

Personal Finance, 6e (Madura)
Chapter 20 Estate Planning

20.1 Purpose of a Will

1) Two key goals of estate planning are to ensure that your estate passes to the proper beneficiaries and to ensure that your estate may be insulated to the extent possible from taxes.

Answer: TRUE

Diff: 2

Question Status: Revised

2) An estate represents a deceased person's assets after all debts are paid.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) Estate planning is the act of planning how your wealth will be allocated before your death.

Answer: FALSE

Diff: 2

Question Status: Previous edition

4) The only reason for having a valid will is to have your estate distributed according to your plans.

Answer: FALSE

Diff: 1

Question Status: Previous edition

5) Once you have a positive net worth to be distributed upon your death, you should consider creating a will.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) If a person dies without a valid will, the court will appoint an administrator, which results in additional costs being imposed on the estate.

Answer: TRUE

Diff: 2

Question Status: Previous edition

7) To create a will, a person must be of legal age, be mentally competent, and not be subject to undue influence or threats from others.

Answer: TRUE

Diff: 1

Question Status: Previous edition

8) In order to be valid, a will must be dated, signed, and witnessed.

Answer: TRUE

Diff: 1

Question Status: Previous edition

9) With samples of valid wills being available on Web sites and in book stores, it is not recommended that a person incur the additional expense of hiring a lawyer to write a will.

Answer: FALSE

Diff: 1

Question Status: Previous edition

10) A marital share will is most appropriate for married couples with large estates.

Answer: TRUE

Diff: 2

Question Status: Previous edition

11) Even a parent without significant net worth needs a will to appoint a guardian for children.

Answer: TRUE

Diff: 1

Question Status: Previous edition

12) Since the settling of wills is straightforward, almost anyone can do a good job as an executor of an estate.

Answer: FALSE

Diff: 2

Question Status: Revised

13) The document that describes funeral preferences and indicates where key financial records are kept is called the letter of last rites.

Answer: FALSE

Diff: 2

Question Status: Previous edition

14) Minor changes to a will can be made with a simple document called a codicil.

Answer: TRUE

Diff: 1

Question Status: Previous edition

15) Probate is the legal process that ensures assets are distributed and guardians of children are appointed as the person who died wished it.

Answer: TRUE

Diff: 1

Question Status: Revised

16) _____ is the act of planning how wealth will be allocated on or before your death.

- A) Asset allocation
- B) Estate planning
- C) Liquidity planning
- D) Management planning

Answer: B

Diff: 1

Question Status: Previous edition

17) A legal document specifying distribution of your assets upon death is a

- A) tax return.
- B) letter of last instruction.
- C) will.
- D) trust.

Answer: C

Diff: 1

Question Status: Previous edition

18) Which of the following is **not** a reason to have a will?

- A) To distribute your assets as you wish
- B) To insure that your debts are paid
- C) To reduce the costs being imposed on the estate
- D) To appoint a legal guardian for children

Answer: B

Diff: 1

Question Status: Revised

19) Which of the following is **not** necessary for a will to be valid?

- A) All heirs must agree to the terms of the will.
- B) The will must be dated.
- C) The will must be signed.
- D) The person creating the will must be mentally competent at the time the will is written.

Answer: A

Diff: 2

Question Status: Revised

20) The person specified in a will to receive a part of the estate is called a

- A) beneficiary.
- B) grantor.
- C) trustee.
- D) administrator.

Answer: A

Diff: 2

Question Status: Previous edition

21) The person designated in a will to execute your instruction regarding the distribution of your assets is called a(n)

- A) executor.
- B) guardian.
- C) business associate.
- D) attorney.

Answer: A

Diff: 2

Question Status: Previous edition

22) For a will to be valid, the maker must be all of the following **except**

- A) the legal required age.
- B) mentally competent.
- C) free from undue influence from others.
- D) related to all beneficiaries listed in it.

Answer: D

Diff: 1

Question Status: Previous edition

23) A simple will may **not** be appropriate if

- A) the estate is small.
- B) the estate is large.
- C) the person is married.
- D) the entire estate is to go to the spouse.

Answer: B

Diff: 2

Question Status: Revised

24) A _____ will is suitable for larger estates because it distributes half of the estate to the spouse and the other half to any children or to a trust.

