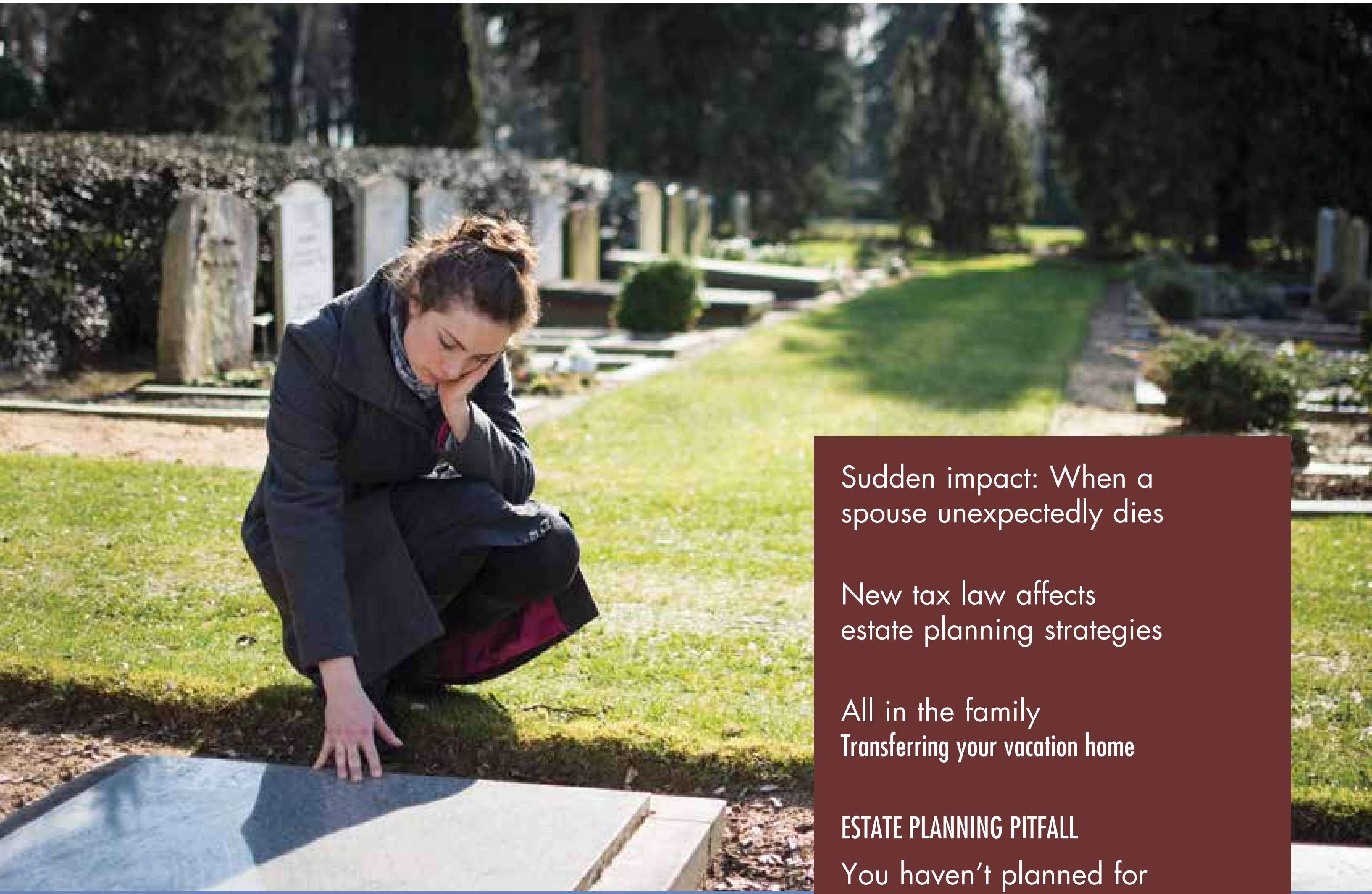
INSIGHT ON ESTATE PLANNING



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Sudden impact: When a spouse unexpectedly dies

Do you know someone who suddenly became widowed when a beloved spouse passed away in the prime of life? You may have tried to console the widow or widower, but then resumed your normal daily activities. And the surviving spouse was left to pick up the pieces of his or her life, often on their own.

But this isn't always "someone else's" problem. It can happen to you or a member of your immediate family. The question is: Would you be prepared to cope emotionally and financially? Could you afford to live the same lifestyle?

It's almost impossible to fully prepare for a spouse's sudden death, but it helps to keep your finances organized and communicate with your spouse about these matters.

