



## Art as an investment?

*“Beauty is truth, truth beauty”—that is all/Ye know on earth, and all ye need to know.”*

—John Keats,  
*“Ode on a Grecian Urn”*

Well, yes, but many who collect works of art — whether Grecian urns or Ming vases, Rembrandts or Warhols — and many who share the growing interest in art as an investment have several major practical questions for which they seek answers.

Perhaps the first is simply: *Is art a good investment?*

Jianping Mei and Michael Moses, two professors at New York University’s Stern School of Business, have done extensive research that bears on this question. John Dobosz on Forbes.com (09/09/2003) reports that over a number of periods of time, the Mei/Moses All Art Index (based on data from paintings that came to market in New York or London more than once since 1875) has outperformed the S&P 500-stock index. For example: It topped the S&P 500 by 1.2% over the last 50 years; by 8.0% over the last five years; and by 18.2% over the last three years.

*Note:* An index is an unmanaged measure of performance. It is not

possible to invest in an index. But although past performance is no indicator of future results, such statistics may suggest that discerning investors might at least want to give some thought to adding art to their portfolios.

The next major question that investors might ask is: *What function could art serve in a portfolio?*

Godfrey Barker, in an article entitled “Give ‘Em Shelter” (*Forbes*, 12/24/2001), provided several classic examples of what he calls “art’s role as a refuge.” For example, the stock market swooned in October 1987. Yet in November 1987 a Van Gogh sold for a record \$53.6 million. Similarly, in 2001, with New York City staggering under the impact of recession, terrorism and war, sales at the major auction houses set records for more than 30 artists.

In his article Barker explores the implications of a study by Mei and Moses of art values during 27 recessions and four wars. The study indicates that art values tend to hold up well during periods of economic difficulty and that art indexes outperform major stock indexes during times of war. A corollary to art’s investment role in tough times, Barker adds, is that in better economic times — such as the tech boom of the 1990s — and in

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### ArtStory Debuts

The Trust Company of Kansas has entered what we are calling our “Supporting the Arts” campaign. The campaign will create exciting new awareness of TCK and our desire to be a conduit between the art community and individuals who enjoy supporting the arts. I strongly believe that this conduit form of support will benefit the art community in great ways.

During 2004, as you are out and about enjoying the arts - especially in Wichita, Lawrence and Leavenworth communities where TCK has full-time staff - please be on the lookout for our colorful new “Supporting the Arts” icon. To see what it looks like, check out the enclosed ArtStory. The debut of the new icon will be followed by many exciting events and efforts throughout the year at the Wichita Art Museum, Music Theatre of Wichita, Wichita Center for the Arts, Wichita Symphony Orchestra, CityArts, Chamber Music at the Barn, The Lied Center, Topeka Civic Theatre and more.

We look forward to seeing you there and welcome introductions to your friends or family who may need TCK’s services. The greatest compliment you can give TCK is the referral of your friends and loved ones. Thank you for your trust.

Sincerely,  
 Steve English, President

### You’re cordially invited...

Come enjoy the music of Gary Foster, who will be playing at the Topeka Jazz Festival, May 29-31.

For more information about the festival, please call the Topeka Performing Arts Center at 785-234-ARTS or go online to [www.tpactix.org/tjf04.htm](http://www.tpactix.org/tjf04.htm)

# Estate planning strategies for your IRA

One of the major goals in estate planning is to minimize taxation, allowing you to leave as much as you can to your loved ones. Planning in today's environment is especially difficult. Why? Because estate tax law changed in 2001 and could change again. Congress voted to repeal the tax, but only for people who die in 2010. Until then the amount exempt from federal estate tax will grow slowly to \$3.5 million. And still it gets more complex, with a drift downward in tax rates from 55% to 45% in 2009. In 2011 the estate tax exemption falls back to \$1 million, unless Congress acts before then.

## *Distribution rules*

By following the rules for payout and beneficiary designation, along with alternatives available to IRA owners, individuals with large balances can use one or both of the following key strategies: (1) passing on the undistributed portion of a traditional IRA to a spouse tax free (through the use of the "marital deduction") or (2)

passing all gains to their heirs completely free from income tax through conversion of an IRA to a Roth IRA.

