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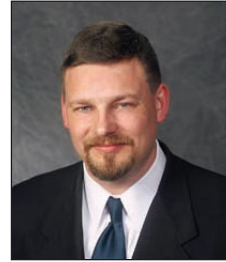

Estate Planning Concepts Fall 2008

How Will You Deal with Long-Term-Care Costs?

Life expectancies have increased significantly and are expected to continue to increase in the future. As people age, however, they are more likely to develop conditions that limit their ability to live independently. Thus, as life expectancies increase, so does the need to make provisions for long-term-care costs. If you are wondering how likely it is that you will need to deal with long-term-care costs, consider the following:

- Almost 70% of those who are currently age 65 will require long-term care before they die. Care will be needed for an average of three years, with 20% requiring care for five years or more (Source: Center for Retirement Research, April 2007).
- Currently, the average annual cost for home care service is $34,000 and for a private room in a nursing home is $75,000 (Source: Center for Retirement Research, April 2007).
- Approximately half of private-pay nursing home patients run out of funds during their stay and must then use Medicaid funding (Source: Center for Retirement Research, April 2007).
- Almost 72% of nursing home patients are women (Source: *Financial Planning*, April 2007).
- In 2006, approximately 20% of applications for long-term-care insurance from individuals age 60 to 69 were declined, while 42% of those age 70 to 79 were declined (Source: *Financial Planning*, April 2007).

What Are Your Options?

Health insurance policies typically don't pay for nursing home care, while Medicare only pays for 100 days of skilled nursing home care, if admission follows a hospital stay. Medicaid pays a significant portion of all nursing home costs, but the government has enacted tougher rules to qualify for assistance. Typically, you need to deplete most of your assets before you qualify for assistance.

Many elderly individuals rely on family members for help, but the personal toll can be huge. Currently, long-term-care insurance pays a small percentage of all long-term-care costs. That percentage may increase in the

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Beneficiary Designations

Who is currently named as the beneficiary of your life insurance policy? Can you answer that question with certainty? Now think about all the accounts you own that have a required beneficiary designation: IRA, TSP, 401(k), TIAA/CREF, SEPs, and annuities.

Properly establishing beneficiary designations on life insurance and retirement accounts is vital to the success of your estate planning and the ease of settling your estate. However, financial advisors and estate attorneys frequently encounter clients whose beneficiary designations are in disarray after lifetimes of changing circumstances.

Remember that heirs, except spouses, will always pay income tax when they inherit retirement accounts, but not life insurance, from you. Consequently, retirement accounts present you with an interesting opportunity to be charitable. If you intend to recognize favorite charities in your estate, why not leave some of the taxable assets to the charities, who pay no income tax, and leave the other assets to your family?

Please call if you have any questions about naming beneficiaries on your accounts.

Long-Term-Care Costs

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future as more people become aware of the risks of long-term-care costs and look to insurance as a way to fund those costs.

In 2005, Medicaid paid 49% of all long-term-care costs, Medicare paid 20%, individuals paid 18%, and private insurance paid 7% (Source: Center for Retirement Research, April 2007).

Do you need long-term-care insurance? If your assets, not including your home, equal at least $2 million, you can probably fund long-term-care costs with those assets, although you may not want to deplete your assets for this care. Those with very few assets will probably be covered by Medicaid. It is the people between these two extremes who should consider long-term-care insurance. This coverage may be especially important for women, who tend to outlive their husbands.

What Should You Consider?

If you're thinking about purchasing long-term-care insurance, consider these points:

❍ **Purchase at a relatively young age.** You should probably purchase the insurance by the time you are in your late 50s or early 60s. After that, the premiums get much more expensive. You also run the risk that you could develop a serious health condition that would prevent you from purchasing the insurance. On the other hand, don't purchase the insurance too soon, or you could end up paying premiums for decades.

❍ **Check for inflation provisions.** Since you may not receive benefits for many years, and long-term-care costs have increased significantly in recent years, make sure your policy has inflation protection. You can obtain simple or compound inflation protection. Simple protection increases the benefit amount by a specific percentage of the original benefit each year. Compound inflation increases the benefit on a compounded basis, so it provides substantially more protection.

