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## Estate Taxes? Me?

Americans may be surprised at what they don't know about estate taxes.

Randy Gardner, J.D., L.L.M., M.B.A., C.P.A., C.F.P.®



Each year, individuals are surprised to find they owe estate tax, primarily because they did not realize they had enough

wealth to be subject to it. Often tax occurs because of substantial life insurance proceeds and retirement plan assets, not considering state estate taxes, or because of poor planning over the deaths of a husband and wife.

This year, the federal estate tax threshold is \$2 million per person. In most states, the threshold is lower, typically around \$1 million. With a proper plan, most married couples can avoid estate tax if their net worth is less than \$4 million. Following are some pitfalls to avoid.

**Wills:** Many couples' wills provide that the property of the first spouse to die passes to the surviving spouse. This means the unified credit equivalent of the first spouse is wasted, causing an estate tax when the second spouse dies (if their net worth is greater than \$2 million).

**Life insurance and retirement plan assets:** These are subject to estate tax, but many individuals overlook these values when they calculate their net worth.

With retirement plan assets, lack of planning can be very expensive. Retirement plan assets pass through two layers of tax – the estate tax and income tax. For individuals who are subject to the maximum tax rates (45 percent for estate tax and 35 percent for income tax), approximately 36 percent of the retirement plan assets will pass to the ultimate beneficiary.

Consider an individual who dies with \$1 million of retirement plan assets. An estate tax of \$450,000 will pass to the government. In addition, when the heir withdraws the money from the retirement plan, the remaining \$550,000 will be subject to a 35 percent rate (\$192,500 in income tax). So the government receives \$642,500, and the heir receives \$357,500.

The estate tax on the first to die can be avoided by passing the retirement plan account to the surviving

spouse. Both the estate tax and income tax can be avoided by passing the retirement account to charity.

In addition, the marginal income tax rate to the heir can be minimized by passing the retirement plan account to multiple heirs over multiple years.

## OF NOTE

Some people do not consider estate taxes in their planning because they believe the estate tax has been repealed. The estate tax is repealed, but only in the year 2010. If Congress leaves the law as is, the estate tax will return to its 2001 form in 2011 and surprise thousands of taxpayers with net worths greater than \$675,000. It is likely the Democratically controlled Congress will amend the estate tax provisions before 2010 to eliminate the one-year repeal and impose a tax on net worth greater than \$3.5 million.



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The above text was adapted from "Recent Developments Help Avoid the Double Tax on Income in Respect of Decedent" by Randy Gardner and Julie Welch, *The Journal of Financial Planning*, February 2007.



# Organizational Development is not Dead

Breathing new life into a relevant and valuable field

Joan V. Gallos, Ed.D.

In a world where individuals have morphed into human capital, “lean and mean” often replaces quality of work life, an unrelenting focus on profits trumps loyalty and learning, and ethical decision-making seems akin to shifting sands, how can organizations regain their soul and maintain a competitive edge?

“The power of OD methods is in their enduring respect for the human side of enterprise and its role in innovation. Supporting, developing and fully utilizing human creativity, initiative and expertise are keys to any organization’s success.”

A new appreciation for the power and possibilities of organizational development (OD) is one way, says Bloch School Professor of Leadership Joan Gallos.

OD is a systematic approach to change and organizational effectiveness born in the 1950s from an increasing awareness of the inefficiencies, pain and downsides of organizational life. Its efforts launched the idea of change management and gave way to a powerful array of organizational innovations now seen as standard operating procedures, like team building, data-based decision making, conflict management, and workforce

and leadership development.

Yet, five decades later and despite contributions that spawned a revolutionary intellectual movement, scholars and practitioners have broadly heralded the death of OD.

Gallos set out to prove their eulogies premature. Her findings countered the doom and gloom: The field is neither dead nor irrelevant. In fact, OD itself has evolved and is underutilized in addressing a host of organizational challenges.

“The power of OD methods is in their enduring respect for the human side of enterprise and its role in innovation. Supporting, developing and fully utilizing human creativity, initiative and expertise are keys to any organization’s success,” Gallos emphasizes.

“The field is methodologically rich and diverse, and its core values – participation, openness to learning, equity and fairness, valid information, informed choice, shared commitment – lead to planning and decision processes that engage people in useful and significant ways to tackle a wide range of operational, technical and strategic concerns,” she says.