Distribution rules for IRAs are the starting point. Traditional IRA owners must begin taking a distribution from their plans by April 1 following the year that they turn age 70 1/2. To help keep as much money as possible in an IRA, the IRS provided a minimum distribution table that takes life expectancy into account. If the surviving beneficiary is a spouse who is more than ten years younger than the IRA owner, the joint life expectancy of both spouses is used. The point is that these solutions minimize taxable income when you do not need it and have the opportunity to achieve more gains prior to death.

Of course, IRA funds withdrawn by an owner or a beneficiary are taxed at normal rates with no preferential rates for capital gains. It may occur to some owners upon retirement simply to cash out the entire balance of the

traditional IRA and invest in a way that alleviates heirs' responsibility for any federal income tax.

## *The Roth IRA alternative*

The Roth IRA is one of the best vehicles for tax-smart investment and estate planning. Because Roth IRAs only have been available since 1997, it is unlikely that balances are at sufficient levels for those near retirement to provide a lifetime income and an inheritance to pass on.

However, those with significant balances in traditional IRAs can convert (i.e., transfer or roll over) such funds to a Roth IRA. The conversion privilege is limited to those whose adjusted gross income doesn't exceed \$100,000 (whether single or married filing jointly). Income tax is due on the conversion, and it should be paid from sources outside the IRA for the strategy to make the most financial sense. Also, the conversion to a Roth IRA may be staged over a number of tax years. When the funds are safe inside the Roth IRA, there is no need for the owner to take any unwanted distributions during life.

The annual contribution limit to a Roth IRA will increase to \$5,000 by 2008 (\$3,000 in 2003 and 2004), with cost-of-living adjustments thereafter. The contribution limits for higher-income taxpayers are phased out between \$95,000 and \$110,000 for single filers, and between \$150,000 and \$160,000 for married persons filing jointly.

## *Who's the beneficiary?*

**Traditional IRAs:** If a spouse is the sole beneficiary upon the IRA owner's

## Personal Briefs

**Janis Bunker** attended a MOKAN trust conference planning committee meeting on January 16 in Overland Park, KS and will serve as treasurer for the committee. **Dianne Allison** is serving on the MOKAN planning committee as well.

**Janis Bunker** was re-elected secretary of the Douglas County Estate Planning Council for 2004.

On January 22, **Paul Fowler** received the Chris Blackwell Award of Volunteer Excellence at the annual meeting of the Arthritis Foundation, Kansas

Chapter. This award is the highest annual service award given by the Chapter. Fowler completed his two year term as chairman of the board for the foundation and was elected to a one-year term as co-chairman of the board for 2004.

**Dan Brogren** recently gave a presentation at the Armourdale Renewal Association, a community organization in Kansas City, Kansas dedicated to the renewal of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

death, he or she may rollover the funds to his or her own IRA. Distributions will be made as if the spouse owned the IRA. Spouses also may name their own beneficiaries.

When the spouse is not the sole beneficiary, or when a nonspouse beneficiary is named, distribution will occur over a period not to exceed the beneficiary's single life expectancy. The first life expectancy factor used is the age of the beneficiary in the year following the year of death, reduced by one for each subsequent year.

**Roth IRAs:** When spouses are the sole beneficiaries, no distribution need be taken at all. In all other cases, payout is required within five years of the Roth IRA owner's death, or over the single life expectancy of the beneficiary, provided such method begins by December 31 of the year following the year of death.

**Trusts as beneficiaries:** Trusts named as beneficiaries generally must be valid under state law, benefit a living person, and be irrevocable at death. It also is wise to name the trustee/custodian and successors in a will. Otherwise, the appropriate local court or the institution holding the IRA may have the right to name someone to serve in these capacities. The same goes for funds that are left to beneficiaries who are minors at the time of the owner's death.

**Qualified Terminable Interest Property (QTIP) Trusts as beneficiaries:** By making your beneficiary a QTIP trust, you leave your IRA (or any other assets) in trust for your spouse as beneficiary of the trust. They pass to the surviving spouse through the trust with no estate tax. With a QTIP trust you choose the beneficiary of the trust should funds remain after your spouse dies. This ensures that funds

pass on to those whom you want to be the rightful heirs, making a QTIP trust a useful vehicle for those who have been married more than once and want to provide for children from previous marriages.

### *Seek professional guidance*

Understanding all of the tax and other ramifications of estate planning for IRAs—and taking the best approach in your circumstances—requires the knowledge and experience of legal, tax and trust specialists.

