



# April 2018 Newsletter

## *Korbitz Financial Planning*

### **Korbitz Financial Planning LLC**

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Clients and Friends: I have, sadly, had three clients pass away in the last 6 months. This newsletter is dedicated to them and their families, and is intended to help others go through this type of transition.

The first article of this newsletter discusses some nuts and bolts issues related to estate settlement, and the task of being an estate administrator.

The second article talks about questions that need to be asked of aging parents, before you are no longer able to ask those questions.

The third article discusses downsizing, which could be applicable to you, or to your parent or parents, or another loved one.

Finally, the two articles on page four discuss alternatives to nursing homes for aging adults, and provides a review of the current gift and estate tax rules.

Please let me know if you have any questions about anything in this newsletter.

Eric

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Don't Wait to Ask Aging Parents These Important Questions

Four Tips for Downsizing in Retirement

Is a nursing home the only option for long-term care?

What are the gift and estate tax rules after tax reform?

## **Settling an Estate: Executors Inherit Important Title**



Being named as the executor of a family member's estate is generally an honor. It means that person has been chosen to handle the financial affairs of the deceased individual and is trusted to help carry

out his or her wishes.

Settling an estate, however, can be a difficult and time-consuming job that could take several months to more than a year to complete. Each state has specific laws detailing an executor's responsibilities and timetables for the performance of certain duties.

If you are asked to serve as an executor, you may want to do some research regarding the legal requirements, the complexity of the particular estate, and the potential time commitment. You should also consider seeking the counsel of experienced legal and tax advisors.

### **Documents and details**

A thoughtfully crafted estate plan with up-to-date documents tends to make the job easier for whoever fills this important position. If the deceased created a letter of instruction, it should include much of the information needed to close out an estate, such as a list of documents and their locations, contacts for legal and financial professionals, a list of bills and creditors, login information for important online sites, and final wishes for burial or cremation and funeral or memorial services.

An executor is responsible for communicating with financial institutions, beneficiaries, government agencies, employers, and service providers. You may be asked for a copy of the will or court-certified documentation that proves you are authorized to conduct business on behalf of the estate. Here are some of the specific duties that often fall on the executor.

**Arrange for funeral and burial costs to be paid from the estate.** Collect multiple copies of the death certificate from the funeral home or coroner. They may be needed to fulfill various

official obligations, such as presenting the will to the court for probate, claiming life insurance proceeds, reporting the death to government agencies, and transferring ownership of financial accounts or property to the beneficiaries.

**Notify agencies such as Social Security and the Veterans Administration as soon as possible.** Federal benefits received after the date of death must be returned. You should also file a final income tax return with the IRS, as well as estate and gift tax returns (if applicable).

**Protect assets while the estate is being closed out.** This might involve tasks such as securing a vacant property; paying the mortgage, utility, and maintenance costs; changing the name of the insured on home and auto policies to the estate; and tracking investments.

**Inventory, appraise, and liquidate valuable property.** You may need to sort through a lifetime's worth of personal belongings and list a home for sale.

**Pay any debts or taxes.** Medical bills, credit card debt, and taxes due should be paid out of the estate. The executor and/or heirs are not personally responsible for the debts of the deceased that exceed the value of the estate.

**Distribute remaining assets according to the estate documents.** Trust assets can typically be disbursed right away and without court approval. With a will, you typically must wait until the end of the probate process.

The executor has a fiduciary duty — that is, a heightened responsibility to be honest, impartial, and financially responsible. This means you could be held liable if estate funds are mismanaged and the beneficiaries suffer losses.

If for any reason you are not willing or able to perform the executor's duties, you have a right to refuse the position. If no alternate is named in the will, an administrator will be appointed by the courts.



## Don't Wait to Ask Aging Parents These Important Questions



***The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf without a roadmap.***

***Note: There are costs and ongoing expenses associated with the creation of trusts.***

***Note: A complete statement of long-term care insurance coverage, including exclusions, exceptions, and limitations, is found only in the long-term care insurance policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.***

It's human nature to put off complicated or emotionally heavy tasks. Talking with aging parents about their finances, health, and overall well-being might fall in this category. Many adult children would rather avoid this task, as it can create feelings of fear and loss on both sides. But this conversation — what could be the first of many — is too important to put off for long. The best time to start is when your parents are relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis without a roadmap.

Here are some questions to ask them that might help you get started.

