

The Advisor's Estate Planning Challenge: Test Your Knowledge!

1. In 2025, what is the total amount of money and property that a person can gift during their lifetime and leave at their death (other than to their spouse) without owing any federal estate tax?
 - a. \$5 million
 - b. \$15 million
 - c. \$13.99 million
 - d. as much as you want

The correct answer is "c." For 2025, the federal exemption is \$13.99 million. This amount, also known as the federal lifetime estate and gift tax exemption, applies to gifts made during a person's life and assets transferred at death. The exemption is set by federal statute and adjusted annually for inflation. However, any assets left to a surviving spouse who is a US citizen are not subject to federal estate tax due to the unlimited marital deduction.

2. Which estate planning tool is used to designate who will inherit a client's money and property after their death?
 - a. living will
 - b. financial power of attorney
 - c. last will and testament
 - d. healthcare proxy

The correct answer is "c." A last will and testament is a legal document that allows the creator of the will, or *testator*, to specify how and to whom a person's assets are to be distributed after their death. It allows the testator to nominate a guardian for their minor children and appoint an executor to manage their estate.

3. What is the legal process by which a deceased person's will is proved valid (if they have one) and their estate is administered under court supervision?
 - a. conservatorship
 - b. trust administration
 - c. guardianship
 - d. probate

The correct answer is "d." Probate is the legal process through which a court validates a deceased person's will (if one exists) and ensures that their probate estate is properly administered. Probate administration includes paying off the decedent's valid debts and taxes and distributing the remaining assets to the beneficiaries. The court oversees this process to protect the interests of all parties involved.

4. Under a medical power of attorney, a person can appoint an agent to make decisions for them regarding their
 - a. business operations
 - b. real estate transactions
 - c. medical treatment and care
 - d. financial investments

The correct answer is “c.” A medical power of attorney, also known as a healthcare proxy or durable power of attorney for healthcare, is a legal document that allows a person to appoint an agent to make medical decisions on their behalf if they cannot do so themselves. The appointed agent, often a trusted family member or close friend, is authorized to consent to or refuse medical treatments or surgeries and make other healthcare decisions according to the patient’s wishes.

5. What happens if a person dies without a valid will and owns accounts or property in their sole name without a designated beneficiary?
 - a. their spouse or children automatically inherit everything
 - b. their money and property are distributed according to state intestacy laws
 - c. the financial institution permanently holds the accounts
 - d. their assets automatically go to the state

The correct answer is “b.” If a person dies without a valid will, they are said to have died *intestate*. In this situation, state intestacy laws determine how the assets are distributed. These laws vary by state but generally prioritize the surviving spouse, children, parents, and other close relatives in a specific order. The state does not automatically seize the assets.

6. Which of the following assets typically avoid probate?
 - a. a solely owned bank account without a named beneficiary
 - b. real estate jointly owned as tenants in common
 - c. a life insurance policy with a named beneficiary
 - d. personal belongings such as furniture and art

The correct answer is “c.” When a life insurance policy has a designated beneficiary, the death benefit is paid directly to that person, bypassing the court-supervised probate process.

7. The primary purpose of a living will or advance directive is to
 - a. name a guardian for minor children
 - b. outline medical treatment preferences for times when you cannot communicate those wishes yourself
 - c. appoint someone to manage financial affairs
 - d. distribute money and property after death

The correct answer is “b.” A living will, also called an advance directive, is a document recognized by most states that provides instructions for a person’s medical care if they become terminally ill or incapacitated and are unable to communicate their wishes. It specifies their preferences regarding life-sustaining treatments such as artificial hydration and feeding, mechanical ventilation, and resuscitation.

8. Which of the following is **not** a common goal of estate planning?
- avoiding probate
 - maximizing income taxes during one’s lifetime
 - minimizing estate taxes
 - ensuring that money and property are distributed according to one’s wishes

The correct answer is “b.” Common estate planning goals include ensuring that your assets are managed and distributed according to your wishes, avoiding probate, and minimizing estate and gift taxes.

9. A financial advisor’s role in estate planning typically involves
- drafting legal documents such as wills and trusts
 - acting as the sole executor of the client’s estate
 - providing legal advice on complex estate laws
 - coordinating with estate planning attorneys and providing crucial account information during the planning and administration processes

The correct answer is “d.” A financial advisor’s role in estate planning is to serve as a key member of the client’s advisory team. Financial advisors provide important details about the client’s assets, such as account balances and investment holdings, and help implement the financial strategy that aligns with the client’s estate plan.

10. Which of the following can be accomplished using a revocable living trust as the foundation of a client’s estate plan?
- probate avoidance
 - maintaining privacy during and after the client’s death
 - providing guidelines and restrictions to protect a beneficiary’s inheritance
 - all of the above

The correct answer is “d.” A revocable living trust is the foundation of most estate plans because it offers several key benefits. It allows for the avoidance of probate and ensures that assets are transferred to beneficiaries more smoothly and privately. It also provides guidelines and restrictions that can protect a beneficiary’s inheritance—for example, providing for distributions in stages over time instead of as a single lump sum.