IMPERIAL TRAINING SERVICES

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Planning for the Senior Market
(A Case Study)
Course#216460

PLANNING FOR THE SENIOR MARKET (A CASE STUDY)

I. Introduction

A. People are living longer, and they will need money coming in for a longer period.

B. Seniors will need medical assistance and care

C. Seniors may become incapacitated - What then?

D. There are ethical issues that need to be addressed.

II. Special Needs

A. Estate Planning

1. Basic goal is to be certain that after lifetime needs are taken care of, and expenses, debts of the estate are met, a person's property can be passed on according to their wishes with the smallest tax burden possible.
2. Drafting wills and trusts are of utmost importance.
3. The agent/planner working with the attorney and accountant is a vital link in Seniors having a successful estate plan.
4. It is our job to find various methods to enhance new worth and use our insurance tools to supplement a lifetime of savings and investments.
5. The estate plan must be economical and easy to administer
6. The plan must satisfy the senior client's wishes
7. Liquidity in the estate is a must
8. It must consider income, estate, and gift taxes
9. It must be flexible
10. It must take market and inflation factors into consideration
11. It must consider contingencies – beneficiaries dying before the senior, estate growth or shrinkage, tax laws, etc.
12. It must take into consideration the creator of the plan and the recipients of the plan may become incapacitated.
13. It must look at Medicaid possibilities.

14. The unified Credit has been increased and will be a factor in future planning.

YEAR	UNIFIED CREDIT
2009…………	$3,000,000
2010…………	$Unlimited
2011…………	$1,000,000
2016…………	$5,400,000
2017…………	____________
2018…………	____________
2019…………	____________
2020…………	$11,058,000

15. The Annual gift tax exclusion will increase in $1000 increments
    a. The increase will be tied to the CPI
    b. The increase will never be less than $1000
    c. If the CPI averages 3% per year, it would take 4 years for the amount to increase another thousand.

B. But, I can't remember

1. Present or future incapacity presents many opportunities for the agent/planner
2. This area is ignored by many agents/Planners and thus estate plans are ineffective
3. A Will or trust could be contested by a family member who claims the signer did not have the capacity to understand the legal document and consent to it without pressure.
4. A senior who is confused and sick may receive a large sum of money and find it impossible to administer the money.
5. The person may need nursing home care – Who is going to pay for it?
6. The person's Medicaid application may be denied due to excessive income, assets or transfers not permitted due to the look back period, which lasts 60 months.
7. A Guardian may be imposed
    a. Least desirable solution

b. Most drastic solution

c. An expensive solution

d. A time – consuming solution

8. Planning ahead and creating alternatives for financial matters such as trusts, and wills are a much better way to go.
9. Durable Power of Attorney

a. Important tool in estate planning for seniors.

b. Allows another person to act as an agent for the senior in handling matters even when the senior individual is incompetent.

c. The person given durable Power of Attorney responsibility should be trustworthy, have similar objectives as the senior person and be willing to serve throughout the senior's lifetime.

d. "Health care Powers of Attorney" can be granted in some states, which allows the "agent" acting for the senior to make health care decisions, such as whether life support should be used or whether a particular surgery should be performed.

C. Where to Begin

1. An inventory of possessions and income of the client must be taken – banking accounts, home, other real property, investment, etc.
2. An inventory of items that now exist and those that will develop in the future should be taken – bongs, inheritances, and CD's
3. Look at current needs vs. future needs.
4. Look for ways to cut or eliminate taxes (income and estate).

III. Planning for the Family Business

A. Why Business fail

1. No provisions to train a successor
2. The business owner stays in the business too long and makes some poor decisions.
3. Family members begin to bicker thinking they are going to take over the business, rather than continue to currently manage the company efficiently.
4. The business owner leaves family member equal percentages of stock ownership.
5. The business owner won't let go of the reigns.
6. No retirement plan – The owner is not going to take a huge drop in income.

B. How can a business last?

1. Have a well thought out, succession plan ready to take effect regardless of what happens.
    a. Death
    b. Disability
    c. Incapacity
    d. Living to enjoy a long deserved retirement
2. Let Go
    a. Prepare a successor
    b. Let them have the reigns.
    c. Plan for early retirement – Have a plan to replace the income.
3. The estate plan should consider processing, administration, and disposition of the estate.