### Finances

- What institutions hold your financial assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers, name(s) on accounts, and online user names and passwords, if any. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills? Do you use online bill pay for any accounts?
- Do you currently work with any financial, legal, or tax professionals? If so, ask your parents if they want to share contact information and whether they would find it helpful if you attended meetings with them.
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if the parent becomes disabled or incompetent.
- Do you have a will? If so, find out where it is and who is named as executor. If the will is more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now.
- Are your beneficiary designations up-to-date? Beneficiary designations on your parents' insurance policies, pensions, IRAs, and investment accounts will trump any instructions in their will.
- Do you have an overall estate plan? A trust? A living trust can be used to help manage an

estate while your parents are still living. If you'd like to learn more, consult an estate planning attorney.

### Health

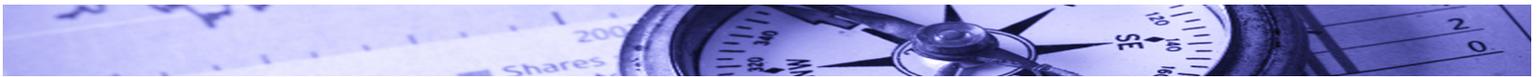
- What doctors do you currently see? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking? Are you able to manage various dosage instructions? Do you have any notable side effects? At what pharmacy do you get your prescriptions filled?
- What health insurance do you have? In addition to Medicare, which starts at age 65, find out if your parents have or should consider Medigap insurance — a private policy that covers many costs not covered by Medicare. You may also want to discuss the need for long-term care insurance, which helps pay for extended custodial or nursing home care.
- Do you have an advance medical directive? This document expresses your parents' wishes regarding life-support measures, if needed, and designates someone who will communicate with health-care professionals on their behalf. If your parents do not want heroic life-saving measures to be undertaken for them, this document is a must.

### Living situation

- Do you plan to stay in your current home for the foreseeable future, or are you considering downsizing?
- Is there anything I can do now to make your home more comfortable and safe? This might include smaller projects such as installing hand rails and night lights in the bathroom, to larger projects such as moving the washing machine out of the basement, installing a stair lift, or moving a bedroom to the first floor.
- Could you benefit from a weekly or monthly cleaning service?
- Do you employ certain people or companies for home maintenance projects (e.g., heating contractor, plumber, electrician, fall cleanup)?

### Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific requests or wishes for your memorial service?



## Four Tips for Downsizing in Retirement



*Have you considered downsizing in retirement?*

Going through years of accumulated possessions and memories is probably not how you envisioned spending part of your retirement. It may sound like a daunting and emotionally draining task, but downsizing could be a savvy financial move, especially if you haven't reached your retirement savings goals.

### 1. Set goals for downsizing

Before you make any decisions, think about why you might want to downsize in the first place. Is it because you want to save on mortgage payments or other monthly expenses? Or are you looking to free up some cash to help pursue your lifestyle goals in retirement?

No matter what your specific goals may be, understanding the connection between them and downsizing can help motivate you to follow through with it.

### 2. Determine the best time to downsize

It's said that timing is everything, so choosing when to downsize will be an important decision to make. One benefit of downsizing early in retirement is that mortgage payments and other related expenses (such as utilities and real estate taxes) could decrease, presuming that you are downsizing to a less expensive residence. This could mean you have extra funds to pursue new hobbies and activities right away in retirement. You might even be fortunate enough to have sufficient funds from the sale of a larger home to pay for a smaller home with cash, thus eliminating or decreasing your mortgage payment, or significantly increasing cash flow.

But there may be advantages to delaying downsizing. If you wait to do it later in retirement, you might have a better sense of just how much you need to downsize to support your current lifestyle. Plus, timing your downsizing plans with a stronger real estate market could mean that you sell and/or purchase a new home at a more opportune time.

### 3. Be realistic about costs

There are several costs to think about if you are downsizing your home: the worth of your current home, the cost of a new home, and the fees and expenses associated with relocating. Before you start boxing up your belongings, run the numbers. Start by contacting local real estate agents to receive estimates of your home's value. Compare the estimates so you can develop an idea of how much you might be able to get for your home. Research online to see what homes in your neighborhood have

sold for recently — this can also help you determine your home's potential selling price.

Take similar steps when you look for your new home. One option that might be available is to rent a new house or apartment for a length of time before buying it. That way, you'll learn whether the home and the location suit you, helping you avoid buyer's remorse.

If you're buying a new home, don't forget to account for the down payment, home inspection, closing costs, and other associated charges. Factoring all of the numbers into the equation may reveal whether downsizing makes the most sense for you and your financial situation.

