

Chapter 5.

Taking Stock of the Estate





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An assessment of an individual's property should be made early in the planning process so that it can facilitate the decisions that need to be made. An estate plan that effectively meets the property owner's objectives, as well as the family's, involves getting a handle on all of an individual's property and how it is owned. Understanding the extent of the estate will show whether the goals of the estate can be met.

In this chapter we'll address three parts of taking stock of an estate:

1. Identify assets and liabilities in the estate.
2. Locate papers and documentation.
3. Establish a personal net worth statement.

If an assessment isn't done during the property owner's life, it may complicate the information gathering process that would have to be done at death, only the property owner isn't around to answer key questions.

So, what can be done today? Get specific with the property owned and the value of the estate. If you've already set goals (in Chapter 3) then this inventory may help clarify how you want to dispose of your property after death. Plus, without doing this it will be impossible for advisors to predict the estate and inheritance taxes and provide advice on the problems involved.

Steps in the Process

A key to accomplishing your goals is to begin properly. Setting financial goals and determining progress on them is difficult without knowing the extent and value of the estate. A very effective tool for financial planning is a personal net worth statement or balance sheet, which is a product of the inventory process and a clear presentation of

the information gathered. A net worth statement is a financial balance sheet. It presents a concise summary of your assets (what you own) minus your liabilities (what you owe) at some point in time, the difference being your net worth.

$$\begin{array}{r} \text{Assets (what you own)} \\ - \text{Liabilities (what you owe)} \\ \hline \text{Your Net Worth} \end{array}$$

Preparing a net worth statement will help you get a clearer understanding of the state of your financial resources. To get to a net worth statement we'll follow four steps. These steps in the process of taking stock of the estate are:

1. Determine what is owned, and its value
2. Determine what it is owed, and its value
3. Centralize the collected information
4. Construct a personal financial balance sheet

Step 1. Determine what is owned, and its value

You have an estate if you own anything. Your estate consists of real and personal property in which you have a right, title, or interest, and includes all of your assets and liabilities. Your estate includes your obvious personal assets, such as your home and money, and not-so-obvious assets such as the value of term life-insurance.

Identify Financial Assets

The goal here is to collect information about an individual's personal assets. The schedules found on the Estate Value Worksheet collect the details which are later summarized on the personal balance sheet (transferring the totals and constructing the main balance sheet is Step 6)

A note, you may use the worksheets provided in this notebook, but you can also do a good job using a simple pad of paper or spreadsheet – the point is to collect somewhere the value of the estate. No matter whether you use the worksheets or blank paper, several important pieces of information will be needed for each item. When it comes time to settle an estate, you



will need information on

- The original cost of assets (plus the value of improvements)
- Current fair market value
- Ownership, including the nature and names of co-

- owners (how the property is titled),
- The remaining value of debts
- Location

Start by listing all your assets—what you own. Personal assets include liquid or cash assets such as cash on hand and money in checking

The worksheet is available online as a spreadsheet in MS Excel. Download it and enter your information (the spreadsheet will automatically calculate totals). It is available at www.uwyo.edu/CES/FRM.

and savings accounts. Invested assets include certificates of deposit, mutual funds, and marketable securities like stocks and bonds. Include assets in taxable accounts as well as those in tax-deferred accounts such as IRAs and other retirement savings plans including those provided by your employer. Other assets are your personal property, vehicle, furnishings and home if you own one.

Values on the assets should be at their current market value and what you paid for them. If you were to sell these assets on the open market, what would their value be? Some assets like a home or jewelry may appreciate, but most will depreciate or lose value from the original purchase price. Below are tips on how to find values for some assets.

- *Cash*: Use the most recent statements for checking, savings and money market account balances, and current certificate values.
- *Government savings bonds*: call a bank to find out what they are currently worth.
- *Life insurance policies*: Check your policy or call your agent to determine the cash surrender value and the face value of the policy which will be paid at death. Such

assessments make a sizeable difference in the value of what you may transfer at any given time.

