

Giving back: How to help your parents fund LTC and associated medical costs

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If you have aging parents who aren't as financially well off as you are, one of your estate planning goals may be to help fund their long-term care ("LTC") and associated medical expenses. The annual cost of LTC — which may include assisted living facilities, nursing homes or home health care — can reach well into six figures. These expenses aren't covered by traditional health insurance policies or Social Security, and Medicare provides little, if any, assistance.

Thankfully, whether your parents are facing LTC expenses now or anticipate facing them in the future, there are estate planning strategies available to help prevent these expenses from devouring their resources:

Plan for LTC. Work with your parents before the need for LTC arises to develop a plan for funding these expenses through LTC insurance or other investments.

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

Buy your parents' home. If your parents have built up significant equity in their home, consider buying it and leasing it back to them. The benefits of this arrangement are twofold:

1. Your parents can tap their home equity to pay for LTC and medical expenses without moving out.
2. You can enjoy 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.

Bear in mind that, if you give your parents too much, the assets can end up back in your estate and you could potentially be exposed to gift or estate taxes. We'd be pleased to review your family's situation and prescribe the right course of action.

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