IV. Tools of the Trade

A. The Will

1. The will should appoint an executor.
2. The executor should get the will probated and distribute the estate in accordance with the deceased's wishes.
3. The will should dispose of the entire estate – but not anything that can't pass by will, such as joint property or anything that is not in the will any longer, such as a coin collection that was sold before the person's death or the 1978 25th edition Corvette that was totaled in a wreck before the owner died.
4. The executor should be "qualified" to handle such matters.
5. A specific bequest can leave a particular amount of money or a particular item.
6. A formula bequest can give someone a percentage of the estate.
7. Many wills contain a "pour over" provision. Some assets of the estate are "poured over" or transferred to a trust.
8. The will once drafted needs to be periodically reviewed and revised when changes occur in the family the estate the law or with the testator.

B. Joint Ownership

1. Joint Property-for example a home a husband and wife own together and at one's death the property passed automatically to the other spouse.
2. Joint bank accounts
3. These types of property do not pass-through probate.

C. Trusts

1. Simple trust – trust distributes all of its income each year.
2. Complex trust – trust allows some or all of its income to be accumulated and put back into the trust.
3. Testamentary trust – trust that forms part of the will and takes effect when the grantor dies.
4. Inter vivos trust[1] – trust that is set up during the grantor's lifetime.
5. Revocable trust – allows the grantor to change the trust or rake back property. Used to avoid probate.
6. Irrevocable trust – grantor cannot change or revoke. Grantor gives up all control of assets in the trust. Property in this type of trust is excluded from the grantors' federal taxable estate.
7. Life insurance trust – usually an irrevocable trust.
   a. Funded – policies and income producing asset to pay premiums are placed in trust.
   b. Unfunded – policies are placed in trust and insured makes premium payments.
   c. Usually a funded trust.
8. Benefits of a Trust
   a. Income tax consideration
      - Trust income can be taxed to the grantor, the beneficiary, or the trust.
      - The grantor is taxed if:
        (i) The income from the trust is used to pay insurance premiums for policies on the grantor or their spouse.
        (ii) The grantor uses the principal or income in the trust to meet his/her obligations to support a spouse or children
        (iii) The grantor maintains influence over distribution of trust property
        (iv) The trust will generally pay more tax than an individual, so it may be beneficial to pay out proceeds to the grantor or individual beneficiary.

b. Minors
   - An outright gift to a minor could have legal restraints on the use of the property
   - To sell the property a guardian would have to be appointed
   - If property is placed in a trust, the management is handled by a trustee until the minor reaches the correct age.
   - If the grantor realizes the person is still not capable to handle the property at their age of majority the trustee can still manage and protect it.

c. Incapacity due to aging
   - A senior adult who is worried about not being able to make sound financial decisions later could allow a trustee to handle the decisions
   - An efficient dignified and economical manner to handle one's affairs

d. Handling complex manners in a flexible way
   - Allows grantor to name many beneficiaries with the rules set out so that each gets his/her share in money or property.

e. Estate tax savings
   - The trust owns the property irrevocably
   - The grantor owns no beneficial interest in the property

f. Gift tax
   - A gift of $14K as of 2016 per done is allowable (up to $28K per year per done if the spouse joins in the give) free of gift tax
   - Gift must be irrevocable
   - The give must be one of present interest

g. Medicaid
   - If the trust is irrevocable but allow the grantor access to principal or income the look-back period is 5 years.
   - If the trust is irrevocable and the grantor cannot use principal or income from the trust the look-back period is 5 years.

h. Charitable giving through trusts
   - A charitable trust allows the grantor to do something good for someone or something.
   - Attractive to wealthy individuals especially widowed, divorced or single who can't take advantage of the marital deduction
   - Charitable remainder trusts
   - Charitable lead trusts

D. Pooled income funds

1. Allows a number of small investors to participate in the advantages of a charitable trust.

2. The giver makes a donation to a pooled income fund which is like a mutual fund created by a charity.

3. The giver or named beneficiary gets a life interest in the earned income of the pooled income fund.

4. When the giver of beneficiary dies the charity gets the remainder of the giver's contributed amount.

5. If IRC tests are met the donated amounts are excluded from the giver's estate and they may receive an income tax deduction.

