Heirs and Errors

Evelyn Preston

By Evelyn Preston

Seniors, money, kids! A decidedly mixed bag. Some people have worked all their lives to leave a bundle behind for children and grandchildren; others want to spend every penny before they die; a majority worry about outliving their money and having to depend on family.

Wealth replacement and generation skipping trusts, "Stretch" IRAs, family partnerships, et al, keep the planning pros busy. Especially in California, the bonanza of long held homes can affect our heirs. Give now…or later? If money matters in a marriage…what's a parent to do?

Question: *My main asset is my Silicon Valley home which has greatly appreciated in value. You discussed the financial upside of selling and moving to a retirement residence. Is there any financial advantage to just giving my house to my children but keep living in it as long as I can?*

Answer: Transferring home ownership to children may have tax advantages for very large estates but parents owning "average" properties might be giving up financial, legal and emotional security. A child's possible divorce, bankruptcy, loan default and other unforeseen problems can counteract the best laid plans according to V. Dagher of WSJ's Wealth Adviser.

Other experts point out the dangers of trying to manipulate taxes or qualify for Medicaid as well as losing a reverse mortgage option. Instead of the entanglement of a home transfer, a normal division of proceeds after a home's sale or inheritance after death would be a cleaner and safer way to handle this large asset.

Question: *As you suggested, our family's had "the talk" and my children know they'll receive considerable assets upon my death. Without preaching, how else can I prepare them for this windfall?*

Answer: Kiplinger's Retirement Report (Feb., 2014), laid out concerns and caveats for heirs. Opportunities abound when receiving a large inheritance—a recipient may pay down debts, finance a home, fund college, add to retirement vehicles, even start a new business.

Yet pitfalls await—handling initial cash, meeting legal deadlines, paying necessary taxes; these could benefit from professional input. It's especially important to avoid rushing into a large purchase, a quickie investment or a well-intended donation; these would gain from planning ahead. And…it's necessary to remind heirs that receiving retirement accounts (IRAs, 401Ks, etc.) have special—and complex—rules. The best advice is to take a deep breath, seek expert advice and make sure everyone's interests are aligned.

Question: *I realize that it's important to acquaint potential heirs regarding my investments and home value, insurance policies and long term care arrangements, the disposition of my jewelry and antiques—even Fido—but what else might need clarification?*

Answer: As important as financial considerations in estate planning, it's imperative to deal openly with life and death issues for potential heirs. Even where there's a Health Care Directive in place, at the end of life, psychological as well as actual health and care costs may impact the entire family. A Bay Area physician, Jessica Nutik Zitter, has listed detailed subjects for discussion that will ease everyone's concerns. See: http://www.agingwithdignity.org/forms/5wishes.pdf.

Question: *I'm a busy senior myself, as well as a potential heir; besides information and conversation, what can I do now to prevent problems later?*

Answer: Be aware! Help manage an elder's monetary affairs if possible. Especially check hired caregivers regularly to rule out any physical or financial abuse. Become the designated fiduciary or power-of-attorney well in advance and, if taking over, keep detailed records of all transactions and accounts. Report abuse! See The Certified Financial Planner Board's, Financial Self-Defense for Seniors. To paraphrase Pogo, "We've seen the aged and they are us!"

Evie Preston has worked as a financial advisor for over 25 years. Her latest book, "Memoirs of the Money Lady" is available at www.eviepreston.com. She can be reached at 650.494.7443.