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left to right: Brenda C. Bolander, Joe Bowie, Randy Thurman, Chad Rudy, Carol Ringrose Alexander, and Andrew Flinton

Financial Briefs

MARCH 2015

Leaving a Legacy

Many of us want to do our part to leave the world a better place. Fortunately, there are many ways you can ensure that you'll have a meaningful impact on the world and leave a legacy that lasts long after you're gone, including the work you do or how you raise your family. Of course, you can also leave a financial legacy, using the wealth you've accumulated in your lifetime to benefit the world. Below are six different ways you can leave a financial legacy.

1. Give gifts during your lifetime. If you have the financial freedom to do so, making financial gifts while you are still alive is a great way to leave a legacy. Money donated to qualified charitable organizations can be deducted from your taxes, saving you money while also helping support a good cause. If you want to leave a family legacy, consider giving gifts to loved ones while you are living, like helping pay for your grandchild's college education. Just make sure you're aware of annual limits on what you can give to individuals without using up any of your gift and estate or GST tax exemption.

2. Make a bequest in a will. Many people use their will to make philanthropic bequests, leaving funds to a favorite charity, their

alma mater, or their church. For people who have money to give, recognizing an organization in their will is a relatively easy way to leave a legacy. Bequests in a will don't require any additional planning and are exempt from estate tax, provided the recipient is a qualified charitable organization. However, if you plan to make a substantial bequest to a charity, you may want to inform them of your plans in advance. This is particularly important if you plan to donate real property, like real estate or artwork, as not all charities will want or be able to accept such

donations. It's also important if you plan to place restrictions on how the gift is used.

3. Create a charitable remainder trust. If you would like to make a substantial gift to a charity but also want to provide for your heirs or continue to receive income during your lifetime, a charitable remainder trust (CRT) may be an option. Here's how it works: You transfer property to the trust (and get a tax deduction at the time of the transfer), and you or your heirs receive income from the trust for a specified period of

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Celebrity Estate-Planning Lessons

Celebrities: They're just like us, at least when it comes to estate-planning mistakes. Whether it's because they are too busy, unwilling to consider their own mortality, or led astray by bad advice, celebrities often die with their estates in disarray. While you may not have to clarify in your will who gets your Oscar statuette; you should still take care, since these types of celebrity estate planning mistakes can happen to anyone.

Sonny Bono: Died Without a Will

When Congressman and musician Sonny Bono died in a skiing accident in 1998, he left behind

grieving family and fans as well as a complicated estate. Bono died intestate, or without a will, which meant it was up to the courts to decide how his \$1 million estate should be divided. Conflicts soon surfaced. His ex-wife Cher sued for alimony payments she claimed she was still owed and an illegitimate son surfaced, also seeking a portion of the deceased politician's assets.

The lesson: If Bono had created a will, it would have been clear how he wanted his assets divided among his family. If you, like Bono, die without a will, the courts will decide

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Leaving a Legacy

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time. When that period ends, the remaining assets go to the charity of your choice. A word of caution: CRTs are irrevocable; which means once you've made this decision, you can't reverse it.

4. Set up a donor-advised fund.

Know that you want to leave money to a charity, but not ready to hand it over just yet? Consider setting up a donor-advised fund. A donor-advised fund allows you to make contributions to a fund that is earmarked for charity and claim the associated tax deduction in the year you contribute the funds. You continue to make more contributions to the fund, which are invested and grow free of tax. When you are ready, you can choose a charity to receive all or some of the accumulated assets. It's a great way to earmark funds for charity now while also accumulating a more substantial amount of money to leave as a legacy.

5. Fund a scholarship. Endowing a scholarship is a great way to make a difference in the life of a talented student. Here's how it typically works: You give a certain amount of money to the school of your choice, which earmarks it to fund scholarships, often for certain types of students (e.g., female math majors, former foster children, or people suffering from a certain disease or disability). Other scholarships are established through community foundations. A seed gift of \$25,000 or \$50,000 may be enough to get started. Be aware, however, that while you may be able to have a say in selection criteria for the scholarship, there's a good chance you won't be able to select the recipient yourself. If you want to do that, you'll need to distribute the money in another way, perhaps by setting up your own nonprofit organization.

6. Start a foundation. Starting a family foundation is appealing to many, especially those who like the idea of having greater control over how their money is used as well as

Distributing Your Estate to Grown Children

Even though your children may now be grown, they are probably still the center of your estate plan. Just because they are adults doesn't mean you have to leave their entire inheritance to them outright. Consider these factors first:

