining access to the market?
- How are they building prestige within the market?
- What are their strengths and weaknesses?
- How does the market view them?

Your goal is to present a unique value to your target market that only you can offer. Be aware that if you are successful, your competition will try to mimic your approach. Therefore, stay on top of your competition so you can remain distinct in your target market.

### ***Define Your Unique Value***

You are now ready to define how you will provide value to your target market. To do this, you need to determine what distinguishes you from the competition and what you can do that others cannot do. This is known as a value proposition, which is a compelling reason why prospective clients should do business with you. It conveys the benefit of your services and expertise versus the competition. This is why you need to take inventory of

all you bring to the table. The more your products, expertise and services uniquely meet the needs of your target market, the more you will stand out from the competition.

Another important way for you to offer value is through relationships with other professionals. At a basic level, you may be able to provide greater value through alliances with other noncompeting financial advisors. You may be a gifted networker who seems to know everyone. If so, you can offer value by referring clients to professionals outside of the financial services arena.

The bottom line is that you must define yourself in a way that differentiates you from the competition in your target market.

### ***Define How You Want to Be Perceived***

Related to defining your unique value is defining how you want to be perceived in your target market. What do you want your reputation to be? It is important to establish yourself in the minds of the prospects in your target market as the advisor of choice. Identify personal characteristics and interests to which prospects in your target market will respond favorably. These are your personal brands for your target market.

## **Building Prestige and Creating Awareness**

After you have identified your unique value and defined what you want your reputation to be, you need to build your prestige and create awareness in your target market. The following are some of the standard ways to accomplish this.

### ***Public Persona***

Although your reputation is built over time, prospects typically decide whether to do business with you based on their first impression. They judge you by your dress, posture, tone of voice, and behavior. Because you get only one chance to make a good first impression, know what image you want to present to your target market.

Start with your personal appearance. Look professional and successful with well-groomed hair, clean hands and nails, polished shoes, and well-kept clothes. The way you do this depends on your market. A Rolex wristwatch and expensive three-piece suit, for example, would not be appropriate if your target market consists of middle-class families.

Make sure that your office is professional and clean. Matching furniture and an organized desk communicate success and a businesslike persona. If your desk is cluttered, the prospect may be concerned about the safeguarding of his or her personal information.

Finally, and most important, the public perception of your character matters. This means that you must treat people with respect and dignity and watch what you say. If you cannot say anything nice, do not say anything at all. Avoid questionable jokes and remarks that touch on topics that offend others. Always maintain the utmost integrity.

### ***Personal Brochure***

You may want to use a one-page personal brochure or resume to introduce yourself to a prospect. In many cases, this is the prospect's first impression of you, so the brochure should not only communicate the desired image you want to project, but it should also cater to your ideal client. To effectively do this, you need to understand what your ideal client would want to know about you.

Although no two brochures are exactly the same, there are some standard pieces of information you should have in yours:

- your name and contact information, including Web site, if applicable
- biographical information (the length depends on what your ideal client would want to know about you)
- your professional experience and credentials (designations, business licenses, and so forth)
- the products and/or services you offer

### ***Ten-Second Commercial or Elevator Speech***

Socializing provides an opportunity for you to create awareness and interest in what you do. When people ask, "What do you do for a living?" you should have a short response that is relevant and interesting. It says how you offer value, benefit and quality to your client. The elevator speech is a brief description of what you do and who you serve. You should practice it so that it rolls off your tongue. You have to give prospects a memorable response that creates an interest that demands a follow-up question. A response like "I am a financial planner" tells people how you make money and what you can do for them. However, it is neither interesting nor attention grabbing. In contrast, consider a response like this: "Do you know what cartographers do? [People typically respond with a no, but even if they say yes, you give your

answer.] They make maps that help people reach their destinations. Well, I do something similar for people. I make financial maps that help people reach their financial destinations. Do you have such a map?"

Here are some tips for creating a 10-second commercial or elevator speech:

- Ask a question that pertains to a prospect's need for your services. The question should position your response as a solution to a problem or question that the prospect might be asking. It should be interesting—a "hook" that leads the prospect to ask questions of you for more information and gets a conversation started.
- State your value in terms of the results you achieve for clients.
- Be creative and interesting, but follow your company guidelines. (They may restrict the way you can describe your work. Because of today's compliance issues, exercise caution and do not misrepresent the products and/or services you sell or what you do.)
- End with a question that measures the prospect's interest.
- Have a business card with you to give the prospect if you feel it is appropriate.

The key is to customize your commercial to the prospect and refer to a need he or she may have. By doing so, you are not only creating awareness about your products and services but you are also creating interest—and interest will eventually get you an appointment.

