

The Challenger Game: A New Murder Mystery Case Study

Course Description: Through the use of a case study, the course covers and demystifies the process of business continuation planning, estate planning, and insurance planning when the owner of a privately held business is killed.

First Hour and a Half: Case development of a group solution

Initially I will go over the case data with you in the form of a skit. Then class will be broken up into groups. Each group will review the case data and answers the questions. Each group will submit their answers to me. Points will be awarded for applicable or useable answers to the questions (based on the case data).

Next Half Hour: Challenger game

For extra points, each group (by drawing for who goes first) will give their answer to each question. If the answer is acceptable (not challenged), that group gets a bonus point. Other groups or I can challenge the group presenting their answer. If the group has a wrong answer, they will lose a point. If the challenging group is correct in challenging, they get 1 point. If their challenge is incorrect, they lose 1 point.

The game will continue until all the case questions are answered. The group with the most overall points wins.

Last Half Hour: I am looking for volunteers to be the cast members in the skits. The final skit will determine who killed Alex. The lines for the skits are already prepared. All you have to do is play the part and read the lines.

The cast members are:

- Alex
- Tom, Jr. (Gibby)
- Cynthia
- Dawn
- Roger Thorpe
- Joseph Peterson

I will be playing the sheriff

ZAHN

© Kenneth Zahn Inc. 2006

110 S. Hoover Blvd. Suite 214 Tampa, FL 33609

Telephone: 800-881-1941

Murder Mystery II

e-mail: zahn@kenzahn.com

Murder Mystery Case II

Alexandra Thompson-Gibbons

On a night in late spring, as lightening bolts split the sky and thunder rumbled, Alexandra (Alex) died due to a gunshot wound. The gun was hers. Alex, age 56, was a 5th generation Floridian. Alex's great-great-grandfather had come to Florida to grow oranges. After he had established a small grove, he began buying up all the adjacent land. The following generations did the same and eventually through the generations the amount of land became sizeable.

Fortunately, the land was south of I-4 and the groves escaped the deadly freezes of the 1980's. Unfortunately, the hurricanes of 2004 destroyed the crop, but the trees survived. They were also slightly affected by the hurricane of 2005. As a result, cash flow over the past two years has been severely limited.

Alex lived rather simply in the old family homestead on the grove land. Rather than taking income, she had put most of her liquid assets and almost all cash flow back into her beloved grove. As a result, her son and two daughters have had their so-called wages slashed to the bone in the past two years.

"The Grove"

"The Grove" used to be in the middle of orange groves that stretched for miles to the west of Orlando from north to south. When "The Grove" produces fruit, it might be worth \$25 million, but to the land developers it is worth \$100 million. The trees are back to normal production.

"The Grove" can be made into planned community. It is perfectly located in regards to new Orlando road construction and is close to the tourist attractions. It has a natural spring with lakes throughout the property.

Although Alex was pressured by developers and family members, she refused to sell "The Grove."

Financial Planning

After her parents died unexpectedly and she was faced with probate and estate taxes, Alex realized that she needed to see to her own financial planning much planning.

At the time of her parents' death, the IRS valued "The Grove" at \$10 million. After a bitter battle, this was reduced to \$8 million (basis). Alex inherited the entire property. Initially, she gifted half of it to her husband Tom. When Tom died, the property was valued at \$15 million and the property passed back to her. She owned 100% of "The Grove" in her revocable trust.

Alex and Tom did revocable trusts. When Tom died, \$600,000 of Tom's other assets went into a bypass trust that provides income only to his children. It was funded with miscellaneous assets. It has a current value of \$900,000 and eventually will pass to the grandchildren then living.

Alex and Tom took out a \$5 million second-to-die life insurance policy (15 years ago). The policy is in an ILIT. The beneficiaries of the trust are her three children with provisions to buy assets from the estate to provide estate tax liquidity. Alex gifted the annual premium using Crummey provisions (a total of \$30,000 per year).

Alex never involved her children in the ownership of the "The Grove." She just didn't trust them with the property.

However, another parcel of land along the highway came up for sale a few years ago. Alex bought the land for \$840,000 and then gifted \$630,000 (\$210,000 each when the annual exclusion was \$10,000) to her children. The property is currently valued at \$2,000,000.

Alex's revocable trust

Alex's trust has the following provisions. At her death

1. "The Grove" is sold to the highest bidder.
2. Probate and estate taxes are paid.
3. \$1,000,000 is placed in a bypass trust for the benefit of her grandchildren (for education and other needs) until they each turn age 25.
4. \$500,000 is paid to each of her three children outright. The remaining balance is placed in three spendthrift trusts with no 5 or 5 provisions, but there are provisions for health only (no HEMSs). At her children's deaths, the remaining assets pass to her grandchildren then living.

Children

Alex met Tom Gibbons at the university. She was an "ag" student, he was a jock. Tom was a respected player, but not a star on the team. Alex and Tom married and had been living in the Orlando area for a few years when Alex's parents were both killed in an auto accident.

Alex and Tom then moved into "The Grove" house and started a family. Life was tough. The estate taxes due at Alex's parents' death really strapped Alex and Tom for cash, but they managed to pay off the taxes and improve "The Grove." Tom learn to love "The Grove," especially when the orange trees bloomed.

The marriage produced three children before Tom's untimely death due to a heart attack at age 45 (10 years ago).

