



Trusted Financial Advisors

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We are always amazed that despite incredible diversity within our client family, there are always a few key common concerns and priorities (e.g. retirement income and paying for college). Drawing on our personal experience with Mom, we are glad to share some ideas about another major concern - paying for elder care.

Everyone here is fine. Justin is enjoying urology, Steph has a new speech pathologist job, Mary Kate loves med school, Jack is a 3rd year Mid-Shipman, Julia is deciding on colleges and Maggie is enjoying Merion Mercy. Nancy welcomed grandchild 3 (Lyla). Carol and Patti are holding us all together.

Thank you for a great year and for allowing us to serve you, John and Dan.

Fall-Winter 2014

- Elder Care Myths and Realities
- The Potential Pitfalls of DIY Estate Planning
- 10 Basic Tax To-Dos for the Rest of 2014
- Do I have to pay an additional tax on investment income?



Elder Care Myths and Realities

Elder (S)Care

Beware of self-proclaimed "senior experts" who peddle "little known strategies" to help you "protect" assets from nursing homes. After reviewing many of these strategies, we have found a few recurring, troubling, themes:

- Under the guise of "asset protection" and "tax free" income, they are often nothing more than an **annuity sales pitch**.
- They may use **legal gyrations** to transfer assets in an effort to skirt government benefit rules.
- The "expert" advice usually comes with high fees.

There are indeed legitimate strategies and products that can be very useful in managing and protecting your wealth. **But purposefully positioning yourself to qualify for government aid is absurd.**

A Labyrinth of Rules and Programs

We just had nearly 2 years of hands-on elder care with Mom. This involved medical care, rehab and full-time at home care. Here are a few things we experienced:

Medicare is focused on doctor visits, hospital stays, diagnostic tests, rehab (with limits), etc. **Medicare does not cover assisted living or nursing homes.**

Based on a spider web of rules that vary by state, **Medicaid is designed to serve the poor**. To qualify for Medicaid, you generally have to have less than \$2,000 of assets and \$2,163 of monthly income (you can usually exclude your home, car and certain funds held in trusts).

The rules are further complicated by "look back" periods, marital status, overlapping government programs, etc. If qualified, Medicaid may cover the cost of a nursing home (assisted living is usually not covered) though not all nursing homes accept Medicaid patients and **your choices may be limited.**

Giving up control?

Many of the strategies peddled by senior care charlatans involve removing assets from your name. This can mean you lose control of the assets . **While this may help you look poor, these actions may be irreversible.**

Our Advice

Widowed twice, both times with young children, Mom was remarkably independent. She worked hard and saved. Ignoring the advice of her 5 kids (as usual), she was determined to stay at home. Thanks to her planning, she had high quality, live-in help for her last 2 years. There was **no** government assistance.

We certainly could have created a plan for Mom and positioned her for Medicaid-eligibility. But Mom never wanted the government to determine her fate.

Here are a few ideas to consider when putting together a plan:

- **Involve your family.** Our best client experiences involve families that have frequent and open lines of communication.
- Understand that there are **4 basic options** for funding elder care; self funded, family, insurance, government assistance. In our experience, a successful strategy usually involves all 4.
- **Let us show you the pros and cons of all available tools** (e.g. gifting strategies, hybrid annuities, trusts, etc.).
- Never make decisions under pressure especially those that are irreversible.
- **Stay away from "senior experts"**who promote solutions tied to product sales (even if there is a free lunch).

Thank you for allowing us to serve you. John and Dan.



The one-size-fits-all, fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk of doing things incorrectly?

The Potential Pitfalls of DIY Estate Planning

Americans, by and large, are do-it-yourselfers. Books, websites, software programs, and even giant box stores exist solely to help ambitious Americans tackle all kinds of everyday challenges, from fixing leaky faucets to building backyard sheds. The same holds true for estate planning--there's certainly no dearth of information for those wanting to prepare their own wills and other important documents. However, do-it-yourselfers may want to exercise a bit of caution here.

Although do-it-yourself (DIY) estate planning can cost a fraction of what attorneys charge, depending on your personal situation, this may be a case of being penny-wise and pound-foolish.