❍ **Select an appropriate benefit period.** Many people choose a benefit period of three years, to cover the average nursing home stay. However, due to the substantial costs associated with long-term care, you may want to select a longer period. Lifetime coverage, however, probably isn't necessary. Only 1.5% of policyholders with five years of coverage exhausted their benefits (Source: *Financial Planning*, April 2007). Look for a provision where the insurer continues to pay benefits if you haven't reached the policy limit during the maximum benefit period. For instance, if your policy pays a maximum of $200 daily for three years, but you only use $150, the company would continue to pay benefits until you reached the policy limit.

❍ **Make sure the policy terms are reasonable.** Benefits should be paid in as many situations as possible, including skilled care, intermediate care, custodial care, home health care, and adult day care. Many people prefer to remain at home as long as possible, so make sure the policy covers a wide range of home services. Review the waiting period carefully to ensure a good balance between premium costs and out-of-pocket costs.

❍ **Understand the level of assistance needed to qualify for benefits.** Typically, benefits are paid when you are unable to perform two of five activities of daily living, including bathing, eating, using the bathroom, moving back and forth from a chair to a bed, and remaining continent. Typically, benefits are also triggered when a cognitive impairment, such as Alzheimer's disease, requires substantial supervision.

❍ **Determine how benefits are paid.** Some policies pay a set daily amount, regardless of your actual costs. This may be a good alternative if you are staying at home and want to compensate a friend or family member for helping you. Other policies will only pay your actual out-of-pocket expenses up to a daily limit or may only pay reasonable and customary costs. Find out how you prove that you're entitled to benefits. Some plans require an in-house doctor to review your health, while other plans allow your own doctor's review.

❍ **Review new policy provisions.** Long-term-care policies are relatively new, so policy riders are evolving. Make sure to check out new provisions, such as the ability to combine a life insurance and long-term-care policy, an accelerated premium provision that allows you to stop making premiums after a certain number of years, or a provision that returns premiums if you die without using benefits. Also look into partnership policies, which allow you to qualify for Medicaid after exhausting the policy's benefit, while keeping more assets than normally allowed by Medicaid.

❍ **Consider sharing a policy with your spouse.** Some companies now offer policies that allow spouses to share policy benefits, which can operate in several ways. Spouses may take out separate policies, with a rider allowing them to use each other's unused benefits. Another alternative is to purchase one policy that both spouses can use. A third alternative gives each spouse a specified amount of benefits plus a third amount that can be drawn on by each spouse. However, be sure that one spouse doesn't use all the benefits, leaving the other spouse with no benefits.

❍ **Check the policy's tax status.** A qualified policy allows you to deduct a certain percentage of the premium, depending on your age, as a medical expense on your tax return. Medical expenses are deductible to the extent they exceed 7.5% of your adjusted gross income.

Please call if you'd like to discuss your options for dealing with long-term-care costs. ❍❍❍

Review Your Estate Plan

Your estate plan should be reviewed periodically to determine whether revisions are needed based on changes in tax laws, your personal situation, or your estate planning objectives. Reevaluate your estate plan when any of the following events occur:

- ❍ **Tax law changes** — The Economic Growth and Tax Reconciliation Act of 2001 made many changes to estate and gift tax laws that phase in over a period of several years. You should review your estate plan every couple of years to make sure it takes advantage of changes in the tax laws.
- ❍ **Marriage** — Assets owned jointly with your spouse or when your spouse is named as beneficiary will go directly to him/her. Without estate planning documents, most state laws distribute one-third to one-half of your remaining assets to your spouse, with the balance distributed to your children or to parents and siblings when there are no children.
- ❍ **A child's birth** — You'll want to name a guardian for your children in case you and your spouse die. You should also make financial provisions for your children's support, which may require trusts to control assets while your children are minors.
- ❍ **Asset growth** — Once your taxable estate exceeds the estate tax exclusion amount ($2,000,000 in 2008, increasing to $3,500,000 in 2009), your estate could be subject to estate taxes (unless you die in 2010, the one year when the estate tax is scheduled to be repealed). When your estate exceeds those amounts, you may want to consider other estate planning strategies to help reduce federal estate taxes.
- ❍ **Divorce** — Most estate plans distribute the bulk of a person's estate to the surviving spouse. If yours does that, a divorce will probably require major changes to your estate plan.
- ❍ **Remarriage** — If you or your spouse have children from prior marriages, you'll probably want to protect those children's interests.
- ❍ **Your spouse dies** — You'll probably have many financial decisions to make after your spouse dies. Once you've had a chance to digest the financial ramifications, you might want to review your estate plan to see if any changes are needed.
- ❍ **Move to another state** — Each state's estate laws can vary, so thoroughly review your estate plan if you move to another state.