Tom, JR.

Tom, Jr., known as Gibby, is age 36. He also went to the university and played football. However, he mostly played around. The coach let him stay on the team only because of Tom, Sr. and the donations to the university by Alex and Tom.

Gibby was only liked by a few teammates due to his dirty play. In his senior year, he turned fat and mainly warmed the bench, even in practice.

Since returning home after college, other than close friends, most people avoid him. When his mother cut his income off, his lifestyle was reduced to drinking cheap beer. However, two land developers have noticed his situation and have been wining and dining him. Gibby is hopelessly in debt and his mother will not bail him out. He is single and has never been married.

Cynthia

Cynthia, known as Cindy, is age 30. She was a high school cheerleader. She tried out for the cheerleading squad at the university, but didn't make the squad due to her clumsiness. After four years of college, she tried marriage but that ended in a messy divorce.

To date the type of men she likes, it has taken some "nip and tuck" procedures and money. Her mother's lifestyle has driven her crazy. All the money spent on "The Grove" could have afforded her the "right" style of living. Having two children didn't help her financially or physically. The Miami doctors have told her that if she has the final "nip and tuck", she will be a star.

Cindy's children

Alex was quite amazed when Cindy had two children early into her marriage. Cindy's lack of interest in taking care of the children had driven them to relying on Alex for support and friendship. One year ago, she set up 529 plans for both Susan (age 8) and Bobbie (age 7). Alex deposited \$55,000 for each of them (2005). The 529 plans were worth \$65,000 on Alex's date of death.

Dawn

Dawn is age 25. She started experimenting with drugs at age 14 in her first year of high school. Some of the drugs have led her into violent confrontations with her mother and various friends. Alex paid for various rehab procedures. Nothing is working. Alex never knew what her daughter would do next.

"The Grove"

"The Grove" has always paid all the family members an income and has provided tax-free fringe benefits. "The Grove" buys each of them new cars, pays for medical insurance, provides expense money, etc. But this has been cut way back in the past two years. Of course, none of the children have ever done any work for "The Grove," even when they were young. All the maintenance of "The Grove" is outsourced and Alex use to oversee that it was done properly. There is no love lost between the children and "The Grove." Alex loved "The Grove" like she never loved her children.

Family Living Idyllic Properties

Roger Thorpe owns Family Living, better known as FLIP. Roger recently made a huge mistake. He sold out a fair sized property in a matter of days to a variety of investors and realtors. He guaranteed building the houses with a normal inflation factor. However, due to the hurricanes, building costs have skyrocketed. He feels he will just barely make a profit or breakeven. He desperately needs another property he can develop. He feels if Gibby had control of "The Grove," he could make up his losses developing the property.

Roger had been run off "The Grove" by Alex. The last time he was there, Alex pulled out her gun and made Swiss cheese of his Mercedes with him in the car. He reported the incident to the local sheriff. Little did he know that the sheriff and Alex were having a behind-the-scenes affair, and the sheriff ran him off. The sheriff said if she wanted to kill Roger Thorpe she would have. Alex didn't miss. She was a crack shot.

Senior Life Style Properties

Joseph Peterson owns Senior Life Style. He also made a huge mistake. To cut costs in a new development, he used his "nest egg" money to develop a property. Since no bank was involved, he figured he could wait to buy insurance on the townhouses until the workmen were at least putting up the second floor. When the first hurricane rolled through the Orlando area at 100 mph (unheard of), the construction and materials on the job site were damaged to the point where everything had to be removed. At best he feels he will break even on this project.

He heard about Alex running Roger off the property with a gun and decided the only way to get "The Grove" was through Alex's children. He is not going to let Roger beat him.

Alexandra Thompson-Gibbons
Statement of Financial Condition

<u>Cash / Cash Equivalents</u>		<u>Liabilities</u>	
Checking	\$ 50,000	None	
Money market (T)	<u>100,000</u>		
Cash / Cash Equivalents	\$ 150,000		
<u>Investments</u>			
The Grove ¹ (T)	\$11,500,000		
SEP ²	500,000		
Investments ³ (T)	1,000,000		
Undeveloped land ⁴ (JT)	<u>500,000</u>		
Investments	\$13,500,000		
<u>Use Assets</u>			
Personal property	<u>\$ 50,000</u>		
Total Assets	\$13,700,000	Net Worth	\$13,700,000

- (T) Alex's revocable trust
(JT) Joint with rights of survivorship

- 1 The basis of the property is _____ .
- 2 The beneficiaries are her children equally, if living.
- 3 Miscellaneous blue chip type stocks
- 4 Land Alex purchased and gifted to her children (basis \$210,00). It is not part of "The Grove."
- 5 The family home and Alex's car are owned by the "The Grove."

Business insurance

"The Grove" has purchased a commercial package policy that covers all buildings, equipment and employee cars. The package also covers \$2,000,000 worth of liability. Alex avoided buying workers compensation by outsourcing all the work done at "The Grove." Her insurance agent is upset because he feels her children are employees and should be covered.

Group health - PPO

Doctor visits	\$20 copay
Hospital stay	\$500 deductible
Deductible - out of system	\$1,000 per year
Premium	"The Grove" pays the premium for Alex and all employees

SEP-IRA

"The Grove" has not made any SEP contributions for the past two years. In prior years, Alex tried to contribute around 20%-25%.