- *Stocks, bonds or mutual funds*: check a newspaper that publishes the information or read the most recent statement.
- *Residence*: Use the current value of your house or other real estate—not what you paid for it. Your city or town assessor can tell you its full assessed value.
- *Automobile*: Check a used vehicle guide for the value of your cars and trucks. One example is Kelly's Blue Book (www.kbb.com)
- *Recreational vehicles*: To find out the value of your boat, camper, snowmobile or any other recreational vehicle, talk to a dealer who sells used recreational vehicles.
- *Household property*: Make a conservative estimate of the value of household items and personal property, recording what you could get if you sold everything today.
- *Investment accounts*: List the current value of your pension, IRA's or other retirement plan, using the amount you would get if you were to cash them in today.
- *Land*: Appraisal of the asset (land, improvements, machinery and equipment, water, livestock) is necessary at some point in the planning process.
- Don't forget to add money others may owe you if you realistically expect to collect it.

Value them all on the same date and put that date on your balance sheet.

Business related assets owned by the individual can be added in a separate section of the net worth statement. For a farm partnership, include only items owned or owed by the individual, not by the partnership. As a part of the operations of the business, there may be financial statements showing assets, liabilities and net worth. However, this will likely include items not owned by the individual and will not have the sort of detailed information required for estate planning.



Keep in mind that how an asset is owned is important. Generally, property that you own jointly with another person with a right of survivorship will automatically pass to the other joint owner

upon your death. For example, if you have a joint savings account with a right of survivorship with your daughter, when you die your daughter gets all the money in that account. Even if your will says to divide everything among your three children, she will automatically get the money in your savings account. It doesn't matter what your will says. It is very important that you know how you own all of your property and how that property will change hands upon your death. In the case of the bank account it may be wise for you to be the sole holder with your daughter having a power of attorney to write checks on it.

Identify Items of Sentimental Value

Many estate plans focus on the big ticket items – the will spells out who gets the house, land, bank accounts and so on. It might even set up a trust for children or grandkids. But did it indicate who gets grandfather's cherished pocket watch? What about the family photo albums? Often these can cause tremendous tension and do not appear in the personal balance sheet. An estate plan shouldn't overlook the small items, and thus an inventory of assets shouldn't either.

"The fundamental problem is that personal possessions often can't be distributed equally to more than one heir," explains Marlene Stum of the University of Minnesota. "Money can be split in thirds, but a painting, for example, cannot. People have far more emotional attachment to personal items than to money, which makes the division process potentially traumatic."

Thus sentimental assets should be listed, but because of their special characteristics they should be listed separately from financial assets. As with the financial assets of the estate, construct an inventory of items of sentimental

value. However, if the personal asset also has notable financial value it should also be listed in the schedules for the personal balance sheet.

Step 2. Determine what is owed, and its value

Liabilities are what you owe—usually in the form of outstanding bills and debts. Short-term debt includes current unpaid bills as well as the balance owed on any installment loans, car loans, credit card accounts, loans against life insurance policies, and any other secured or unsecured debt that is less than five years in length. Long-term debt includes a home mortgage, home equity loans, and any other debt that will take longer than five years to pay.

List your liabilities and their value on the schedules provided on the Estate Value Worksheet. Below are tips on how to find values for some common liabilities.

- *Mortgage:* The balance of the mortgage loan on your house may be on your monthly statement. If not, ask the lender for the outstanding balance.
- *Unsecured credit:* Record the balance due on all credit cards, charge accounts, installment accounts and other loans. Be sure to list the total balance due, not just the monthly payment.
- *Accounts:* List any current unpaid bills, including what you owe the dentist, this month's utilities, telephone charges, etc.

Step 3. Centralize the Collected Information

The most difficult part of completing a net worth statement initially is getting all your financial records together. You will need current statements from checking and savings accounts, CDs, credit cards, store accounts, loan statements, investment or brokerage accounts, insurance policies with a cash value, and information about the current value of any employer-sponsored benefits such as pension plans, profit sharing or 401(k) plans.



A Valuable Papers File

Naturally, taking stock of the estate can lead to the collection of quite a lot of information. To better manage the information create a valuable papers file.

Information for this file can be in a tremendous variety of places. Some information may be known by others. In a family business there are probably a number of people who are familiar with some of the operators' financial activities—lawyers, accountants and so on. But much of the information may be unknown. Managers often operate independently, and many things they do from day to day are unknown by spouses, family members, friends and associates – in fact, no record of many things may ever be kept. And the location of documents that hold the information may be unknown too. For instance, some documents may be in the farm office, some in the kitchen, some in a strong box, and some in a safety deposit box—there could also be some in a notebook in the glove box of the pickup among other handy, if not obvious, places.