### ***Local Organizations***

Get involved in a local civic or service organization about which you (and your target market) are passionate. Involvement can be at various levels, ranging from sponsorship to leadership. Sponsorship is at the low end of the involvement continuum and typically requires some monetary expenditure but minimal time commitment. Active membership is in the middle of the involvement continuum. If you join an organization, you should be enthusiastic about its cause and make the necessary commitment of time, interest, and money. At the high end of the continuum is leadership. Obviously, this requires a much greater level of commitment. Therefore, if you seek a leadership position in an organization, make sure your involvement will not hinder your business activities or interfere with other important personal relationships.

***Local Media***

Make yourself available to the local media (print, radio, and TV). Contact journalists and let them know that you can provide expert opinions and quotes on a list of financial planning issues. By helping them, you can showcase your expertise and competence. If you enjoy writing, see if local newspapers and organizations with newsletters need financial planning articles to fill their copy. You may be able to obtain reprints of these articles to send prospects to build your prestige and credibility.

***Direct Mail***

Mass mailing to the general public is expensive and inefficient. Mailing only to prospects in your target market, however, can precondition them to meet with you when you approach them. Make sure that the message you are sending them is relevant to their situation.

***Speaking to Groups***

If you have public speaking skills, giving speeches or teaching classes is a great way to showcase your financial planning expertise with minimal expense. In fact, in the case of adult education classes, you could even earn a few dollars to compensate you for your time and effort. The primary goal of these speaking and teaching engagements is to promote your reputation and expertise as a financial advisor who can help people solve their financial problems and/or attain their financial goals. It is important, however, not to overtly prospect or showcase your products while giving speeches or teaching classes. In many cases, this would be inappropriate. However, placing your contact information on handouts is a subtle and acceptable way to market your practice.

***Advertising***

If you determine that specific advertising can reach your target market, buying that advertising is money well spent. Conversely, advertising to the undifferentiated general public is not a good use of your money.

***Internet Web Site***

Is an Internet presence critical to your success? Most likely it is, because the number of households with Internet access increases every year. As a governing principle, your Internet presence should reflect the wants, needs, and tastes of your ideal client.

At a bare minimum, your Web site should contain information about you and your staff, your products and/or services, how to contact you, your philosophy on financial planning, and practical information that a prospect and client can use. This practical information can include helpful articles or links to articles on financial planning topics, as well as other items of interest for your target market such as

- a question-and-answer page (an advice column)
- case studies (describing the financial benefits you provided for a few of your ideal clients)
- worksheets (to help clients do budgeting, retirement planning, education planning, and so on)
- a calendar of events (such as seminars, client appreciation days, community events you sponsor, and other events that may be of interest to your target market)

As you (or a professional) design your Web site, be aware of any regulations that may apply. For example, if you are a registered representative with a broker/dealer, you probably need to receive approval for the materials you plan to post. Make sure you know any limitations that apply to you.

### ***Methods to Build Prestige and Create Awareness***

The methods you choose to build prestige and create awareness depend on several factors, including access to the target market, appropriateness of the methods, cost in both time and money, and your personal abilities. To gain access to your target market, begin by asking yourself several questions about its members, such as the following:

- Where do they shop?
- Where do they exercise?
- To which organizations do they belong?
- What publications and newspapers do they read?
- Who is influential in their financial decision-making process?

With this information, identify possible methods to use, rejecting those that would not be well received or that would be cost prohibitive in time or money. In general, work toward your strengths and passions; avoid using methods that are inconsistent with who you are. The inconsistencies will be obvious and will have a negative effect on your reputation.

## Referrals

There are many tried-and-true prospecting methods, which you should be able to adapt to fit your market and personality. The guiding principle for selecting methods is to use those that generate the best clients. All things being equal, the most effective prospecting method over the years has been referrals.

### referral

Successful advisors have found referrals to be an efficient and effective means to generate an endless list of prospects. A *referral* is an individual to whom you are introduced by someone who knows and values your work. In their highest form, referrals are unsolicited and come to you because of the enthusiastic recommendations they received from your satisfied clients. Until your practice evolves to this level, however, you will have to ask for referrals.

During the initial meeting with the prospect, you might say, "Mr. and/or Ms. Prospect, as we work together, if you find what we are talking about to be important and valuable, then give me the opportunity to meet with people you know and care about so that I may help them, too." Then when you ask the prospect for referrals, it will not come as a surprise.

You should pave the way for referrals early in the selling/planning process by creating the expectation of receiving them from the prospect if he or she appreciates what you are doing.

### EXAMPLE

During the initial meeting with the prospect, you might say, "Mr. and/or Ms. Prospect, as we work together, if you find what we are talking about to be important and valuable, then give me the opportunity to meet with people you know and care about so that I may help them, too." Then when you ask the prospect for referrals, it will not come as a surprise.

