5 estate planning tips for the sandwich generation

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The "sandwich generation" accounts for a large segment of the population. These are people who find themselves caring for both their children and their parents at the same time. In some cases, this includes providing parents with financial support. As a result, estate planning — which traditionally focuses on providing for one's children — has expanded in many cases to include aging parents as well.

Including your parents as beneficiaries of your estate plan raises a number of complex issues. Here are five tips to consider:

1. Plan for long-term care ("LTC"). The annual cost of LTC can reach well into six figures. These expenses aren't covered by traditional health insurance policies or Medicare. To prevent LTC expenses from devouring your parents' resources, work with them to develop a plan for funding their health care needs through LTC insurance or other investments.

2. Make gifts. One of the simplest ways to help your parents financially is to make cash gifts to them. If gift and estate taxes are a concern, you can take advantage of the annual gift tax exclusion, which allows you to give each parent up to $15,000 per year without triggering taxes.

3. Pay medical expenses. You can pay an unlimited amount of medical expenses on your parents' behalf, without tax consequences, so long as you make the payments directly to medical providers.

4. Set up trusts. There are many trust-based strategies you can use to financially assist your parents. For example, if you predecease your parents, your estate plan might establish a trust for their benefit, with any remaining assets passing to your children when your parents die.

5. Buy your parents' home. If your parents have built up significant equity in their home, consider buying it and leasing it back to them. This arrangement allows your parents to tap their home equity without moving out while providing you with valuable tax deductions for mortgage interest, depreciation, maintenance and other expenses. To avoid negative tax consequences, be sure to pay a fair price for the home (supported by a qualified appraisal) and charge your parents fair-market rent.

As you review these and other options for providing financial assistance to your aging parents, try not to overdo it. If you give your parents too much, these assets could end up back in your estate and potentially exposed to gift or estate taxes. In addition, some gifts could disqualify your parents from certain federal or state government benefits. Please contact us for additional details.

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