The idea of a valuable papers file is to pull the financial information needed for a personal net worth statement and an estate plan—or at least copies of the information—into one easy to locate place. An inexpensive fire safe is usually a good option. Be sure that everyone knows where it is located (or that at least your executor knows).

Personal Information

The valuable papers file is not only a good place to collect information on personal and business property, but a place to collect the details of people involved in the plan and the estate planning process. Knowing the contact information of inheritors, who the estate's advisors are, and the location of the original documents will make for an easier transfer process. But it is not the focus of this chapter. The main goal here is to collect information on the items in an estate needed to estimate its

financial value and deal with items of sentimental value.

The worksheets and information in this chapter focus on building a full and accurate assessment of the current financial condition of an estate—i.e. your net worth.

Step 4. Construct a Personal Financial Balance Sheet

To this point you have probably completed the various schedules that provide the detailed information on assets and liabilities. To complete the personal balance sheet, transfer the totals found on the schedules to the Net Worth Statement. It provides places to collect and summarize the financial assets and liabilities of the estate.

After you have compiled both your assets and your liabilities, you are ready to subtract total assets from total liabilities. What's left is your net worth.

Once you have completed your net worth statement, take time to look it over and make sure it is complete. To begin, look at each major liability listed and see if a corresponding item can be found under the asset side. If a corresponding asset cannot be found, you may have forgotten to list something. Or the asset originally acquired with borrowed money may have already been sold or used up before paying the corresponding liability.

Analyzing the Net Worth Statement

Your personal net worth statement can tell you many things and can lead to startling insights about your financial condition. For instance the estate may be much smaller or larger than expected. Your net worth may either be a positive or negative number. Use the information on the net worth statement as the base for financial planning decisions as well as estate transfer decisions. Ask your self these questions:

- Do you have adequate emergency funds?
- Did you discover any surprises, like excess debt or forgotten assets?



- Is your insurance coverage adequate to cover the value of your property?
- Are your invested assets working for you to increase your net worth?

- How does your debt load compare to your income?
- Are you building financial resources to help you achieve your long-term goals?

A particularly useful calculation based on the net worth statement is the estate taxes that will be due on your death. The information can be used to create one (or more) hypothetical tax returns. Information on this calculation is found in Chapter 7. Keep in mind that the amount of the estate tax depends upon the value of the assets the decedent held at death, how the assets are held, and deductions and credits available. Careful planning can often reduce the tax due.

Final Comment

If the estate is somewhat less than you expected, then in the coming years an emphasis on accumulation may be desired, or, if you are satisfied with the size of the estate, then its preservation. Estate planning involves the coordination of all your properties (stocks, bonds, cash, real estate, business interests, life insurance, retirement benefits and other assets)

into a total program over your lifetime. Keep in mind the definition of estate planning:

Estate planning is the accumulation, the preservation, and the distribution of your assets. It is accomplishing your personal family goals and easing the management of your estate, as well as minimizing taxes.

Your net worth statement is a record that should be updated on a regular basis and kept with your valuable papers. It should be updated every few years or after some important life event has occurred, such as after children finish college, retirement, marriages or divorces, the addition of children or grandchildren, a business success or failure, a series of gifts or other important events.



Resources

Estate Planning for Baby Boomers and Retirees: A Comprehensive Guide to Estate Planning. Stewart H. Welch, III (1998) Wiley.

Estate Planning Publications: various topics. Marsha Goetting, Montana State University. <http://www.montana.edu/extensionecon/estateplanningpublications.html>

Financial Security in Later Life(various resources collected by CSREES) www.csrees.usda.gov/nea/economics/fsll/fsll.html

Getting Ready for Estate Planning (2004) Purdue University. www.ces.purdue.edu/estateplanning/

Managing the Multi-Generational Farm. Pat Davidson (1997) Canadian Farm Business Management Council, Agriculture and Agri-Food Canada. CFBMC Index 0591-1. 888-232-3262, <http://www.farmcentre.com/>

Planning Your Estate (2006) Federal Citizen Information Center, Pueblo, Colorado. www.pueblo.gsa.gov/cic_text/money/estate/estate.htm

Who Gets Grandma's Yellow Pie Plate? A Guide to Passing on Personal Possessions. University of Minnesota. MI-6686-WG. 800 876-8636. www.yellowpieplate.umn.edu/

Who Will Get Grandpa's Farm: Communicating about Farm Transfer (2003) www.ces.purdue.edu/farmtransfer/

Checklist of Important Financial Information

Items on the list below are typically found in estates. The information that follows the item will provide important details about the asset or liability as well as how it is owned.

