Estate Planning: What You Need to Know

Although it can be an unpleasant topic to think or talk about, everyone should have an estate plan. They're not just for the wealthy. An estate plan will ensure that your last wishes are carried out and your estate is handled in the way you want. Consider it planning for life!

Learn the Lingo

Are you familiar with probate? How about durable power of attorney? The highly-specific terms used to discuss estate planning can be dizzying. The PICPA offers a quick breakdown of some common words and phrases related to estate planning.

- *Beneficiary*: The person(s) or organization(s) who benefits from a will, insurance policy, or other legal document.
- *Conservator*: A person named by the court to act on behalf of someone who has become incapacitated.
- *Durable Power of Attorney*: A legal document appointing another person (the attorney) to act on behalf of another.
- *Durable Power of Attorney for Health Care*: A legal document appointing another person (the attorney) to make medical decisions on behalf of another.
- *Estate*: A person's possessions.
- *Executor*: The person named in a will to manage an estate.
- *Grantor*: The person who places assets into a trust.
- *Probate*: The process of dividing up someone's estate as dictated by a court.
- *Trust*: A legal document created by a grantor during his/her lifetime for the benefit of another.
- *Will*: A legal document directing the dispensing of property at death.

Advice from CPAs

"The good news is Pennsylvania no longer has an estate tax. What the state does have is an inheritance tax based on the value of the decedents' assets. There are allowable deductions that reduce the taxable assets, such as funeral expenses, professional fees, and the cost of burial, to name a few.

Executors need to file an inheritance tax return if a will has been probated or if letters of administration have been issued for a decedent. A return also must be filed if taxable assets exist that are held individually or pass to the decedent's estate, even if everything ultimately passes to the surviving spouse. The return is due within nine months from the date of death. If the tax is paid within three months of the date of death, there is a 5 percent discount.

Transfers to a surviving spouse or to a parent from a child age 21 or younger are taxed at a 0 percent rate.

One last item to keep in mind is that life insurance on the life of the decedent is not taxable to the estate of the decedent. In addition, the proceeds are not taxable according the state income tax law."

Titling Of Your Assets

If you have nothing else in your estate plan, you should make sure that you understand how the titling of your assets will affect what your heirs receive. Most assets do not travel via your will. Primary methods of transfer include beneficiary designations, joint assets with rights of survivorship, transfers on death, and trusts, to name a few.
Beneficiary designation: assets such as life insurance and retirement accounts will bypass your will, unless your estate is the beneficiary. Making your estate the beneficiary is usually a very bad idea. See your CPA for more information.

Joint Tenants with Rights of Survivorship (JTWROS): at your death, your share of a JTWROS asset is automatically transferred to the other joint owner(s). Contrast this with holding assets as Tenants in Common (TIC). A TIC asset owned by two people will be split in half at the first death, with the deceased owner's share falling into his/her will, and the surviving owner only owning his/her original share of the property.
Transfer on Death (TOD): a TOD designation adds beneficiaries to nonretirement accounts.

Trusts: the trust itself becomes a sort of beneficiary. The trust document explains who gets what, not your will.

Long Term Care

The United States government does not want to pay for long-term care expenses. In fact, it offers tax incentives for the purchase of private long-term care insurance. Even under "Obama Care," there is no provision for long-term care. Medicare will only cover a portion of 'skilled nursing care" up to 100 days. Medicaid kicks in for nursing home care once you have become impoverished.

Private long-term care insurance should be considered. It should provide coverage for home care, adult day care, assisted living, and traditional nursing home care. These benefits kick in when you begin to need help with the activities of daily living or when cognitively impaired. In addition, most insurance companies will provide a "care coordinator" to help families facilitate this assistance. The No. 1 reason to purchase private long-term care insurance is not for you; it is for your loved ones. It gives your spouse and family options for your care.

For most people, some long-term care insurance is better than no long-term care insurance. The younger you purchase insurance, the less expensive it will be. Younger, healthier individuals also will have access to more types of policies. Insurance companies have created new products to meet consumer demands. For example, if you die before using up your long-term care benefit, life insurance or lump sum can be paid to your beneficiary. If you haven't reviewed your long-term care plan in the past five years, it's time to take another look to see what options are best for your family.