- A) simple
- B) complex
- C) traditional marital share
- D) modern marital share

Answer: C

Diff: 2

Question Status: Previous edition

25) The primary purpose of a marital share will is to

- A) give each former spouse a share of the assets in the case of multiple marriages.
- B) minimize taxes on the estate.
- C) give all assets to the surviving spouse.
- D) keep peace in the family.

Answer: B

Diff: 2

Question Status: Previous edition

26) A will's key components may include all of the following **except**

- A) distribution of the estate.
- B) naming of the executor.
- C) appointing of a guardian.
- D) spelling out funeral arrangements.

Answer: D

Diff: 1

Question Status: Revised

27) A will could be written to distribute assets in terms of the following **except**

- A) percentages.
- B) a specific dollar amounts.
- C) percentages and a remainder portion.
- D) the discretion of the probate judge.

Answer: D

Diff: 1

Question Status: Revised

28) If you die without a will, the court will appoint _____ to handle your estate.

- A) a grantor
- B) an attorney
- C) an administrator
- D) a good friend

Answer: C

Diff: 2

Question Status: Previous edition

29) Which of the following is **not** a duty of the executor of an estate?

- A) Collect money owed the estate
- B) Decide how the assets will be distributed
- C) Pay debts of the estate
- D) Sell specific assets of the estate if necessary

Answer: B

Diff: 1

Question Status: Previous edition

30) If you die without a will, you are said to have died

- A) intestate.
- B) unlucky.
- C) tragically.
- D) irresponsibly.

Answer: A

Diff: 1

Question Status: Previous edition

31) Which of the following is **not** required to be an executor of an estate?

- A) U.S. citizenship
- B) Blood relationship to the deceased
- C) Legal age
- D) Not a convicted felon

Answer: B

Diff: 2

Question Status: Revised

32) An executor, also called your _____, is named in your will to carry out your instructions regarding how your assets will be distributed.

- A) personal representative
- B) attorney
- C) friend
- D) brother-in-law

Answer: A

Diff: 1

Question Status: Previous edition

33) In choosing a guardian for your children, you should

- A) always pick the family member closest to your age.
- B) be sure to leave money for the guardian to care for your children.
- C) ensure that the person you select is willing to serve in this capacity.
- D) Both B and C are correct.

Answer: D

Diff: 1

Question Status: Previous edition

34) If you wish to be cremated when you die, this request should be included in a

- A) simple will.
- B) letter of last instruction.
- C) codicil.
- D) probate.

Answer: B

Diff: 2

Question Status: Previous edition

35) Which of the following statements about the letter of last instruction is **false**?

- A) It describes your preferences for your funeral.
- B) It indicates whether you wish to be cremated.
- C) It legally determines your heirs.
- D) It indicates where your key documents are.

Answer: C

Diff: 1

Question Status: Revised

36) You are recently divorced and have relocated to another state. In order to make substantial changes to your will you should

- A) prepare a new letter of last instruction.
- B) prepare a codicil.
- C) prepare a new will.
- D) have your existing will notarized in the new state.

Answer: C

Diff: 2

Question Status: Previous edition

37) A(n) _____ is a document that specifies changes in an existing will.

- A) letter of instruction
- B) codicil
- C) amendment
- D) secondary will

Answer: B

Diff: 1

Question Status: Previous edition

38) The probate process includes all of the following steps **except**

- A) filing a copy of the will with the court.
- B) filing a copy of the inventory of all assets and liabilities with the court.
- C) opening a bank account and depositing proceeds from the sale of estate assets.
- D) making extra allocations of assets based on the needs of the heirs.

Answer: D

Diff: 1

Question Status: Revised

39) The purpose of probate is to ensure the

- A) orderly distribution of assets.
- B) orderly distribution of liabilities.
- C) distribution of expenses.
- D) equal allocation of all financial matters.

Answer: A

Diff: 2

Question Status: Previous edition

40) Which of the following is **not** accomplished during probate?

- A) Payment of claims against the estate
- B) Validation of the will
- C) Determination of legal heirs
- D) Trading of the estate's assets among the heirs

Answer: D

Diff: 1

Question Status: Revised

41) Which of the following is commonly chosen as an executor?

- A) An attorney
- B) A family member
- C) A bank trust company employee
- D) All of the above

Answer: D

Diff: 2

Question Status: New

42) If it is your desire to have Giddy Funeral Home handle the details of your viewing and burial, your will should prepare a

- A) power of executor.
- B) codicil.
- C) letter of last instruction.
- D) living will.