In addition, know that your trusted estate planning advisor can help you navigate through the minefield.

Key points to address

In the event a spouse passes away without warning, a surviving spouse will face several critical challenges, including some significant financial decisions. Of course, handling the funeral arrangements comes first.

The following are other areas that will need to be addressed:

Emotional responses. It's easy to say, and hard to do, but don't let your emotions rule your judgment. For instance, if you're tempted to immediately move out of your home, sell your spouse's business or invest a lump-sum life insurance payout, hold off. Take the time to sort out what will likely be best for you and your family in the long run. An oft-used guideline is to wait at least one year before making any significant changes. Whether this rule-of-thumb is appropriate to you, of course, will depend on your specific circumstances.

Death certificates. One of the first things to do is visit your county clerk's office to officially record the death. At this time you can obtain death certificates, which you'll need to provide for various dealings with financial institutions and others. While it may be difficult to estimate how many death certificates will ultimately be requested of you, and the numbers

What about estate tax filings?

Although federal estate tax returns are required only for the wealthiest individuals, you may choose to file a return to establish the value of inherited assets. Generally, the return is due within nine months of the date of the death. For example, if a spouse passed away on November 1, 2017, the return is due August 1, 2018.

Also, you may face responsibilities for state estate taxes. Finally, you must file any required income tax returns on behalf of your spouse. For the year of death, typically such returns will be joint filings.

will vary person-to-person, you'll probably want to start with at least a dozen.

Notifications. Along with the county offices, you must get the word out to other interested parties, including your spouse's employer, if applicable; credit card companies; life insurance companies; retirement plan and IRA administrators; the Social Security Administration (SSA); the state motor vehicle agency; the state office for inheritance tax, if applicable; and your attorney and other professional advisors.

Social Security benefits. If your spouse was receiving benefits, consult with the SSA as to the benefits available to a surviving spouse. Frequently, modifications are required if the survivor was the lower-earning spouse. Even if your spouse wasn't receiving benefits yet, you may be eligible for survivors' benefits, depending on your age and other factors.

Insurance. Don't assume that everything about your insurance plans will stay the same. Review your various policies — such as life, health, disability income, auto and long-term care — to ensure that you'll have the optimal coverage going forward. Make whatever beneficiary changes are required.

Retirement plans and IRAs. Besides beneficiary designations, you may face important decisions regarding employer retirement plans, such as 401(k)s, as well as traditional and Roth IRAs. For example, if your spouse had a traditional IRA, you can complete a timely rollover to an IRA of your own without owing any tax. Conversely, you might opt for a lump-sum payout from a 401(k) or IRA should you need the funds.

Investments. Review the investments that were owned solely by your spouse, as well as those you owned jointly. When you have time, sit down with your financial advisor to chart out a path for the future, focusing on changes in personal objectives, time horizon and risk tolerance. Again, don't make any hasty decisions.

Other practical considerations

Is that the entire to-do list? Not by a long shot. For instance, other actions may be required if your spouse was the grantor or beneficiary of a trust or was a military veteran. Veterans are entitled to special burial reimbursements. Also, you may have to address assets your spouse owned jointly with someone else, such as a sibling. Then there are the social media and other digital accounts to consider, especially if you don't have the passwords or a way to gain access.

Once you're over the initial shock of the death, your overall focus should shift to organization and analysis. Account for all of your assets and figure out a long-term plan for paying regular monthly expenses and other obligations, such as college education for children. Finally, don't forget to factor in your needs in retirement. •

New tax law affects estate planning strategies

The Tax Cuts and Jobs Act (TCJA), which generally went into effect at the beginning of 2018, lowers individual and corporate tax rates, reduces or eliminates many deductions and enhances other tax breaks. One thing the new law *doesn't* do is repeal the federal estate tax. But the TCJA does include other provisions that can impact your estate plan.

Higher exemption amounts

The biggest change the TCJA makes related to estate planning is the doubling of exemption amounts for the gift and estate tax exemption and the generation-skipping transfer (GST) tax exemption. For the estates of persons dying, and gifts made, after December 31, 2017, and before January 1, 2026, the gift and estate tax exemption and the GST tax exemption amounts increase to an inflation-adjusted $10 million, or $20 million for married couples with proper planning (expected to be $11.2 million and $22.4 million, respectively, for 2018). The top marginal tax rate for all three taxes remains at 40%.

That's good news for those with large estates, but it's important to note that — absent congressional action — the exemption amounts will revert to a $5 million base (adjusted for inflation) in 2026. Therefore, if you have an estate in excess of around $5 million (or around $10 million with your spouse), you should consider making tax-free wealth transfers that take advantage of the higher exemption amount before it potentially "sunsets."