Cheap, easy, and better than nothing

Proponents of DIY estate planning typically have two arguments:

1. **It's cheap and easy:** Creating a will and other estate planning documents on your own can cost far less than doing so with an attorney's assistance. You can find resources online and in the library that could help.
2. **It's better than nothing:** What happens if you die or become very ill without important estate planning documents? In that case, the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid: For those who cannot afford to pay an attorney, DIY may be an economical alternative. For others, a poorly drafted will may be better than no will at all, especially when naming a guardian for minor children is involved. But there are several risks to DIY estate planning, including the risk that your wishes will not be carried out exactly as you intend.

Basic is not always ideal

Although DIY sources can typically handle the needs of simple estates, they generally are not appropriate for even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, and estates that are large enough to be subject to estate taxes (typically those worth more than \$5,340,000 in 2014). Also, DIY sources generally fail to take advantage of sophisticated estate planning strategies because they usually can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

You may benefit from legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the appropriate legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that is specifically tailored to your circumstances and goals.

Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

Fixing mistakes can be costly and time-consuming

As previously stated, working with an attorney to create your estate planning documents can be very expensive, costing anywhere from several hundred to several thousands of dollars, depending on the complexity of your estate. But these costs are minor compared to the costs and frustrations that your loved ones may experience if there are serious errors in your DIY estate plan. Many more thousands of dollars and many hours with attorneys may have to be spent to undo what was done wrong. Before embarking on a DIY estate plan, consider these risks very carefully.

10 Basic Tax To-Dos for the Rest of 2014

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Make time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings when you can assess whether you'll be paying taxes at a lower rate in one year than in the other. So, carve out some time.

2. Defer income

Consider any opportunities you have to defer income to 2015, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the 2014 tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2015, could make a difference on your 2014 return.

Note: *If you think you'll be paying taxes at a higher rate next year, consider the benefits of taking the opposite tack--looking for ways to accelerate income into 2014, and possibly postponing deductions.*

4. Know your limits

If your adjusted gross income (AGI) is more than \$254,200 (\$305,050 if married filing jointly, \$152,525 if married filing separately, \$279,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2014 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

5. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it

comes to year-end tax planning. For example, if you're subject to the AMT in 2014, prepaying 2015 state and local taxes probably won't help your 2014 tax situation, but could hurt your 2015 bottom line. Taking the time to determine whether you may be subject to AMT before you make any year-end moves can save you from making a costly mistake.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2014 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars, so there's no immediate tax savings. But qualified distributions are completely free from federal income tax, making Roth retirement savings vehicles appealing for many.

7. Take required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

8. Know what's changed

A host of popular tax provisions, commonly referred to as "tax extenders," expired at the end of 2013. Among the provisions that are no longer available: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

9. Stay up-to-date

It's always possible that legislation late in the year could retroactively extend some of the provisions above, or add new wrinkles--so stay informed.

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation, keep you apprised of legislative changes, and help you determine if any year-end moves make sense for you.



AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

IRA and retirement plan contributions

For 2014, you can contribute up to \$17,500 to a 401(k) plan (\$23,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2014 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2014 IRA contributions.

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Do I have to pay an additional tax on investment income?

You might, depending on a few important factors.

A 3.8% net investment income tax is imposed on the unearned income of high-income individuals. The tax is applied to an amount equal to the lesser of:

- Your net investment income
- The amount of your modified adjusted gross income (basically, your adjusted gross income increased by an amount associated with any foreign earned income exclusion) that exceeds \$200,000 (\$250,000 if married filing a joint federal income tax return, and \$125,000 if married filing a separate return)

So if you're single and have a MAGI of \$250,000, consisting of \$150,000 in earned income and \$100,000 in net investment income, the 3.8% tax will only apply to \$50,000 of your investment income.

The 3.8% tax also applies to estates and trusts. The tax is imposed on the lesser of undistributed net investment income or the excess of MAGI that exceeds the top income tax bracket threshold for estates and trusts

(\$12,150 in 2014). This relatively low tax threshold potentially could affect estates and trusts with undistributed income. Consult a tax professional.

What is net investment income?

Net investment income generally includes all net income (income less any allowable associated deductions) from interest, dividends, capital gains, annuities, royalties, and rents. It also includes income from any business that's considered a passive activity, or any business that trades financial instruments or commodities.

Net investment income does not include interest on tax-exempt bonds, or any gain from the sale of a principal residence that is excluded from income. Distributions you take from a qualified retirement plan, IRA, 457(b) deferred compensation plan, or 403(b) retirement plan are also not included in the definition of net investment income.