- **Do you want to distribute your estate gradually?** If substantial assets are involved, you may want to set up trusts to distribute your assets gradually, such as in thirds when each child reaches age 25, 30, and 35. You can always give the trustee power to make early distributions for items like paying for college, starting a business, or purchasing a home.
 - **Have you selected a trustee carefully?** If trusts are involved, you want a trustee who is impartial and will deal fairly with all your children. Think twice before naming one of your children as trustee. One sibling in a position to decide what happens to other siblings' inheritances can cause disagreements among siblings.
 - **Have you thought about the consequences of a child divorcing?** You probably don't want a portion of your assets distributed to an ex-daughter-in-law or ex-son-in-law, so special provisions may need to be added to trusts.
 - **Have you considered how assets will be distributed among children?** Perhaps one child is better off financially than your other children. Do you divide your estate equally or give less to the financially well-off child?
- Children often feel a right to an equal share of their parents' estate, even if they have a substantial estate of their own. If you decide to make unequal distributions, be sure to explain why personally or in a letter left with your estate-planning documents. Hopefully, this will prevent hurt feelings or disagreements among siblings.
- **Do you need to make special distributions to even out inheritances?** Perhaps you have paid all college costs for some children, while other children have not attended college yet. You may want to ensure that all children receive a college education, and then distribute the rest of your estate equally among your children.
 - **Should you coordinate your estate plan with your children's estate plans?** If your children have substantial estates of their own, it may not make sense to leave additional assets to them. They may prefer those assets go directly to their children, helping to minimize family estate taxes.
 - **Have you explained the need for estate planning to your children?** Especially if you are leaving a substantial estate to your children, they may need to plan their own estates. You don't need to dictate what they should do with their estates, but gently remind them why they need an estate plan. After major life events, such as marriage, divorce, or a child's birth, remind your children to revise their estate plans. ■■■

the prestige that comes with running a foundation. Well-managed private foundations may also endure for many generations after you're gone. But you'll need substantial assets to make setting up a foundation worth it. Plus, foundations are complicated and expensive to set up and administer. But, if you

are committed to the idea of giving back and especially if you want to keep the entire family involved in giving (a concern for many wealthy families), a private foundation could be the way to go.

Please call to discuss this topic in more detail. ■■■

Celebrity Estate Planning

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who should receive your assets, potentially a long and expensive process.

Philip Seymour Hoffman: Didn't Take Steps to Reduce Estate Taxes

Academy-Award-winning actor Philip Seymour Hoffman, who passed away in 2014, reportedly did not want his three minor children to become trust fund kids. Instead, he left his \$35 million estate to his unmarried partner, who he also named as executor of his will. Because Hoffman and his girlfriend weren't married, however, she couldn't take advantage of the spousal estate-tax exemption, which means that a substantial portion of the estate may have unnecessarily gone to taxes.

The lesson: Hoffman likely had good reasons for not wanting to set up trusts for his kids, and he may not have been concerned about his heirs paying estate tax. But it's a valuable reminder for others involved in committed relationships with unmarried partners. If your estate exceeds the standard exemption (\$5.43 million in 2015), any assets above that amount will be taxed, unless you engage in more complex estate planning.

Michael Jackson: Set Up a Trust, But Didn't Fund It

Sometimes, unfinished estate planning can be as devastating as no estate planning at all. Jackson created a trust that was supposed to provide for his three children and his mother. But the trust was never funded, which left his estate in limbo. Years after his death, his children are still living on allowances authorized by the estate's executor as other issues are resolved, including payments to creditors and taxes owed to the IRS. Meanwhile, family members who the singer disinherited are squabbling over his assets.

The lesson: Jackson's intentions were good, but by not using a irrevocable trust to transfer assets to his children, he created an estate-planning nightmare. While the Jackson family's situation was uniquely

complex, it's a lesson in thinking through the unintended consequences of your estate-planning decisions and the importance of making your wishes abundantly clear.

Princess Diana: Left an Unenforceable Letter of Wishes

When Princess Diana died in 1997, she left the vast majority of her estate, valued in the tens of millions of dollars, to her two sons, Princes William and Harry. But she also intended some of her personal property to be distributed to each of her 17 godchildren, a desire she expressed in a letter of wishes rather than her will. Her mother and sister, who were executors of the estate, went to court and obtained permission to ignore the letter of wishes, and the godchildren received virtually nothing from the estate of the deceased royal.

The lesson: Diana's wishes may have been clear, but they weren't legally enforceable. It's a key point to remember: Many people attach a letter of wishes to express thoughts or feelings that wouldn't be appropriate to include in a will. But such letters aren't the same as a will, which means they are not the place to include instructions about how you want your estate divided. If it's important to you that a certain person receive certain property (for example, you want your son to receive your engagement ring, your daughter to inherit the family china, and your best friend to receive a valuable piece of artwork), make sure you put it in your will.

James Gandolfini: Didn't Consider International Laws

When *Sopranos* star James Gandolfini died suddenly at age 51, he left behind a complicated family situation and an incomplete estate plan. Speculation about whether Gandolfini had inadvertently exposed his heirs to unnecessary estate taxes and whether he should have set up a trust to manage his young daughter's inheritance was rife. An issue that received less attention was property the actor owned in Italy, which he left in

equal shares to his son and daughter, with the expressed wish that they keep the home in the family. But that direction seemed to be in conflict with Italian law, which automatically gives half of a decedent's property to his or her children and one quarter to their spouse, leaving the owner to determine who receives the remaining quarter.

