Estate tax planning important, but there is a bigger picture

By Linda T. Cammuso

As 2011 approaches, the estate planning world is holding its breath over the fate of the federal estate tax. If Congress does nothing before the end of 2010, the Federal estate tax "credit" or "exemption" will return to $1 million, a number we have not seen since 2003. This means that a person who dies with assets of more than $1 million will pay a 55 percent Federal estate tax — or 55 cents on the dollar — on the amount of assets that exceed $1 million.

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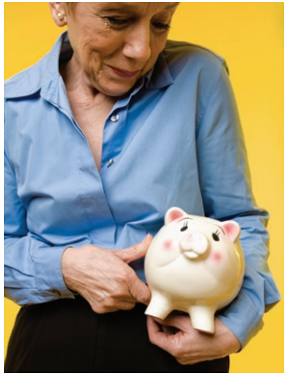
Massachusetts residents already pay a state estate tax (albeit at a lesser rate) on an estate of $1 million or more, although the state estate tax is assessed against the entire estate. In other words, the tax begins at the first dollar.

While most tax and estate planning professionals expect Congress to "fix" the federal estate tax by adjusting it to pre-2010 rates (in the neighborhood of a $3.5 million "credit" at a 45 percent rate), the current uncertainty has led to endless speculation.

With all the hype about estate taxes, it is easy to lose track of the bigger estate-planning picture. While estate taxes will continue to affect Massachusetts residents whose estate totals or exceeds $1 million, the senior population faces an even greater threat to their assets: the costs of long-term care. Far more people will face a long-term nursing home stay than will die with $1 million.



Estate planning, which traditionally focused on death-time planning issues such as inheritance of assets and reduction of taxes, has evolved to focus increasingly on lifetime planning challenges. In today's economy, families and seniors in particular face serious challenges when it comes to financial and personal wellbeing.

Perhaps the biggest challenge for today's seniors is meeting their own needs while providing for their families' futures. Seniors are faced with increased costs and bureaucracy in the health care system, rising costs of living and concerns about outliving their retirement assets and income. At the same time, they worry about their children and grandchildren who face unemployment, unfavorable divorce odds and uncertainty about their ability to comfortably retire.

It used to be a given that a person would die and leave some sort of financial nest egg for their children. With nursing home costs exceeding $10,000 a month, many seniors face depletion of their home and savings in the event of a nursing home stay. Even seniors with a taxable estate of $1 million could stand to lose a significant portion of their assets to long-term care costs. For seniors whose children are financially needy, this is a devastating prospect.

Protective long-term care planning should be a part of every estate plan. You will only have to worry about estate taxes if you actually have an estate when you die. Working with an estate planning attorney who is knowledgeable in tax as well as long-term care issues is critical to ensure maximum protection and preservation of your assets for you and your loved ones. With the holidays approaching, consider your estate plan to be the most meaningful gift you could give yourself and your family.

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