Answer: C

Diff: 2

Question Status: Revised

43) The assets less liabilities of a deceased individual are called a(n) _____.

Answer: estate

Diff: 1

Question Status: Previous edition

44) A person who dies without preparing a will is said to have died _____.

Answer: intestate

Diff: 1

Question Status: Revised

45) If you are married, have a small estate, and have no children, a(n) _____ will probably serve your needs.

Answer: simple will

Diff: 1

Question Status: Revised

46) Minor changes to an existing will can be accomplished by the use of a(n) _____.

Answer: codicil

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) a legal request for how your estate should be distributed upon your death
- B) a document that specifies changes in an existing will
- C) dying without a will
- D) persons specified in a will to receive part of an estate
- E) a will suitable for a smaller estate distributed to the spouse
- F) the legal process that declares a will valid and ensures orderly distribution of assets
- G) the person designated in a will to execute instructions regarding the distribution of your assets

47) will

Diff: 1

Question Status: New

48) beneficiaries

Diff: 1

Question Status: New

49) probate

Diff: 1

Question Status: New

50) executor

Diff: 1

Question Status: New

51) simple will

Diff: 1

Question Status: New

52) codicil

Diff: 1

Question Status: New

53) intestate

Diff: 1

Question Status: New

Answers: 47) A 48) D 49) F 50) G 51) E 52) B 53) C

54) List the following steps of the probate process in order:

- (a) Estate taxes are paid
- (b) Value of the estate is determined
- (c) A copy of the will is provided to the probate court
- (d) Executor files forms in the local probate court
- (e) A list of assets and liabilities is prepared

Answer: (d), (c), (e), (b), (a)

Diff: 3

Question Status: Revised

55) All of the following are required for a will to be valid, **except**

- A) the will must be typed.
- B) the will must be witnessed by at least two people who are not beneficiaries of the will.
- C) the will must be dated.
- D) the will must be signed.

Answer: A

Diff: 2

Question Status: New

56) All of the following are true about the executor of a will, **except**

- A) the executor is selected by the creator of the will.
- B) the executor may be paid for his or her services by the estate.
- C) the executor is generally paid 5% of the value of the estate for his or her services.
- D) the executor may elect not to be paid for his or her services.

Answer: C

Diff: 2

Question Status: New

20.2 Estate Taxes

1) In determining estate taxes, the estate is valued by subtracting all liabilities including funeral expenses from the value of all assets including a home.

Answer: TRUE

Diff: 2

Question Status: Previous edition

2) The tax-free portion of an estate is quite high—\$5.43 million in 2015.

Answer: TRUE

Diff: 1

Question Status: Revised

3) Once your net worth exceeds the tax-free limit of estate taxes, you should carefully plan your estate to minimize any potential tax liability.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) The value of the estate is calculated using

- A) cost.
- B) market value.
- C) cost plus inflation.
- D) the consumer price index.

Answer: B

Diff: 1

Question Status: Previous edition

5) Which of the following is **not** true regarding the valuation of an estate for tax purposes?

- A) Assets including a home are included.
- B) Liabilities including a home mortgage are subtracted.
- C) Funeral and administrative expenses are subtracted.
- D) Life insurance proceeds from policies owned by the decedent are not included.

Answer: D

Diff: 2

Question Status: Revised

6) The amount of an estate that is exempt from federal estate taxes in 2015 is

- A) \$5.43 million.
- B) \$3.25 million.
- C) \$850,000.
- D) \$10.5 million.

Answer: A

Diff: 1

Question Status: New

7) Estate taxes may be levied by

- A) the federal government only.
- B) state governments only.
- C) both federal and state governments.
- D) foreign governments only.

Answer: C

Diff: 1

Question Status: Previous edition

8) Which of the following is true about an estate and taxes?

- A) All of an estate is tax-free.
- B) A portion of an estate is excluded from taxes.
- C) All of an estate is taxed.
- D) Fifty percent of an estate is taxable.

Answer: B

Diff: 1

Question Status: Previous edition

9) The top federal estate tax rate in 2015 is

- A) 15%.
- B) 30%.
- C) 40%.
- D) 55%.

Answer: C

Diff: 2

Question Status: Revised

10) It is very important to engage in estate planning once the value of your estate nears

- A) \$1,000,000.
- B) the legal limit for the maximum estate that can be passed down to your children.
- C) \$5,400,000.
- D) \$3,500,000.

