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assets

a business, tax, and financial newsletter

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Revisiting Elder Care Issues

It is no longer unusual for people to live 20 or more years beyond their normal retirement age. But, a financial plan that was satisfactory for retiring at age 65 may not be sufficient to maintain a comfortable lifestyle into your 80s and 90s, and may require a review with a qualified professional. Other areas of concern to consider how longevity may affect your retirement include asset management, health care expenses, and living arrangements.

Managing Your Assets

The possibility of declining health is a subject that nobody likes to think about. However, if you should lose the cognitive ability to manage your assets, whether due to a progressive illness or an accident, there are a variety of options that will allow you to transfer that responsibility to others. Among them are the following:

Revocable Trust. If you would like to *retain control* over your property, while delegating the daily management to others, you may want to consider a **revocable trust**. This type of trust allows you to monitor the management of your assets, yet offers the flexibility to change the trust as your needs and circumstances warrant. As added protection, a revocable trust may remain unfunded, as long as you are legally competent.

Durable Power of Attorney. This allows you to designate a trusted relative or friend to make legal and financial decisions for you in the event of a disability or cognitive impairment. The powers granted may be limited or broad in scope, and they may vary from state to state. Some financial institutions are reluctant to recognize durable powers of attorney, so it is worthwhile to thoroughly explore this option beforehand.

Informal Arrangements. You could transfer property *informally* to your heirs—in some cases, free of gift taxes—in exchange for being taken care of for the rest of your life. This arrangement, however, should be approached with caution. Even well-meaning adult children may unintentionally deplete assets through poor management, divorce, or creditor claims. Once your assets are gone, you could become dependent on the goodwill and financial assistance of others.

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Financing Your Own Business

Starting a new business can be an exciting adventure. Finding the location, formulating a business plan, and hanging the "Open" sign may fulfill one of your long-cherished dreams. However, securing capital to begin operations during a tight economy can be challenging. There are a number of potential sources of financing to consider. Some entrepreneurs are able to secure bank loans or venture capital, while others may qualify for a guaranteed loan through the Small Business Administration (SBA). Other prospective business owners turn to family members or friends for financial support.

Typically, personal funds are the primary source of start-up capital, and many successful entrepreneurs have used their own financing to get started. Although some prospective entrepreneurs prefer to assume the risk rather than share the equity by financing their start-ups out of their own pockets, others may be unable to raise sufficient capital from outside sources.

Here are some key reasons why business owners may choose to personally finance their own ventures:

Control. Entrepreneurs are often willing to assume greater risk in order to retain greater control over their businesses. A dilution in ownership could result in a less focused business. Founders who wish to retain control but require start-up capital from outside sources may want to consider including a **"buy-back" clause** in the financing agreement.

Speed and Simplicity. Some small businesses may be launched quickly and relatively easily with personal funds. Entrepreneurs usually have a solid understanding of their business needs and are able to project the initial costs of doing business. Consequently, they may prefer to avoid the time and intrusion of outside scrutiny.

Modest Needs. Many owners may be able to begin operations with only a modest cash infusion. For instance, some of the most common types of businesses—franchises, start-ups, and small family businesses—may not require capital-intensive planning at the outset. In particular, service businesses may tend to have lower initial operating costs and a shorter "burn rate" (i.e., the length of time before achieving a positive cash flow).

Expertise Counts. Most start-up businesses require specialized knowledge or expertise that enables the owner to personally manage operations. Some of the most popular ventures are construction companies, restaurants, cleaning services, automotive repair shops, beauty salons, computer repair services, and consulting services. In these types of businesses, many of the start-up costs have already been "paid in the trenches" before the company is founded.

Owning your own company may be an attainable goal. If you are contemplating starting a business, contact local banks, business organizations, trained professionals, and even family members and friends for advice and support. You never know who may be ready to lend a hand. Remember, a sound financial plan outlining your capital resources and requirements is an important first step on the road to fulfilling your dream. ■

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Health Care

With soaring U.S. health care costs, you will need to prepare for the possibility of higher medical expenses living beyond the normal retirement age. The **Medicare** and **Medicaid** Federal/state-funded programs provide *some* health care benefits, but it is important to understand your coverage and what out-of-pocket costs you may need to pay.

Medicare Part A covers inpatient services at hospitals and care for specific medical conditions at skilled nursing facilities for a limited duration. It is provided automatically, at no cost, for individuals age 65 and older who are eligible for Social Security. **Medicare Part B** helps cover medically-necessary services, such as doctors' office visits, outpatient care, and other medical services that Part A does not cover.

Medicaid covers long-term nursing home care for those with few or no assets, and has strict eligibility requirements based on financial need.

Living Arrangements

Many individuals age 55 and older with an active lifestyle may wish to remain in their own homes or move to a **retirement community for**

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Taking Annual Gifts to the Next Level

You've probably worked a lifetime to build an adequate nest egg, live in a comfortable home, and accumulate an array of other assets. You may also realize that your finances could create unfavorable estate tax consequences. Perhaps you already have the compulsory legal documents, such as wills, trusts, etc. in place, and know that giving away assets may help reduce the size of your taxable estate. But, even though many people make occasional gifts to their children or other family members, few actually take advantage of the benefits offered through a *regular gifting program*.