You have several options for such transfers beyond direct gifts to your loved ones, including:

- Gifts to existing or new irrevocable trusts,
- Gifts to fund life insurance that can be used to pay estate taxes, and
- Gifts tied to philanthropy (for example, a charitable lead trust).

You also might consider establishing a disclaimer trust that allows the surviving spouse to minimize taxes by "disclaiming" part or all of his or her inheritance into a bypass (or credit shelter) trust, where it won't be considered part of your estate. Thus, if the exemption amount has dropped to a level where estate taxes would be due, your surviving spouse can avoid the taxes by moving part of your estate to the trust.

Bear in mind, too, that some states have their own estate taxes. The exemption amount in those states are likely to be significantly lower than the federal amounts.

Expanded 529 plans

The TCJA also expands the tax benefits of 529 plans, which families can use to grow money tax-free for their children's education. Distributions are tax-free when used to pay qualified expenses such as tuition, fees, books, room and board, and the purchase of

computer technology or equipment, Internet access or related services.

Previously, tax-free treatment of 529 plan distributions was limited to higher education expenses, but the TCJA also allows them for qualified public, private and religious elementary and high school expenses — up to $10,000 per beneficiary annually. Contributions to 529 plans might be an appealing option for grandparents looking to pare down their estates while benefiting their families.

Kiddie tax rates

One popular way of reducing taxable estates has long been to make gifts to children or grandchildren. You can make nontaxable gifts of $15,000 per individual per year. Rather than making outright gifts, many parents and grandparents set up investment accounts in the children's names and make gifts to those accounts.

Until now, generally unearned income collected by a child under age 19 or a full-time student under age 24 that exceeded a threshold amount ($2,100 for 2018) was taxed at the parent's tax rate (if higher than the child's). Unearned income includes dividends, interest and capital gains distributions from investments. The intention of this "kiddie tax" is to discourage "shifting" of income in an effort to minimize income taxes.

The TCJA makes the kiddie tax an even stronger disincentive: For 2018 through 2025, a child's net unearned income over the allowed amount, as adjusted for inflation, will be taxed according to the brackets for trusts and estates. The trust and estate brackets have the same top rate as the individual taxpayer brackets (now 37%), but that rate is triggered much sooner — when taxable income exceeds $12,500. For single filers in 2018, the top rate doesn't kick in until taxable income reaches $500,000, and for married couples filing jointly, the top rate begins at taxable income of $600,000.

Time to review your estate plan

The estate-tax-related provisions of the TCJA may call for a rethinking of your gifting and overall estate planning strategies. We can help you review and (if necessary) revise your estate plan to maximize the benefits and minimize negative consequences. •

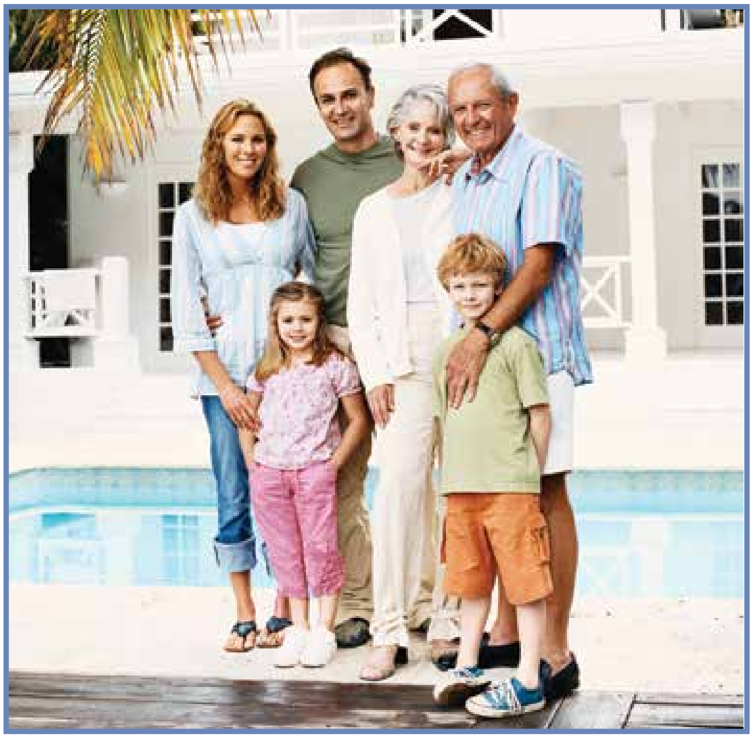
All in the family

Transferring your vacation home

Vacation homes are typically treasured by families and often pass down from generation to generation. But there may be more to transferring the family lake cottage or beach house than first meets the eye. If you plunge ahead without careful planning, it could disrupt harmony and lead to a "family feud." In some cases, relationships may be severed forever.

