

# PLANNING MATTERS

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## Life Insurance—A Versatile Asset

### A Special Relationship Merits a Special Gift

For four decades, Ed Daniels has been involved with UT Southwestern and Southwestern Medical Foundation. As a young insurance executive in the 1960s he helped UT Southwestern enhance its retirement program by introducing an optional retirement plan to its employees, thus helping to attract and retain quality faculty.

Through his long professional association, Ed came to know a large number of UT Southwestern faculty. His service to Southwestern Medical Foundation includes being a longtime member of the board of trustees, a former member of the Estate Planning Council, and a charter member of the Heritage Society, the Foundation's planned-giving recognition society.

Ed's first gift to the Foundation was a life insurance policy, the kind of gift he has made to a number of other charitable institutions that have been important to him and his wife, Lyra. As Ed explained, "A gift of life insurance is a perfect way for professionals to make a substantial gift when they have good income but not a lot of capital. By leveraging the amount of income one devotes to charitable causes, a person can make a larger gift through life insurance than in any other way."

Most recently, Lyra and Ed's charitable giving to UT Southwestern has been for a special purpose. "Lyra and I wanted to make a different kind of gift, one that could have a disproportionate impact to its size. We settled on a gift to support the efforts of the Faculty Wives Club on behalf of the medical center, and we made the gift in honor of Marnie Wildenthal, Dr. Kern Wildenthal's wife." The fund, the Lyra B. and Edwin R. Daniels Fund Honoring UT Southwestern Wives, provides funding to support activities such as greeting, orienting, and assisting in the relocation of newly recruited faculty members and trainees. The gift will also allow spouses to travel to major meetings and assist at official UT Southwestern functions and will support projects of the Faculty Women's Club, which include community outreach and volunteer efforts at Children's Medical Center of Dallas, Parkland, and Zale Lipshy & St. Paul University Hospitals.

"When Lyra and I visited with Dr. Wildenthal about this idea, he became excited about the fund. He told us that it was so important for the spouses of UT Southwestern faculty members to be a part of the recruiting process, because the entire family needs to agree that UT Southwestern is the best place for them. Through this unique fund, Lyra and I feel as if we play a small part in the recruiting process at UT Southwestern, and we will certainly add to the fund in the future."

Ed also speaks glowingly about the medical care he receives at UT Southwestern. "Since all my doctors except one are at UT Southwestern, it is an ideal situation to have my records centrally located and accessible by everyone involved in my care. The staff has streamlined the entire process, from making appointments to filing insurance claims. I have been very pleased with how convenient it is to get excellent medical care at UT Southwestern."



**Ed and Lyra  
Daniels**

"By leveraging the amount of income one devotes to charitable causes, a person can make a larger gift through life insurance than in any other way."

# Life Insurance—A Versatile Asset

Most people buy an average of five life insurance policies during their lifetimes. The first policy is normally purchased to protect the insured's family against the devastating financial consequences of premature death. With the passage of time, additional policies may be purchased to reflect the needs of a higher standard of living or other transitional events in one's life, such as ensuring a higher education for children.

The versatility of life insurance continues to manifest itself in later years when the original needs for which it was purchased may be greatly reduced. For example, life insurance can be tied into a person's retirement planning by converting it to a paid-up annuity, thus supplementing other retirement income.

Furthermore, industry statistics show that most people elect to continue some of their policies into retirement. **Reason:** Life insurance is an excellent source of liquid funds to meet an estate's death taxes and other obligations at the insured's death.

## A Potentially Costly Misconception

Even though life insurance is the most widely held asset in this country, forming a significant portion of many persons' estates, the tax aspects are too often misunderstood. Since the proceeds of life insurance are generally exempt from income taxation, it is often assumed that they also escape the federal estate tax. On the contrary, the full value of life insurance proceeds—whether term, ordinary, group, accidental death, etc.—is subject to the estate tax if the insured possesses any ownership rights in the policy (such as the right to change the name of the beneficiary) at the time of death.