The lesson: It's not uncommon for U.S. citizens to own property abroad. If that's your situation, make sure you're aware of any laws and taxes in the country where the property is located, so that your estate planning documents don't hit extra legal hurdles. Another thing to remember? If, like Gandolfini, you want your heirs to keep a piece of real estate in the family, it helps to provide dedicated funds to cover the upkeep, something Gandolfini doesn't appear to have done.

Warren Burger: Did It Himself

You might think that if there was one person who could avoid estate-planning headaches, it would be the Chief Justice of the Supreme Court. You'd be wrong. When Justice Warren Burger passed away in 1995, he left a self-prepared will that was just 176 words long. As a result, his heirs paid more in estate taxes than they might have if Burger had done more comprehensive estate planning. Plus, because the will was so brief, his executors had to go to court to get permission to deal with routine matters that would have been addressed in a more detailed will.

The lesson: It's easy to find templates for all kinds of legal documents online that seem to offer a cheap and easy way around hiring an attorney. But estate planning is complex, and even those knowledgeable about legal issues can make mistakes. Investing some money today to have a professional help with your estate planning could mean significantly more of your wealth ends up in your heirs' hands, rather than being lost to taxes and legal fees. ■■■

News and Announcements

From the Alexander Household

Authors Elizabeth Dunn and Michael Norton write that delaying consumption enables us to enjoy anticipation of an event or vacation without the inconvenient intrusion of reality. Vacations provide the greatest happiness before they occur, according to *Happy Money: The Science of Smarter Spending*.

By planning our next trip more than a year in advance, my husband, Kerry, and I have had the opportunity to enjoy the anticipation and learn about our destination with our children. We are taking a trip to the Galápagos Islands to celebrate our 50th birthdays. To prepare for the trip, I checked books out of the library. With the boys, we read about Lonesome George, the last Pinta Island tortoise that died June 24, 2012. Most sources say George was more than a century old, which isn't unusual for a Galápagos tortoise; but he may have only been in his 80s. George served as a symbol for conservation efforts in the Galápagos Islands. The islands are also known for the Galápagos finches, which inspired Charles Darwin's *Theory of Evolution*.

Kerry and I watched *Master and Commander* and a quirky documentary called *The Galápagos Affair: Satan Came to Eden* about a murder mystery on Floreana Island. Recently our son, Jackson, who is 10, noticed a *National Geographic* show featuring the Galápagos and asked us to record it. It is amazing! By planning ahead, we believe this trip will result in treasured memories.

Carol Ringrose Alexander,
CTP®, AIT®, CDFA™

From the Rudy Household

One of my favorite activities is to coach my daughters' sports teams. It was actually something I thought I would never do. However, I gradually moved from the stands, to assistant coach, then finally to head coach of three basketball teams. I have been coaching my 5th-grade daughter's team for the past three years. We also started a new team this past season for my 2nd grader.

When I coach the teams, I focus on the girls having fun at practice and during the games, while learning the fundamentals. I spend a lot of time planning a practice that the girls will be excited to attend and unknowingly develop as individuals

and as a team. One of my favorite post-practice comments from the girls is the shock and disappointment that practice is over.

For the 5th-grade team, we have girls take breaks for other activities from time to time. I am always excited when they return to the team. This winter, we had 18 girls want to return. I couldn't say no to just half of them, so I did the next logical thing and agreed to coach two 5th-grade teams as well as the 2nd-grade team. So for the past two months, my Wednesdays have been filled with planning and conducting practices.

We just completed our final practice and only have playoff games remaining. With so many teams, I really thought I would be ready for a break, but I am looking forward to getting started again in the coming weeks. I couldn't imagine how I would spend my Wednesdays and weekends if I never left the stands.

Chad Rudy, CTP®

From the Bolander Household

The reason birds can fly and we can't is simply because they have perfect faith, for to have faith is to have wings.

~J.M. Barrie

One thing I enjoy about living in the country is bird watching. We have plenty of the common ones: mockingbirds, robins, blue jays, and blackbirds. In winter, scarlet cardinals contrast the brown grass and evergreens. Later on, bluebirds take respite from their migration, green hummingbirds build tiny nests in our Chinese elm, and graceful scissortails flit along the fence row. On summer evenings, a pair of doves sit on the high-line and coo to each other.

Recently, a foreign bird has joined the population. We saw him first on the front porch eyeing his reflection in the glass door. Often when we pull in the driveway, he's pecking around the shrubs, but then he takes off running. If I hadn't seen him myself, I wouldn't have believed we have a road-runner, and most likely a pair. Sure enough, he has a plume of feathers on top of his head, long tail feathers and long legs, but they're not as exaggerated as the cartoon character's. I haven't heard him say, "beep, beep" either, but I will keep listening.

Have a great month!

Brenda C. Bolander,
CTP®, CPA/PFS