The best time to ask the prospect for referrals is when he or she indicates an appreciation for you and/or your products and services. It could be after the plan is implemented. Or it could be during the planning process after the prospect makes a positive comment like "I am so glad you told me that. I did not know that mutual fund was available to me." Even if the prospect does not implement the plan, ask him or her about the value of the process. If he or she has a favorable opinion of you and the process, ask for referrals.

When you ask the prospect for referrals, use your ideal client profile to indicate the type of referral you are looking for. You could even give the prospect a copy of your client profile and explain that this is the type of client you service best. In addition, you may find it helpful to describe several life events to the prospect that cause people to be more open to discussing financial matters. Ask the prospect if he or she knows any people who are experiencing one of these life events. If the prospect knows someone, ask him or her for a referral.

## CHAPTER REVIEW

*Key Terms and Concepts are explained in the Glossary. Answers to the Review Questions and Self-Test Questions are found in the back of the textbook in the Answers to Questions section.*

### Key Terms and Concepts

estate planning	selling/planning process
estate planning process	prospecting
intestate succession statutes	target market
will	center of influence (COI)
estate planning team	referral
strategic alliance	

### Review Questions

1. Define and explain estate planning.
2. Discuss the obstacles that hinder effective estate planning.
3. Describe the phases of estate planning.
4. Explain the steps in the estate planning process.
5. Discuss the relationship of the financial advisor and the estate planning team.
6. Summarize the selling/planning process.
7. Summarize the target marketing concepts and techniques used for estate planning prospects.
8. Identify methods of prospecting for estate planning prospects.

## Self-Test Questions

**Instructions:** Read the chapter first, then answer the following questions to test your knowledge. There are 10 questions; circle the correct answer, then check your answers with the answer key in the back of the book.

1. Which of the following would an advisor do in the "implement the plan" step of the selling/planning process?
  - (A) Review the changes in the client's circumstances and the financial environment.
  - (B) Identify the strengths and weaknesses of the client's present financial condition.
  - (C) Gather considerable information from the client using a fact finder.
  - (D) Motivate and help the client acquire all necessary financial products and services.
  
2. Which of the following is the primary purpose of estate planning?
  - (A) to make certain that all heirs are treated equitably
  - (B) to minimize or avoid taxes
  - (C) to assure that the distribution of the estate avoids the probate process
  - (D) to ensure that property is distributed according to the estate owner's wishes
  
3. In which step of the selling/planning process does the advisor identify the solutions and alternatives that will address the prospect's needs, and explain the advantages and disadvantages of each?
  - (A) Implement the plan.
  - (B) Present the plan.
  - (C) Meet the prospect.
  - (D) Service the plan.
  
4. Common characteristics, common needs, and a communication network system are all components of which of the following?
  - (A) natural market
  - (B) market analysis
  - (C) target market
  - (D) segmented market

5. Which of the following statements regarding estate planning is correct?
- (A) A client's failure to deal with death may be an obstacle to estate planning.
  - (B) Estate planning is concerned only with the conservation of assets.
  - (C) The best estate plan is always the one that minimizes taxes.
  - (D) It is not necessary to periodically review existing estate plans because of inflation.
6. Which of the following statements concerning estate planning is (are) correct?
- I. Its primary purpose is to minimize taxes.
  - II. An individual's estate is made up of all the property he or she owns and controls at the moment of his or her death.
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II
7. Which of the following statements concerning intestate succession statutes is (are) correct?
- I. Their primary purpose is to minimize taxes and other transfer costs in order to maximize the estate for heirs.
  - II. They are a statutory scheme for the disposition of property at death in the event that the resident dies without a valid will.
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II
8. Which of the following statements regarding the estate planning team is (are) correct?
- I. A client's accountant is the most likely member of the estate planning team to have contact with the client on an annual basis.
  - II. An attorney is generally not needed as a member of the estate planning team.
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II

**READ THE FOLLOWING DIRECTIONS BEFORE CONTINUING**

The questions below differ from the preceding questions in that they all contain the word EXCEPT. So you understand fully the basis used in selecting each answer, be sure to read each question carefully.