### 4. Consider downsizing your belongings, not just your home

For some people, downsizing might simply mean cutting down on clutter rather than relocating. It's easier said than done, particularly if you've amassed many belongings over time. When purging your home, consider the following:

- **Take your time.** Don't feel pressured to clear out your entire home in one fell swoop. Instead, make a plan to do one room or section of your home at a time.
- **Involve your children.** If you have kids, consider asking them for their help. Many hands make light work, and your children may end up expressing interest in items they would like to have.
- **Sell valuables.** Maybe you can't find a new home for that antique necklace you never wear or the rare baseball cards collecting dust in your attic. Consider having those items appraised and selling them to an auction house or online. Depending on how many items you're selling and their worth, you could wind up with quite a bit of money that you can use to help cushion your retirement fund.
- **Donate gently used items.** Find out if there are any local organizations in your community that could benefit from furniture, clothing, or any other possessions in good condition that you want to get rid of. Some donation outlets may even offer free pickup of certain items, saving you time and hassle.
- **Clear out junk.** Chances are you've accumulated items that you simply won't be able to give away or sell. Discard belongings that serve no purpose other than taking up space in your home. You might be surprised by how much room you could free up.

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### Home care

Most people would prefer to stay in their homes as long as possible. Depending on your needs, you may only need help with some common daily living activities such as laundry, shopping, cooking, and cleaning. First, talk to your family to see if they can help with your needs. There are probably home health-care agencies that can assist you with some of these chores.

### Accessory dwelling units

If you or a loved one owns a single-family home, adding an accessory dwelling unit (ADU) to that home may help you keep your independence while getting some help with your daily activities. An ADU, or "in-law apartment," usually provides a separate living space with a sleeping area, a place to cook, and a bathroom. Check with your local zoning office to be sure ADUs are allowed in your area. Also, the cost of adding an ADU can vary widely, depending on the size of the unit and

## Is a nursing home the only option for long-term care?

If you or a loved one needs long-term care, other choices besides nursing home care may be available. Here are some of the other options.

the cost for materials and labor.

### Subsidized senior housing

There are federal and state programs that help pay for housing for some older people with low to moderate incomes. Some of these housing programs also offer help with meals and other activities like housekeeping, shopping, and laundry. Residents usually live in their own apartments in the complex. Rent payments are usually a percentage of your income.

### Assisted-living facilities

These facilities generally provide more services than offered in subsidized senior housing. You may receive help with bathing, dressing, using the bathroom, taking your medications, and getting to appointments. Residents often live in an apartment and may share meals in a common dining room. Social and recreational activities are usually provided. Some of these facilities have health services on site.

A nursing home may not be your only choice. Discharge planners and social workers in hospitals and home health agencies can explain your options and help arrange your care.



## What are the gift and estate tax rules after tax reform?

The Tax Cuts and Jobs Act, signed into law in December 2017, approximately doubled the federal gift and estate tax basic exclusion amount to

\$11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exclusion is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, federal gift and estate taxes remain the same.

**Gift tax.** Gifts you make during your lifetime may be subject to federal gift tax. Not all gifts are subject to the tax, however. You can make annual tax-free gifts of up to \$15,000 per recipient. Married couples can effectively make annual tax-free gifts of up to \$30,000 per recipient. You can also make unlimited tax-free gifts for qualifying expenses paid directly to educational or medical service providers. And you can make deductible transfers to your spouse and to charity. There is a basic exclusion amount that protects a total of up to \$11.18 million (in 2018) from gift tax and estate tax. Transfers in excess of the basic exclusion amount are generally taxed at 40%.

**Estate tax.** Property you own at death is subject to federal estate tax. As with the gift tax, you can make deductible transfers to your spouse and to charity; there is a basic exclusion amount that protects up to \$11.18 million (in 2018) from tax, and a tax rate of 40% generally applies to transfers in excess of the basic exclusion amount.

**Portability.** The estate of a deceased spouse can elect to transfer any unused applicable exclusion amount to his or her surviving spouse (a concept referred to as portability). The surviving spouse can use the unused exclusion of the deceased spouse, along with the surviving spouse's own basic exclusion amount, for federal gift and estate tax purposes. For example, if a spouse died in 2011 and the estate elected to transfer \$5 million of the unused exclusion to the surviving spouse, the surviving spouse effectively has an applicable exclusion amount of \$16.18 million (\$5 million plus \$11.18 million) to shelter transfers from federal gift or estate tax in 2018.