But there's good news as well. There are several ways life insurance ownership can be arranged so as to keep the proceeds out of your estate, but still make them available for payment of death costs and taxes.

## A TIME-TESTED REMEDY FOR LIQUIDITY NEEDS

Preservation of assets to fulfill personal and family financial objectives is the primary purpose of estate planning. But there are dangers—clear and present—that can jeopardize the realization of your objectives: death costs (including administrative expenses), debts, taxes, and inflation.

*Administrative expenses*, such as executor fees, attorney fees, and court costs, generally average about 6% of the gross estate. Additional death costs include funeral and last-illness expenses.

*Debts* are another factor that must be considered. We live with them all of our lives, and sooner or later they must be paid. But that's only the beginning. The federal government must be considered as well.

The *federal estate tax* is levied by the federal government on the transfer of property at death. Although the marital deduction is now unlimited and the transfer-tax exemption is \$1,500,000 for 2004, the estate tax can still have a serious impact, particularly at the subsequent death of the surviving spouse, who cannot benefit from the marital deduction.

**Another very important point:** The government expects payment of the federal estate-tax liability in *cash* within a short nine months after the estate owner dies. This may not show much empathy, but it's a fact we must all accept and for which we need to plan.

In addition to the federal government, your state government gets into the act too. State death taxes may range from 2% on up. And even estates too small to pay a federal estate tax are often hit with a state tax.

*Inflation*, although reduced, continues to be a factor because it pushes the value of your estate into higher and higher estate-tax brackets. Sadly, the estate-tax liability is not discounted or adjusted in any way to reflect the artificial impact of inflation.

*(continued on back page)*

## Compassionate Care Leads to Charitable Estate Plan

Two years ago, Nancy Branch informed Southwestern Medical Foundation that she had remembered the Foundation and UT Southwestern in her estate plan and accepted the invitation to join The Heritage Society.

Her family ties with the medical center go back to 1944 when her father, Dr. William M. Branch, graduated from Southwestern Medical School and went on to practice orthopedic surgery in Dallas for more than 35 years. In recent years, her family's association with UT Southwestern became more personal and even poignant. In their later years, her father and her mother, Beverly Cribb Branch, saw several physicians at UT Southwestern.

"In the mid-1990s, my mom developed a movement disorder that was eventually determined to be resulting from autonomic failure, a degenerative disease of the autonomic nervous system. Autonomic failure produces initially a 'Parkinsonian' condition, but as the disease progresses it produces broad-ranging and dramatic disability. The disease gradually destroyed my mother's ability to function on a day-to-day basis. The disease does not affect cognition in any way, so my mom was fully aware of what was happening to her. My dad struggled with adult-onset diabetes and experienced very late in life similar motor dysfunction."

For Nancy, certain doctors stand out for the level of personal, compassionate interest and effort they demonstrated, particularly for her mother and toward Nancy as caretaker. "Dr. Benjamin Levine, a cardiologist, was the first physician to tell my mother honestly but compassionately what was happening

**"After his [Dr. White's] studies were completed, he met with me and brought me the gift of scientific knowledge and understanding about the diseases that my mom and dad suffered."**

to her and to forewarn her about the brutality of the disease. Dr. Pdraig O'Suilleabhain in Neurology and Dr. Nick Hogan in Ophthalmology worked diligently to improve her quality of life. These physicians never failed to offer assistance and even encouragement to my mom. Finally, Dr. Charles White, a neuropathologist, accepted postmortem brain tissue donations from each of my parents to his neuropathology research program. After his studies were completed, he met with me and brought me the gift of scientific knowledge and understanding about the diseases that my mom and dad suffered."