May TCK be of assistance? One of our estate planning specialists would be pleased to meet with you and your other advisors to develop a strategy that suits your needs. Call today!

*Wichita:* 800-530-5254

*Lawrence:* 800-749-0904

*Leavenworth:* 800-758-1155

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peacetime, collectors may be “likelier to invest elsewhere for quicker and better returns.”

Peter Scott S. Sahlman, head of an art consultancy, noting the research by Mei and Moses on the different rhythm that price appreciation for fine art has from that for stocks, advocates a role for art as a balancing or stabilizing asset. He says: “By buying fine art at the correct price your hard asset art portfolio can balance your securities, real estate, bond and hedge fund portfolio. When fine art is bought below gallery/retail prices [for example, by a shrewd buyer or professional consultant] it will stabilize the volatility of your entire portfolio and position your art collection for upside appreciation.”

However, investors intrigued by these possibilities should also remember the old saying “Buyer beware” and so should ask: *What caveats should I bear in mind when seeking to invest in art?*

Sahlman's website ([http://www.sahlman.com/art\\_advisory](http://www.sahlman.com/art_advisory)

services) has a good list of such caveats, as does Standard & Poor's publication “Investing in Fine Art.” Some of the most important ones are:

- Anything that can be said about art as an investment obviously applies only to genuine art and not fakes or forgeries. Investors need to be able to find out what is authentic and what is not.
- Art prices may be quite unpredictable, and investment horizons may run for decades. (That is why investments in art often end up as parts of estates.)
- The market for art is generally illiquid — the ability to convert a holding into cash expeditiously is limited.

Many investors over the years, though, would attest that such risks are manageable. But when buying art, there is one truth that above all others serves to make the risks worth taking: *If you buy something only because you love it for its beauty or some other aspect of aesthetic or personal appeal, you can never really lose.* Keats would, surely, agree with that.

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## ***Demographics and retirement***

It's pleasant to look ahead to retirement and the time when relaxation and enjoyment will replace the stress and routine of the working world. Perhaps you've thought in terms of working later than the traditional age 65 retirement date. Or maybe you're hoping to have the opportunity to take an early retirement package. Wherever you fall within the spectrum, you'll want to consider some of the points raised by Robert D. Arnott and Anne Casscells in an article entitled "Demographics and Capital Market Returns," which appeared in a recent issue of the *Financial Analysts Journal*. They report that, for people retiring in the next two decades, demographic considerations should play an important role in their planning.

### **The Social Security dilemma**

Thanks to the baby boom (1946-1964), the proportion of people aged 65 and older will grow from the current 12% to 20% by 2030. Then factor in the "baby-bust" period (1965-1990) plus an average life span today of 76.6 years. Result: a future when fewer workers will be contributing to Social Security at a time when a large group of long-living retirees is receiving benefits.

### **A future market with fewer buyers?**

Retirees and near retirees often make a decision to reshape their portfolios, substituting their more risky equity investments with investments that offer a reliable income, such as bonds. The conclusion to draw here, say Arnott and Casscells, is that there won't be sufficient buyers for the large number of securities that people will be trying to sell as they enter retirement, creating a potential for a sustained soft market.

### **Rising health care costs**

The conventional wisdom is that expenses in retirement will be substantially less than they were in your working years, requiring a lower annual income stream. That assumption as well must be challenged because of demographics, say Arnott and Casscells. With more people living longer, the law of supply and demand suggests that the cost of health care services will continue to escalate in the coming years. Thus, you may want to adjust your projection of retirement expenses to reflect a higher cost of living than you may have at first assumed.

### **Exploring your options**

What can you do in light of these daunting demographics? Some choices may not be feasible (retiring abroad to somewhere with a lower cost of living and a younger work force) or may be unappealing (delaying retirement far later than you wish). But before you make any hard-and-fast decisions, a good first step is to develop or review a retirement strategy that puts all the relevant facts into perspective. For instance, you may want to reassess your income and expense projections in order to make certain that they are realistic in light of some of the points raised here. You will want to ask other questions, too: Are there ways that you can set aside more for retirement? Are there investment choices that offer you the possibility of a higher return at a risk that you are willing to accept? In other words, it's not all "doom and gloom." We'd be glad to help you find answers to these retirement planning questions and implement any changes that may be necessary in light of the coming numbers crunch. Call Martha at 800-530-5254.