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9. All the following are objectives of estate conservation EXCEPT
  - (A) to pass on income-producing property to replace the income of the deceased breadwinner
  - (B) to minimize taxes and other transfer costs in order to maximize the estate for heirs
  - (C) to dispose of property according to the wishes of the estate owner
  - (D) to provide adequate liquidity to avoid the forced sale of estate assets
  
10. All the following are obstacles to effective estate planning EXCEPT
  - (A) lack of liquidity
  - (B) failure to consider inflation
  - (C) acceptance of one's mortality
  - (D) improper tax planning

### Chapter 1

#### Answers to Review Questions

1. Estate planning can be defined as a process that encompasses the accumulation, conservation, and distribution of an estate. The overall purpose of estate planning is to develop a plan that will enhance and maintain the financial security of clients and their families. It is the process of helping clients give what they have to whom they want, selecting when and how they want the transfer to occur, while minimizing administrative costs, transfer costs, and taxes. The ultimate goal of estate planning should be to fulfill the estate owner's wishes as completely as possible.
2. The obstacles that hinder effective estate planning are: failure to plan, inadequate survivor income and asset transfer, outdated plans, overlooked provisions, improper ownership of assets, failure to plan for disability and last illness, failure to consider inflation, lack of liquidity, and psychological impediments such as dealing with one's mortality and procrastination.
3. There are three distinct phases of estate planning. Phase one is estate creation or accumulation. The responsibility of the financial advisor is to be certain that the proper amount of life insurance is in place to create an adequate estate should the client not live to create it himself or herself. It is also a time of accumulating assets. Once an estate owner has created, accumulated, or inherited a fair-sized estate, the emphasis becomes one of estate conservation, the second phase of estate planning. In this phase, the role of life insurance changes from one of buying time and creating capital to providing the funds to pay estate clearance costs. Finally, the ultimate goal of estate planning is to distribute the property of the decedent in keeping with his or her final wishes in the most cost-effective and orderly manner.
4. The estate planning process has a number of steps. First, data must be gathered. Any existing estate plan must be evaluated for potential impairments. Next, a plan is designed and reviewed by the client. After the client approves the plan, it must be implemented. This step includes the execution of any necessary legal documents, transfers and titling of property, and the purchase of financial products. Finally, there should be a periodic review of the plan, particularly at times of changes in life or tax laws.

5. Individuals from more than one professional discipline are often needed to assist clients in estate planning. The estate planning team has traditionally consisted of an attorney, an insurance specialist, a bank trust officer, an accountant, and an investment counselor. The attorney is a critical member because planning cannot be accomplished, nor can a plan be executed, without an attorney's knowledge of the law. Typically, the attorney drafts all of the legal documents that are necessary to implement the plan. The financial advisor is usually regarded as the quarterback who leads the advisory team, taking responsibility for implementing and coordinating the specialties of the various advisors. Remember: The most important team member is the client. It is the client's objectives that must have first priority.
6. The *selling/planning process* is the 8-step procedure for the advisor to follow as the basis for the advisor/client relationship, which flows from selecting the prospect to completing the sale and servicing the client. It is very similar to the financial planning process; both processes are interrelated. The steps are as follows: (1) Identify the Prospect, (2) Approach the Prospect, (3) Meet the Prospect, (4) Gather Information and Establish Goals, (5) Analyze the Information, (6) Present the Plan, (7) Implement the Plan, and (8) Service the Plan.
7. You must create and implement a target marketing plan that will generate a flow of the types of prospects you want to approach. A *target market* is an identifiable and accessible group of people with common characteristics and common needs who regularly communicate with one another. The group must be sufficiently large so that you do not run out of prospects, but small enough so that your reputation as a trustworthy and competent advisor precedes you. People who need estate planning are not a target market. They exist as a subset of the prospects in the target markets you have identified. As you become an expert in meeting the needs of your target markets, you are also becoming an expert in meeting the estate planning needs of each market's members.
8. Prospecting begins with developing target markets based on your ideal client profile as well as your skills and knowledge. You then develop a marketing plan and your markets. Several methods to prospect within these markets include community involvement, advertising, publishing articles, press coverage and announcements, public speaking, seminars, trade shows, and mail campaigns. Additionally, networking (especially with other

advisors), developing centers of influence, and referrals are also preferred methods.

### Answers to Self-Test Questions

1. D
2. D
3. B
4. C
5. A
6. B
7. B
8. A
9. C
10. C

## Chapter 2

### Answers to Review Questions

1. All property falls within two broad categories—it is either real or personal. *Real property* (real estate) is land and anything on the land that has been permanently attached or affixed to it. All property other than land or any interest in land is *personal property*. Personal property is further characterized as either tangible or intangible.
2. *Tangible personal property* is anything that can be touched, seen, and felt. The property actually represents itself. It is the actual object and has its own intrinsic value. *Intangible personal property* has no intrinsic value in itself. The real value of intangibles is in excess of the value of the physical object that represents the property. The representation can be touched and felt, but it is not the thing itself. Some examples are stock certificates, Federal Reserve notes (U.S. currency), leases, mortgages, bonds, and other representations of property ownership.
3. Three ways that property can be transferred are: (1) sold or exchanged for valuable consideration, (2) given away as a gift of either present or future interest, and (3) distributed at death.
4. *Future interest* is a present right to possess or enjoy property in the future. Examples of future interests are remainder interests and reversionary interests. A *remainder interest* in property is a present