Answer: C

Diff: 1

Question Status: New

11) All of the following are correct regarding assets included for estate tax purposes, **except**

- A) stocks are included in the estate value.
- B) bonds are included in the estate value.
- C) municipal bonds are not included in the estate value since they are federal tax free.
- D) All of the above are correct.

Answer: C

Diff: 2

Question Status: New

20.3 Trusts, Gifts, and Contributions

1) Estate planning commonly involves trusts, gifts, and charitable contributions for the purpose of avoiding estate taxes.

Answer: TRUE

Diff: 1

Question Status: Revised

2) A trust involves the transfer of assets to a third party who manages these assets for a beneficiary.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) A revocable living trust cannot be changed during the grantor's lifetime.

Answer: FALSE

Diff: 1

Question Status: Revised

4) By using a revocable living trust, you can avoid the probate process.

Answer: TRUE

Diff: 2

Question Status: Revised

5) Under current tax laws, a person may give any other person up to \$14,000 per year in cash or other assets, and neither the giver nor the recipient of the gift has any tax liability for it.

Answer: TRUE

Diff: 1

Question Status: Revised

6) Any money donated from an estate to charitable organizations is given after estate taxes are paid.

Answer: FALSE

Diff: 1

Question Status: Previous edition

7) For the purpose of avoiding estate taxes, estate planning involves all of the following **except**

A) a living will.

B) trusts.

C) gifts.

D) charitable contributions.

Answer: A

Diff: 1

Question Status: Revised

8) The person who establishes and funds a trust is known as the

A) executor.

B) administrator.

C) grantor.

D) testator.

Answer: C

Diff: 2

Question Status: Previous edition

9) A legal document in which one person transfers assets to another who manages them for designated beneficiaries is called a

A) testamentary device.

B) trust.

C) will.

D) codicil.

Answer: B

Diff: 2

Question Status: Revised

10) A person who manages assets for designated beneficiaries is called a

- A) witness.
- B) trustee.
- C) grantor.
- D) executor.

Answer: B

Diff: 2

Question Status: Previous edition

11) A(n) _____ trust is one that cannot be changed.

- A) revocable living
- B) spendthrift
- C) irrevocable living
- D) retirement

Answer: C

Diff: 1

Question Status: Revised

12) Which of the following is **not** a type of trust?

- A) Revocable living trust
- B) Living trust
- C) Standard family trust
- D) Income trust

Answer: D

Diff: 1

Question Status: Previous edition

13) A _____ trust is created by a will.

- A) testamentary
- B) living
- C) bequeathed
- D) credit shelter

Answer: A

Diff: 1

Question Status: Previous edition

14) In which of the following does the grantor no longer own the assets of the trust?

- A) Revocable living trust
- B) Irrevocable living trust
- C) retirement trust
- D) Durable attorney's trust

Answer: B

Diff: 2

Question Status: Revised

15) A standard family trust is all of the following **except**

- A) it is established for children in a family.
- B) it is created by wills.
- C) it is used to minimize taxes.
- D) it is a living trust.

Answer: D

Diff: 1

Question Status: Previous edition

16) A tax-free gift of up to _____ per year in 2015 can be given to another person.

- A) \$1,000
- B) \$5,000
- C) \$14,000
- D) \$20,000

Answer: C

Diff: 1

Question Status: Revised

17) The recipient of a gift within the allowable amount

- A) does not have to report the gift, and it is not subject to taxes.
- B) does have to report the gift, and it is subject to taxes.
- C) must pay tax on the gift at the capital gains rate.
- D) must pay tax on the gift at the ordinary income rate.

Answer: A

Diff: 1

Question Status: Revised

18) A married couple with four children may give tax-free gifts up to _____ each year to their children.

- A) \$44,000
- B) \$66,000
- C) \$88,000
- D) \$112,000

Answer: D

Diff: 2

Question Status: Revised

19) The giving of annual individual gifts up to the allowable amount is especially important for

- A) those without a will.
- B) people in high income tax brackets.
- C) people whose estate value exceeds the tax-free limit.
- D) those with smaller estates.

Answer: C

Diff: 1

Question Status: Previous edition

20) Money donated from an estate to charitable organizations is

A) not subject to estate taxes.

B) added back into the value of an estate for tax purposes.

C) an itemized deduction on the federal income tax return of the deceased.

D) allowed a 50% credit against the value of the estate.

Answer: A

Diff: 2

Question Status: Previous edition

21) A trust that is created by the terms of the will is called a(n) _____ trust.