Insurance

- Life insurance: company and policy, policy number, face value and supplemental values, cash value and any outstanding policy loan, exact name of owner, name of insured, beneficiary

Financial Information: Assets

- Checking and savings accounts: name of institution and location, exact names on accounts, amounts, how titled on signature card, number of each account.
- Personal property: motor and recreational vehicles, machinery, livestock, crop inventory, home furnishings, jewelry, art, antiques, personal items. Provide a description that includes cost, value, ownership and how it is titled.
- Business property: buildings and improvements; machinery and equipment; livestock; feed, grain and supplies; operating capital
- Notes, mortgages, and other accounts receivable: description, year acquired, value, person who owes you, repayment plan
- Stocks, bonds and other securities: description, purchase date and price, exact name of owner, face value
- Real estate: type and size of property and size, location and description, year acquired, cost, market value, title holder's name
- Trusts: type, location, trustee, who established, exact name of beneficiary, value of trust
- Retirement plans: pensions, profit sharing, deferred compensation, IRA, Social Security, annual benefits for husband and wife, amount invested, death benefits

Financial Information: Liabilities

- Mortgages and other real estate debts: description, name of creditor, date due and amount remaining to be paid, whether debt is an individual or joint responsibility, whether insured
- Liens against personal property (i.e. vehicle or machinery loans): description, name of creditor, date due, remaining amount to be paid, whether debt is an individual or joint responsibility, whether insured
- Other personal liabilities:

Financial Information: Other

- Other financial information
- Taxable gifts

Net Worth Statement

Passing It On: University of Wyoming and the Wyoming Department of Agriculture

Schedules of Assets and Liabilities

Name

Date

Schedule A. Bank Accounts and Cash

Description/Account Number	Location	Names		Value
		on Account	Owner	
Total				

Schedule B. Stocks and Bonds

Description/Account number	Location	When	Shares	Owner	Value
		Acquired			
Total					

Schedule C. Retirement Accounts

Description	Location	Held by	Value
Total			

Schedule D. Automobiles

Description	Title	Cost	Value
Total			

Schedule E. Life Insurance

Description	Beneficiary	Location	Held by	Value
Total				

Schedule F. Real Estate

Description/Location	Size	Title	Year Acquired	Cost	Market Value
Total					

Schedule J. Automobile Loans

Description	Creditor	Date Due	Individual or Joint Responsibility	Amount Remaining
Total				

Schedule K. Accounts Payable

Description	Creditor	Date Due	Individual or Joint Responsibility	Amount Remaining
Total				

Schedule L. Mortgages on Property

Description	Creditor	Date Due	Individual or Joint Responsibility	Amount Remaining
Total				

Schedule M. Loans on Life Insurance

Description	Creditor	Date Due	Individual or Joint Responsibility	Amount Remaining
Total				

Schedule N. Unpaid Personal Taxes

Description	Value	
Total		

Schedule O. Other Personal Liabilities

Source	Purpose	Balance Owed	Accrued Interest
Total			

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Net Worth Statement

Passing It On: University of Wyoming and the Wyoming Department of Agriculture

Name

Date

Personal Assets	Market Value	Personal Liabilities	Market Value
Bank accounts and cash (Sch. A)		Credit card, charge accounts (Sched. I)	
Stocks and bonds (Sch. B)		Automobile loans (Sched. J)	
Retirement accounts (IRA) (Sched. C)		Accounts payable (Sched. K)	
Automobile (present value) (Sched. D)		Mortgages on properties (Sched. L)	
Life insurance (cash value) (Sched. E)		Loans on life insurance (Sched. M)	
Real estate (Sch. F)		Unpaid personal taxes (Sched. N)	
Household goods, clothing (Sched. G)		Other personal liabilities	
Accounts/notes receivable (Sched. H)			
Other personal assets			
Total Personal Assets (a)		Total Personal Liabilities (b)	
		Personal Net Worth (c) (a - b)	
Total Debt-to-Asset Ratio		Personal Net Worth Last Year (d)	
		Change in Personal Net Worth (e) (c-d)	

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