6. Advantageous because
    a. Setting up a trust involves legal fees
    b. One may have to pay management fees each year.
    c. It's usually not worth setting up a trust with less than $150K.

7. Through OBRA '93 over age 65 disabled individuals can use trusts similar to pooled income funds that are administered by charities to greatly reduce the consequences of Medicaid rules.

V. The Smiths: A Case Study

Ron and Joan Smith are clients of yours. Ron is 64 and Joan is 58. Both are working and healthy. They like to play golf and walk. They are looking forward to retirement so they can travel to different golf courses and visit different beaches and walk along the beach at sunset.

Ron and Joan have two girls, Kayla and Marsha, 36 and 30 respectively. They have 3 grandchildren. Kayla and her husband Mark have Shawn, age 10 and Bonnie age 6. Marsha and her husband Kyle have Katie age 2. Mark and Kayla have been more successful financially than Marsha and Kyle, but Ron and Joan love to spoil all the grandchildren.

Ron is a Regional Manager for a computer company and makes about $70,000 a year. Joan works for the state as a senior administrative assistant. She makes $40,000 a year. Ron could take early retirement now and receive a pension of $33,000 a year. If he works until he is 70 he could receive $42,000 a year. Joan can retire at 63 with a pension of $18,000 a year.

Ron and Joan owe $25,000 on their home, which is now worth $275,000.

Ron has $50,000 in group insurance at work and a $50,000 whole life policy of which Joan is the beneficiary. Joan has a $20,000 policy at work and a $10,000 whole life policy.

Ron and Joan have not saved as much as they would have like to at this point. Ron has had relative success investing and has a current portfolio worth $150,000. They are both concerned about market drops and loss of investment growth.

A. Objectives

1. Ron and Joan want to have an active, enjoyable retirement.
2. What risks should the agent / planner bring to their attention?

   a. Sudden death of either spouse
   b. Incapacity

3. Planning choices

   a. If Ron retires now, should Joan?
   b. Should Ron wait and retire when Joan is eligible in 4 years?

B. What do they do with the house?

1. Mark and Kayla own their home
2. Kyle and Marsha are leasing a home with the option to buy
3. Ron and Joan may be prime candidates for a retirement community.
4. Could they possibly sell the house, buy in a retirement community, and still have some money left over?
5. Would the retirement community cost more than the proceeds from the sale of the house.
6. What if the retirement community is such that Ron and Joan have an equity interest?
7. Could they stay in the old house, do some fix up work or improve it for later years when a wheelchair ramp or chair lift might be needed?
8. Why might they consider looking at their mortgage?

C. Planning for Medicaid

1. Eligibility depends on the state in which they live.
2. The house is the major asset - likely to be an exempt homestead.
3. Paying off the mortgage could be wise because it would convert cash (an available resource which would block Medicaid eligibility) into an exempt asset (a homestead).
4. Ron and Joan may be able to transfer assets and not be affected by the 5-year look-back.
5. They might transfer ownership of the home (to prevent recoupment if Medicaid benefits are later received).

D. Planning for Incapacity

1. Not an emergency consideration for Ron and Joan but should not be neglected.
2. Do they need a durable Power of Attorney?
3. A trust may be a viable option also.
4. Should they consider, a living will?
5. Should they purchase LTC insurance?

E. Investment Choices

1. Should Ron and/or Joan keep working?
2. Estimated Sources of Income during Retirement
   a. Savings and investments – 33%
   b. Earned income – 27%
   c. Social Security – 18%
   d. Other – 12% (government pensions, railroad retirement, and public assistance)
   e. Private Pension – 10%
3. They have a substantial income now, but their income will drop after they both retire.
4. Their $150,000 can be increased to $2000000 if they work another 2-5 years and increase their savings. Diversification and strategy will be important.
5. They want to invest for income. Where would they invest?
6. Inheritance for children.

F. Insurance planning

1. They have little life insurance
2. What if Ron dies first?
3. What if Joan dies first?
4. Does the agent/planner consider Pension Max?
5. If there is a need, what kind of insurance do they buy?
6. How much do they need to buy?