Currently, Nancy, who is single, has an estate plan that is entirely charitable. A part of that charitable estate plan is the designation of Southwestern Medical Foundation as beneficiary of a term-life insurance policy. The policy was initially to benefit her mother should Nancy predecease her. After her mother died, Nancy kept the policy intact and named Southwestern Medical Foundation as beneficiary. "Because the policy offers substantial proceeds at very low current cost, this allows me to make a meaningful gift in memory of my mother. She was born and raised in Michigan and came to Texas in 1956, driving a new Cadillac for delivery to a Dallas customer. She was a homemaker in every sense of the word and devoted her life to her family."

Nancy graduated from Texas A&M University College of Engineering and also holds a master's degree in public policy studies from George Mason University. In 2003, Nancy began working at UT Southwestern as a physical plant supervisor.



**Nancy Branch**

## What Happens Next?

In the absence of planning, the combination of such factors can create severe problems for the beneficiaries and frustrate the objectives of countless estate owners. Rich in assets, but short on cash, the executor must either borrow the money at high interest rates (assuming a loan can be obtained) to pay the death costs or be forced into selling nonliquid assets, usually at a substantial loss.

## Viable Solutions

There are several possible solutions to high estate costs and the liquidity problem that can ensue. Some options are more attractive than others, but all are an improvement over no plan at all. The most effective course of action is to review your estate plan with your legal and financial advisors and adopt measures that can reduce the bite of death costs and mesh with your personal objectives. You may have to sort through various planning options.

**A gift of an existing life insurance policy to Southwestern Medical Foundation for the benefit of UT Southwestern can be especially meaningful.**

Naturally, one vital need is to ensure the availability of sufficient liquid assets in your estate. This may be done through a long-range plan of accumulating cash or readily convertible

securities. **Problem:** Premature death would short-circuit the plan. And even assuming sufficient time, there is no way to guarantee the value of securities at the time of death, especially during a time of market volatility.

Probably the most widely used method of coping with the liquidity problem is through life insurance. This is a means by which the event that creates the need for liquidity also makes the liquid funds available. Generally, it's the most economical way to provide liquidity.

Although the general rule is that life insurance proceeds are included in an individual's gross

estate, such a consequence can be avoided. If you carefully plan the ownership of your insurance, you can arrange to have the proceeds excluded from your gross estate and still have them available to pay death taxes and expenses.

**Planning pointer:** One way is to assign ownership of the policy(ies) on your life to your children or an irrevocable life insurance trust. For this approach to be successful, it is crucial that you do not retain any incidents of ownership.

## GIFTS OF LIFE INSURANCE

If you possess any ownership rights in your life insurance, the proceeds will be includible in your gross estate. And if the proceeds are payable to

**Life insurance can be tied into a person's retirement planning.**

your estate, they will also be subject to probate costs. Planning can avoid such unattractive results.

- With a gift of your policy to a third party, the proceeds will be removed from your estate if you live more than three years thereafter.

- A gift of an existing life insurance policy to Southwestern Medical Foundation for the benefit of UT Southwestern can be especially meaningful. By assigning ownership to us, you'll be entitled to an immediate deduction; your future premium payments will be deductible as paid; and the proceeds will escape the estate tax.

**Planning pointer:** Instead of paying the premiums in cash directly to the insurance company, consider transferring the ownership of long-term appreciated property of an equivalent value to Southwestern Medical Foundation for the benefit of UT Southwestern. In turn, we will pay the premiums. **Benefit:** You get the same charitable deduction as for a gift of cash, plus you escape any capital-gains tax on the appreciation element. **Caution:** State law regarding a charity's right to own a policy on a donor may affect the tax benefits of a gift of life insurance. Please check with your legal advisor.



## HERITAGE SOCIETY

**F**OUNDED in 1995, the Heritage Society honors individuals who make long-term charitable commitments to Southwestern Medical Foundation for the benefit of UT Southwestern or one of its affiliates through planned gifts. In essence, it gives the Foundation an opportunity to show its appreciation to those who are *Endowing the Future of Medicine*.