Answer: testamentary

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) a legal document in which the grantor transfers assets to the trustee who manages them for the beneficiaries
- B) the person who creates a trust

22) grantor

Diff: 1

Question Status: New

23) trust

Diff: 1

Question Status: New

Answers: 22) B 23) A

24) Name three types of trusts.

Answer: Living trust, revocable living, irrevocable living, standard family, and testamentary are possible answers.

Diff: 1

Question Status: Previous edition

25) A legal way to move assets from the parents to the children in order to avoid estate taxes upon the parents' death is to

- A) gift up to \$5,000 per year to one child per year.
- B) gift up to \$14,000 per year to each child.
- C) give \$20,000 in cash to each child every year.
- D) give each child a share of the family home by putting them on the title to the home.

Answer: B

Diff: 2

Question Status: New

26) If your estate is \$500,000 over the maximum tax free limit, one way to avoid paying estate tax on the excess would be to

- A) hide \$500,00 in cash and bury it in the yard, leaving a secret map.
- B) order the estate to make a \$500,000 charitable contribution since the amount contributed would not be subject to estate tax.
- C) gift the \$500,000 to your children after your death but before the estate is settled.
- D) None of these schemes will avoid the estate tax.

Answer: B

Diff: 2

Question Status: New

20.4 Other Aspects of Estate Planning

1) A living will is a simple legal document in which individuals specify their preferences if they become mentally or physically disabled.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) A _____ is a legal document in which individuals specify their preferences for medical care if they become mentally or physically disabled.

A) living trust

B) living will

C) testamentary trust

D) testamentary will

Answer: B

Diff: 1

Question Status: Revised

3) A _____ is a legal document granting a person the power to make specific decisions for you in the event that you are incapable.

A) letter of instruction

B) power of attorney

C) will

D) trust

Answer: B

Diff: 1

Question Status: Previous edition

4) A power of attorney can give someone you designate the power to make all of the following decisions **except**

A) sell stock in your portfolio.

B) authorize expenditures to make your house suitable for you when you become incapacitated.

C) decide who gets your coin collection after you die.

D) select a nursing home for you to live in.

Answer: C

Diff: 2

Question Status: Revised

5) A legal document granting a person the power to make specific health care decisions for you is called a

A) living will.

B) power of attorney.

C) durable power of attorney for health care.

D) health care directive.

Answer: C

Diff: 1

Question Status: Previous edition

6) All of the following are important documents for estate planning **except**

- A) living will.
- B) life insurance policies.
- C) credit card information.
- D) baptismal certificate.

Answer: D

Diff: 1

Question Status: Previous edition

7) Your brother is in a serious auto accident and has become incapacitated. In order for you to be able to make decisions for his medical care, he would need to have created a

- A) living will.
- B) health care directive.
- C) power of attorney.
- D) durable power of attorney for health care.

Answer: D

Diff: 1

Question Status: Revised

20.5 How Estate Planning Fits Within Your Financial Plan

1) In setting goals for estate planning, you should consider all of the following **except**

- A) creating a will.
- B) waiting until just the right time to engage in planning.
- C) establishing a plan for trusts or gifts.
- D) determining the need for a living will.

Answer: B

Diff: 1

Question Status: Previous edition

2) What three types of planning help you protect your wealth?

Answer: Insurance, retirement, and estate planning.

Diff: 1

Question Status: Previous edition

3) Estate planning decisions are affected by what five areas?

Answer: Financial planning tools, liquidity management, financing, investing, and protecting your wealth.

Diff: 1

Question Status: Previous edition

- 4) As you get older and accumulate wealth, it is important to keep abreast of
- A) gift tax laws in order to avoid potential estate taxes.
 - B) estate tax laws regarding the tax free estate limits.
 - C) tax law regarding use of trusts to avoid estate taxes upon your death.
 - D) You should consult an attorney who specializes in estate planning routinely about all of the above factors.

Answer: D

Diff: 1

Question Status: New

5) You are retired and have built a significant estate valued well over the \$5.43 million federal tax free limit. You have no significant financial responsibilities and live very comfortably on the cash flow from your portfolio. At this point in your financial planning, which of the following have become less important and should be considered for cancellation or reduction?

- A) Your bond holdings
- B) Your term life insurance policy
- C) Your stock holdings
- D) Your health insurance policy

Answer: B

Diff: 2

Question Status: New