G. Estate planning

1. Will there be an estate tax problem?
2. They may need a trust for use in asset management due to incapacity.
3. A Revocable Living Trust may be an option.
4. Gifting to children and grandchildren may be worthwhile.
5. Do Ron and Joan need a will?

H. Case Wrap-up

VI. Betty and Mrs. Jones: A Case Study

Betty Martin is 48 years old. She has called you concerning her 75-year-old mother, Patty Jones. Any fees will be paid by Betty. Betty is worried about her mother who lives in a mobile home by herself. Mrs. Jones is a widow in fair health. She has a heart condition, high blood pressure and some problems with her eyes. She doesn't get around too well and fell three years ago when it snowed and broke her writs and cracked her shoulder. Betty visits her three times a week and says the emotional stress is getting to her and is making her career and family responsibilities difficult.

Mrs. Jones does forget at times and is confused at times, but it's hard to pinpoint the real reason why. It could be depression and loneliness due to her husband's death 2 years ago, drug interactions or early stages of Alzheimer's.

Mrs. Jones receives a $675 SS check each month and a pension check from her late husband's employer for $215 a month. Mrs. Jones receives help at times from Betty and her sister, Cathy who lives in Canada.

Mrs. Jones' husband had a small estate, in which she did receive about $90,000 in cash and CD's and $125,000 in insurance policies. She keeps the bulk of the money in CD's rolling them over each time. She has spent about $30,000 on living expenses fixing up the home and doctor bills not covered by Medicare. She receives about $10,000 income from her CD's each year.

A. What does one do?

1. Mrs. Jones needs care. Where do you get it?
2. Might Mrs. Jones be able to get home care benefits?
3. What happens if Mrs. Jones has to go into a nursing home? Who is going to pay?

B. Incapacity concerns

1. Future incapacity of Mrs. Jones is definitely a threat.
2. This problem needs immediate attention.
3. Any wills, and transfer instruments must be signed while Mrs. Jones still can. It might be wise to videotape so others cannot say she was pressured or coerced into signing.
4. Durable Power of Attorney – Betty or Cathy?
5. Joint accounts.
6. Trusts

C. Medicaid concerns

1. Depending on where she lives Mrs. Jones could transfer excess assets to Betty and Cathy and apply for and receive home care under Medicaid as long as she is not disqualified on excess income grounds.
2. This could backfire if Mrs. Jones' condition takes a plunge and she needs nursing home care before the penalty period expires.
3. She would be disqualified for Medicaid and have no assets because they have been transferred to family.
4. Mrs. Jones is a widow so she can't use provisions in Medicaid for income allowance or asset transfers to a spouse.
5. Does Mrs. Jones want to go to a nursing home?
6. Are there good Medicaid certified facilities around?
7. Why not go live with Betty or Cathy?

D. Insurance concerns

1. Mrs. Jones has had medical costs over and above what Medicare pays. Should she purchase Medigap insurance?
2. Should she purchase LTC insurance?
3. In order to leave an inheritance and something for the grandchildren she may want to purchase life.

E. Investment concerns

1. Most of her investments are in CD's -Good or Bad?
2. Must answer the question – Does Mrs. Jones want to make transfers to qualify for Medicaid?
3. If she doesn't apply for Medicaid the question is what to do with her money – approximately $185,000?
4. She is receiving SS and a pension check.
5. She still lives in a mobile home.

F. Estate Planning Concerns

1. Mrs. Jones will probably have a small estate because of having to use most of her funds while she is living.
2. The agent/planner should find out what Mrs. Jones' wishes are as far as any inheritance for her family.
3. If she has no estate to leave she could purchase life insurance.
4. She could add equities to her investment portfolio.
5. She could use a certain term rather than a life annuity.
6. Someone will get the mobile home.
7. Mrs. Jones should have a will to allow adequate disposition of personal items. Who should be executor? Betty or Cathy?
8. How does Mrs. Jones feel about life support?
9. A living will may be appropriate.

G. Ethical Issues.

1. Who is the client in this case?
2. What are the temptations if there is fee-based planning?
3. What are the temptations if there is product-based planning?

H. Case Wrap-up

1. Summary

Resources

[1] *Inter Vivos Trust - [Wikipedia]()*