Gallos set out to resurrect OD and bring its best practices into the 21st century. The result is *Organization Development*, an edited collection that gathers the best thinking on the path to organizational effectiveness. The volume, recently named by the American Society for Training and

Development as one of the notable books of 2006, is described as an accessible, one-stop guide to planned change. Gallos, who serves as president of the Organizational Behavior Teaching Society, also created teaching and training designs to support the book’s use in classroom and executive education.

The book’s contents include classic change tools and approaches, along with boundary-stretching materials, such as newly commissioned pieces that expand understandings in key areas; suggestions for strengthening OD’s impact and relevance; and an expanded vision for what organizational health and effectiveness might look like in today’s world.

“There is little sense in producing a new book that tells the same old story,” Gallos says.

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The above text is adapted from Joan V. Gallos. *Organizational Development*. San Francisco: Jossey-Bass, 2006. Her other books include: Joan V. Gallos and V. Jean Ramsey. *Teaching Diversity: Listening to the Soul, Speaking from the Heart*. San Francisco: Jossey-Bass, 1997; Joan V. Gallos. *Business Leadership*. San Francisco: Jossey-Bass, 2007 (forthcoming).





## Treasury Market Cage Match

Does current price data live up to that formerly provided by the Federal Reserve?

David R. Kuipers, Ph.D.

Accurate price information for U.S. Treasury securities is fundamental to the operation of global fixed-income markets. Treasury instruments are benchmark securities, used to aid in

distributors offers price quotes similar to those formerly supplied by the Federal Reserve Bank of New York. By comparing the market data for Treasury instruments from both providers

“For the largest banks and securities dealers, the relation we uncover between quote differences and a security’s specific characteristics will be of interest,” Kuipers concludes. “But for the general public, the new data sources appear to be of similar quality to those once provided by the Fed. The data can no longer be obtained at zero cost, but considering the size of this market, the expense is minimal to most serious investors.”

“The data from the Federal Reserve was taken for granted for many years, and it’s not coming back. We need to know whether there are any systemic differences or patterns in the price data provided by the new distributors compared to what the Fed once supplied.”

the valuation of other debt products, as well as futures, options, swaps and mortgage-related securities. Hundreds of billions of dollars of Treasury instruments are traded daily on a worldwide basis, volume that exceeds the amount of trading in all the world’s stock markets combined.

Yet, unlike the stock market, access to timely and accurate price data for many U.S. Treasury securities is costly, making it difficult for investors to evaluate whether they receive a fair price when trading these instruments. The Federal Reserve Bank of New York used to provide daily price marks for every outstanding Treasury security – free of charge. But in October 1996, the Fed ended this practice, stating that the same information was widely available on the Internet from sources such as Bloomberg, Reuters and Telerate.

Bloch School Professor of Finance David Kuipers, along with co-researcher Susan Jordan, recently examined whether the largest of the new data

during an overlapping time period of coverage in early 1996, the authors are able to directly examine whether the quality of quotes differ depending on the source.

“This issue is critical for researchers and the investing public at-large,” Kuipers says. “The data from the Federal Reserve was taken for granted for many years, and it’s not coming back. We need to know whether there are any systemic differences or patterns in the price data provided by the new distributors compared to what the Fed once supplied.”

Kuipers’ study finds there are modest differences in the quality of the quotes that are systematically related to the liquidity of the instrument; like, how often it trades and the dollar volume involved. However, the economic size of the price quote differences is small enough that for most investors, the difference would be subsumed by brokerage fees and other incidental trading costs.

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The above text is adapted from Susan D. Jordan and David R. Kuipers, (2005). “End-of-day pricing in the U.S. Treasury market: A comparison of GovPX and the Federal Reserve Bank of New York.” *Journal of Financial Research*, 28 (1), 97–113.



# Religion in the Workplace

Is America ready for diverse expressions in the office?

Nancy E. Day, Ph.D.



**Nancy E. Day, Ph.D.,**

is associate professor for human resources and organizational behavior.

The above text is adapted from "Religion in the Workplace: Correlates and Consequences of Individual Behavior" by Nancy E. Day, *Journal of Management, Spirituality and Religion*, April 2005.

## New Research Inside

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