Anonymous (8)	Louis Nardizzi, M.D., Ph.D.*
Mr. and Mrs. James R. Alexander	Gerard Noteboom, M.D.
Marilyn Augur*	Rhea T. O'Connor # *
Paul M. Bass*	Thomas J. Parr, M.D., and Joannie Parr
W. Robert Beavers, M.D.	Selma L. and I. Benjamin Parrill
Drs. Paul R. and Rebecca B. Bergstresser	Patricia M. Patterson*
Michael H. Bertino, M.D.*	Billy Joe Pendley
Josephine L. Biddle#	Shirley Pollock*
Jules Bohm, M.D.*	Doris E. Porter, P.T.
Beth Ann Borden	Mrs. Ashley Priddy
Nancy L. Branch	Muriel Rabiner
Carol A. Brown, M.D.*	Nancy Carol Reddick*
Antonio J. Campdera*	Tom B. Rhodes*
W. Plack Carr, Jr.*	Dr. and Mrs. Leonard Riggs, Jr.
Mr. and Mrs. Robert R. Click	Mr. and Mrs. John Carl Rutledge
Dorothy R. Cullum*	Stephen Raymond Salomon
Edwin R. Daniels*	Hortense and Morton# Sanger
Doris Russell Dealey*	Dr. and Mrs. John W. Schermerhorn
Johann Deisenhofer, Ph.D.	Mr. and Mrs. William L. Schilling
Anne and Brian Dethrow	F. Michael Schultz, M.D.*
Grant A. Dove #	Bette Claire Schuttler
Mack M. Elliott	Sarah M. and Charles E. Seay*
Pamela and Roy Gene Evans*	William D. Seybold, M.D.*
Richard Ferguson	Doyle L. Sharp, M.D.*
Dr. and Mrs. Norman F. Gant	Tom and Dorothy Shockley
David Ginn, M.D.*	Mr. and Mrs. George A. Shutt*
Mr. and Mrs. F. B. Pete Goldman*	John S. Smale
L. Ruth Guy, Ph.D.	Ellen K. and Robert L. Solender*
Sydney and Wallace Hall*	William T. Solomon
Nancy B. Hamon*	Charles C. Sprague, M.D.*
John P. Harbin	Ronald G. Steinhart*
Dr. and Mrs. Thomas W. Harris*	Eleanor P. Stevens
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James M.# and Rosalee G. McConnell	Karol Lynn Wilson
Kay Moran McCord	Terry M. Wilson*
Peter A. McCullough, M.D., M.P.H.*	Mr. and Mrs. Ivor P. Wold
Ferd. C. and Carole W. Meyer	
William R. and Anne E. Montgomery	
Robert H. Munger #	

\* = Charter Member of the Heritage Society  
# = Deceased

## Sample language for a bequest to Southwestern Medical Foundation for the benefit of The University of Texas Southwestern Medical Center at Dallas:

I do hereby bequeath (state specific dollar amount or percentage of estate) to Southwestern Medical Foundation for the use and benefit of The University of Texas Southwestern Medical Center at Dallas, located at 5323 Harry Hines Boulevard, Dallas, Texas 75390. It is my wish that the proceeds from this bequest be used to create an endowed fund to be named the (name of fund) Endowed Fund. None of these funds shall ever become part of the Permanent University Fund, the Available University Fund, or the General Fund of the State of Texas, nor shall they be subject to appropriation by the Legislature.

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### For More Information

We want to be helpful any way we can. For a start, we would like to send you a complimentary copy of our booklet, *Life Insurance: A Flexible Asset*. To get your copy, simply return the enclosed card or call Randy Daugherty, Planned Giving Director, Southwestern Medical Foundation.

(214) 351-6143 • Fax: (214) 352-9874

The information in *Planning Matters* should not be construed as legal advice, tax advice, or as a substitute for advice based on particular factual situations. You should consult your attorney prior to finalizing any of the planning techniques discussed.

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