Please call if you'd like help reevaluating your estate plan. ❍❍❍

Who Should Own Your Life Insurance Policy?

Before purchasing a life insurance policy, give careful thought to who should own the policy. While life insurance proceeds aren't subject to income taxes, they can be subject to estate taxes if the policy isn't structured properly. Four common ways to own a life insurance policy include:

- ❍ **By the insured** — If you own the policy, the insurance proceeds will be considered part of your taxable estate and may be subject to estate taxes, provided your estate exceeds certain limits.
- ❍ **By the insured's spouse** — The insurance proceeds won't be included in your taxable estate if your spouse both owns the policy and is the beneficiary. However, if someone else is named beneficiary, such as a child, the proceeds will be considered a gift and may be subject to gift taxes.
- ❍ **By a person other than the insured's spouse** — Under these circumstances, the insurance proceeds won't be included in your taxable estate. However, if you pay the insurance premiums, premiums in excess of $12,000 in 2008 may be considered taxable gifts. In situations with two or more beneficiaries, you may want to gift the money for the premiums to the beneficiaries to qualify for the annual gift-tax exclusion. Minor children can't own insurance policies in most states, so you may have to set up a custodial account if the owners are minors.
- ❍ **By a trust** — When a trust owns the policy, the proceeds aren't considered part of your taxable estate if the trust is irrevocable, meaning that you can't change the terms or terminate the trust. The same tax rules apply to trusts as those applicable to a person other than your spouse, but you can often structure more flexibility into a trust arrangement. ❍❍❍

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7 Steps for a Financially Healthy Marriage

Financial stress can come from many sources, but one of the most difficult is when one spouse is a spender and the other a saver. We come into marriage with attitudes toward money deeply engrained in our psyche, and they're not easily changed. But don't despair — if you find yourself engaged in a struggle with a spouse who is your opposite when it comes to saving and spending, there are steps you can take to achieve balance and harmony.

1. Agree to be a team. You married to spend your lives together, so it shouldn't be difficult to start with this understanding, even if it may seem hard to reconcile with your money behavior. To be a team, you have to act like a team, and that starts by giving up individual possessiveness about money — there's no "your money" and "my money." It needs to be "our money."

2. Agree on your goals. Start your teamwork by articulating your long-term goals; they're the most important and the easiest to agree upon. Long-term goals might include living the lifestyle you want in retirement and educating your children. Be sure to be specific. Articulating specific long-term goals involves knowing how much those dreams are going to cost and precisely when they will occur. You need dates and dollar figures.

Once you've reached an agreement on your long-term goals, try to set out the same kind of specific plans for your intermediate- and short-term goals.

3. Practice full disclosure. Being a team means each of you is empowered to act on behalf of the other with implicit approval. That requires that each of you has full command of the facts — how much money you make, how much you owe, and how much you spend. Share the balances in any individual accounts you may hold, like checking and credit cards. You need to be completely honest with each other, even if you make a mistake now and then.

4. Budget and pay bills together. Create a monthly budget that compares the total of your bills and expected out-of-pocket expenses with every penny of incoming and available cash. Include an itemized list of your debts and scheduled payment amounts, as well as your asset accounts and their balances.

Thoroughness is a key determinant of your success, so don't overlook anything, especially significant one-time expenses like gifts or big nights out. Create a catch-all category of out-of-pocket expenses called "miscellaneous" for the little things you might forget — or those that are small and hard to pin down.

5. Update your checkbook(s). One way spenders rationalize their behavior is by keeping themselves in the dark about how much they really have to spend. If you're going to be faithful to the budgeting process in Step 4, you have to keep careful track of your cash on hand, and that means being sure your checkbook entries are up to date.

6. Agree on spending rules. You and your spouse need to agree on how much you can spend on purchases without consulting the other. Beyond this preset amount, you should talk about the purchase in advance and adjust your budget spreadsheet accordingly.

7. Create an investment plan. Everybody should have a professionally prepared plan, but for couples with polarized spending and saving habits, it's especially important. Apart from the fact that a professional can provide the expertise and tools you may lack, he/she will serve as an impartial third party to help defuse your money debates.

For help creating that investment plan, please call. ❍❍❍

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