Potential sources of conflict

Why would transferring a vacation home lead to conflict? The possible reasons are numerous



Once ownership of the home is legally transferred to one or more of your kids, it can be subject to the claims of creditors. Or, if a married adult child gets divorced, his or her spouse might attempt to claim a portion of the home's ownership.

The costs of operating a vacation home can't be ignored, either. Not even counting property taxes and mortgage interest (when applicable), some family members may be stretched thin by outlays for repairs, maintenance and insurance. If siblings have disparate incomes, arguments about money can boil over.

Finally, assuming you divide ownership equally among your adult children, your decision may not be embraced by everyone concerned. While some may want to keep the home, and preserve the traditions associated with it, others might want to sell it and use the proceeds for other purposes. Thus, the family is divided.

and sundry and, of course, depend on whom you choose to name as your successors. For starters, the home may elicit strong emotions, with precious memories for different family members. Due to this connection, someone who's excluded from ownership may harbor resentment. Or, if the ownership is divided equally — say, one-third to each of three siblings — one party might feel they have a greater right to the property than the others.

Once ownership of the home is legally transferred to one or more of your kids, it can be subject to the claims of creditors.

In addition, adult children are often married with children of their own, which can complicate matters, especially if any of the siblings and the respective spouses don't get along. Existing sibling rivalries or other long-standing tensions may come into play.

Communication is critical

Much of this potential discord can be avoided by talking things out before taking action. For example, you may learn that one child has no desire to continue using the home while another intends to keep it for him- or herself and his or her kids as long as possible.

Consider seeking a practical solution that benefits everyone without causing financial hardships. Get your family together face-to-face to hash out all the issues. Depending on the circumstances, spouses may — or may not — be invited. As a result of these talks, you might arrange a division of expenses or ownership that differs from the usual equal allocation.

In addition, you might want to discuss the possibility of renting the home to tenants, at least part of the time. This can be a lucrative source of income for your children while providing certain tax benefits. However, some family members may feel strongly about maintaining the home for personal use.

Other issues at stake

Before transferring ownership of your vacation home, consider all of the legal and tax ramifications. Although the most common method is to leave a home to children as tenants in common, this may not be the best approach if it causes discord. In that case, you may use a trust instead, thereby maximizing the available tax benefits under the prevailing laws. Contact your estate planning advisor for help addressing your vacation home in your estate plan. •

ESTATE PLANNING PITFALL

You haven't planned for long-term care

According to the 2017 Genworth Cost of Care Survey, a widely used barometer for the industry, the median cost of adult day health care in the United States is $1,517 a month. It's $3,750 for an assisted living facility, $3,994 for home care services and $4,099 for home health aides. And the median cost rises to $7,148 for a semiprivate room at a nursing home and $8,121 for a private room!

Those figures should give you pause. If you don't address the possibility you'll need some form of long-term care services — be it a home health aide, an assisted living facility or a nursing home — your entire life's fortune can be wiped out in a relatively short period of time.

How can you avoid dire results? Medicaid isn't a viable option for most people because of the relatively low state income thresholds. One alternative is to obtain long-term care (LTC) insurance through a reputable provider. But this isn't as easy as it may at first seem.

LTC policies can vary widely depending on such factors as the insurer, area of the country and your health status. It's important to find out what benefits will be provided and for how long. Also, check into the tax implications for your situation. Finally, your out-of-pocket cost is a major consideration.

If you're interested in an LTC policy, act sooner rather than later because the cost of coverage generally rises with age. After you've investigated the options, you can make an informed decision with assistance from your advisor.

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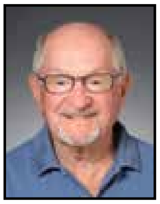

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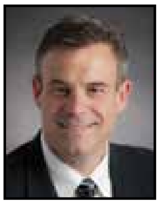

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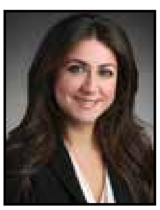

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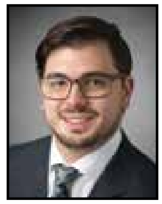

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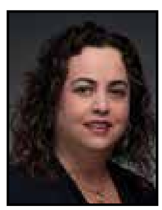

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