Gifting Made Simple

Current tax laws allow you to give away $14,000 ($28,000 if married) in 2016 to as many people as you wish *without* incurring any gift taxes. This $14,000 **annual gift tax exclusion** can be an effective means for gradually passing wealth to future generations. In fact, systematically making such a gift can create a rather sizable long-term result.

Let's look at this scenario: Suppose 60-year-old Mark starts a gifting program for his newborn grandson, Todd. Each year, Mark makes a gift of $14,000. After 25 years, Todd will have accumulated $350,000, assuming 0% growth. In addition, suppose Debbie, Mark's wife, age 60, also chooses to make a $14,000 gift to Todd, bringing the total annual gift to $28,000. In this case, Todd will have accumulated $700,000 in 25 years (assuming 0% growth). In this win-win situation, the couple helps Todd accrue a nest egg, while, at the same time, lowering the value of their estate. This strategy may help Debbie and Mark minimize their estate tax liabilities.

One Step Beyond

Using the annual gift tax exclusion to fund a **life insurance** policy creates the potential to turn gifts into a substantial death benefit. Once again, suppose Mark (the donor) sets up an **irrevocable life insurance trust (ILIT)** for the benefit of Todd. The ILIT then purchases life insurance on Mark. Upon Mark's death, the life insurance death benefit proceeds are payable to the ILIT. Since the policy is owned by and payable to the ILIT, there are no **transfer tax** consequences to Mark's estate.

Life insurance may provide an ideal mechanism for leveraging annual gifts. In the short term, it offers an immediate death benefit that generally outweighs the total premium outlay (gifts). While over the long term, life insurance offers a unique opportunity to potentially leverage annual gifts into a significant benefit for selected beneficiaries. This can be achieved by taking advantage of the tax-deferred buildup of policy values, which in some cases may indirectly increase the life insurance policy's death benefit over time.

The use of a regular gifting program may be advantageous to individuals seeking to gradually reduce the size of their estates. In addition, it affords these individuals the opportunity to pass wealth to children, family members, and others with reduced tax consequences. For specific guidance, be sure to consult your qualified tax and legal professionals about your unique circumstances. ■

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independent living. Those who remain at home may be able to maintain their independence longer by hiring home health aides, assistance from family members, community-based services, or a combination of all three. For example, **adult day health centers—**either publicly or privately funded—offer supervised day programs that promote social stimulation and physical activities for older adults.

If you require more assistance with activities of daily living, such as personal care, dressing, meal preparation, and medication monitoring, **assisted living facilities** can provide a secure environment with an atmosphere of independent living. **Continuing care communities** offer the opportunity to age in place with a combination of independent living, assisted living, and more skilled nursing care on one campus.

The cost of living in all of these communities varies by type of accommodation, levels of assistance needed, and geographic location, and will continue to rise to keep pace with inflation.

It is important to periodically review and update your retirement strategy so that it encompasses the costs associated with life planning beyond your normal retirement age. Be sure to consult with a qualified professional for guidance regarding your particular situation. ■

Older Americans: Growing Targets of Financial Fraud

America's older generations grew up in a different world where it was customary to be courteous and trusting. Unfortunately, these exemplary standards of conduct could get some individuals into trouble. Con artists bank on the willingness of older Americans to trust in a variety of too-good-to-be-true investment "deals." Therefore, many people already experiencing financial difficulties have become more vulnerable to financial fraud in recent years.

Scammers have an unlimited number of opportunities to obtain an individual's personal information, ranging from the phone to the Internet. Common scams include e-mailed chain letters promising a financial windfall once the victim buys in; or e-mails from foreign lawyers claiming to need assistance transferring their wealth to an American bank account. In turn, the victim is promised up to 30% of the transferred millions if an upfront fee is paid.

Other phony schemes involve chances to "win" the lottery or claim a sweepstakes prize, and fake charities where kind-hearted donors are swindled into contributing sums to a cause that benefits only the con artist. Topping off all of these scams are fraudulent investment opportunities whereby the victim is promised fantastic returns on capital from "lucrative" oil and gas leases, penny stocks, rare coins or metals. In the end, these scams can cause financial loss and heartache to many unsuspecting victims. This type of crime often goes unreported due to the shame fraud victims can experience, which is exactly what scammers count on.

Several years ago, the FINRA Investor Education Foundation in partnership with WISE Senior Services and the AARP researched why older individuals are often victimized by financial fraud. The report revealed psychological tactics typically used by cons. For example, victims may be pressured to believe that their only option is the scam, or the scammer may request help, tapping into the victim's sympathy. Another ploy is to claim famous investors are also buying into the property or product in such high demand, and how lucky the victim is to have this opportunity. Con artists may also prey on victims' fears to coerce them into making decisions; offer no-risk, guaranteed results; or procure more payments by telling victims they must continue to invest to keep what they have already paid in.

The FINRA study indicated that financial education alone may not be enough to put an end to fraud because older adults tend to listen more to sales pitches than younger generations. One possible explanation for this could be that people with financial difficulties who have experienced negative life events, such as job loss, divorce, or the death of a spouse are more inclined to be open to a solution to their problems.

Fighting Back

The best way to fight fraud is to walk away from "must-act-now" deals and do your own research. Be skeptical, question why the offer is being made to you at this time, and contact the Better Business Bureau to learn more. Make sure to get second opinions from friends, trusted advisors, and family before taking action. Remember, if it sounds too good to be true, it probably is. For more information, visit www.consumerfraudreporting.org.

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