

Looking Ahead With Griep & McRee

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Summer 2000

In this issue:

- Estate taxes may be eliminated, but estate planning is *more important than ever!*
- California revises guidelines for Health Care Powers
- Long-term care looms as a critical issue
- Popular *Trustee and Guardian Seminar* returns on AUGUST 26
- On-site seminar now available for your business or service group
- *Don't forget your annual estate plan review!*
- Our book is now available as a gift or employee benefit
- *We love to hear from our clients!* Stay in touch with us via e-mail at estateplanners@aol.com
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Elimination of Estate Taxes...

An example of "be careful what you wish for?"

It's the hottest topic in Washington, and maybe in your family, too. It's an election year, and Congress, responding to the growth of family wealth and increasing public awareness of estate taxation, seems poised to eliminate the estate tax.

Hearings in the House of Representatives gave a forum to a number of people whose family businesses had been negatively affected, because of a high estate tax burden, and lack of cash to pay it.

In many of these compelling cases, it is notable that there was no estate planning in place to insure the continuation of the business (or

retention of the family assets), or to provide for payment of the taxes.

(When we heard these stories, we did feel that many of the tragedies could have been avoided or at least lessened, by up-to-date estate planning.)

Still, elimination of the estate tax is a popular cause and one that has been embraced by most of the influential members of Congress.

The issue is so popular that most Americans, including those who would likely *never* pay any estate tax (even

under the current law), are solidly in favor of "killing" the death tax!



New law would require more detailed accounting...

But there may be a "downside" if this measure passes Congress and is signed by the President.

It seems that there is always a trade-off, and in this instance, we can expect to see changes in the application of the *capital gains tax*.

California Updates Health Care Directive Model

Effective July 1, 2000, the State of California has enacted statutory changes to the language needed to write a legally-recognized Durable Power of Attorney for Health Care.

The new form language is shorter, with a new title, "**Advance Health Care Directive.**"

While one is not obligated to use the recommended language, the law does provide a recognizable format, as it did in the past, that should be acceptable to medical service providers. The new guidelines acknowledge a host of issues (such as designation of a private physician) that were not included in the old recommended form.

Since 1993, this firm has customized language for each client, and has included and expanded on State-recommended language.

All forms done by this firm since 1993 are valid. But reviewing and updating your health care decisions is always a good idea and should be a part of your annual estate plan review.

A "Savage" Story About Long-Term Care

If we hadn't told you about it, you might never have known. Nestled between stories like "How Women Really Feel About Other Women's Beauty" and "On Seducing Younger Men" in the June/July 2000 issue of "Mirabella," a woman's magazine, is Terry Savage's moving, two-page article "Their Future is Now."

Savage is the personal finance columnist for the Chicago Sun-Times and Barron's Online. She is a frequent guest on TV news and commentary shows, such as "Oprah."

Terry Savage's article in Mirabella begins with a touching story of her grandmother's decline into long-term chronic illness and dependency.

When a live-in home health aide could no longer handle the situation, Terry and her mother reluctantly began to search for a nursing facility.

Here's a sample of what happened next: "Mom and I found the nicest facility available for my grandmother. Since she didn't have much in the way of assets, they told us the state would

take over the monthly bill. But she couldn't remain in that sunny private room on the fifth floor. It was a choice I simply couldn't accept. And if it happens with your mother or grandmother, you'll be faced with the choice of tapping into your own savings after hers run out or taking the crowded, smelly, state-funded option -- unless you had the foresight to purchase a long-term care insurance policy."

Ms. Savage continues in the article to give some very sensible advice about the downsides of Medicaid- (MediCal)

financed long-term care and the benefits of private insurance. She concludes with this:

"When I bought a policy for each of my parents as a holiday gift a few years ago, the reaction was predictable. My father smiled and thanked me . . . and then went out for a jog. My mother's reaction was a little more emotional: 'After your grandmother, you promised you'd never' The words trailed off as

and reminded her that this policy would pay for someone to come into her home and give needed care. We'd never have to face the issue of a nursing home (I hope and pray). And if we do, I know I've insured her the best of care. That's why I also bought a policy for myself."

The only advice in this moving article with which we disagree is Ms. Savage's comment that "it's usually adequate to purchase only three years of coverage, as opposed to lifetime coverage."

While it is true, as she points out, that the average nursing home stay is two years, the purpose of insurance is to protect you against the risk of a catastrophic loss, not just an average loss. Your insurance broker can discuss coverage options and creative payment solutions.

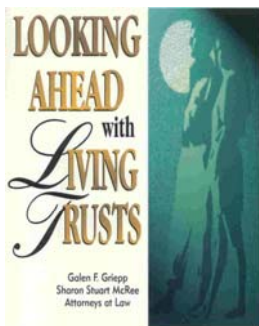
Long-term care is a subject that is too rarely discussed, but will be of importance to more families than short illness or sudden death.

As a matter of course, we recommend that all of our clients consider long-term insurance coverage!



An emergency or illness often results in the need for ongoing care. Home may be best, but who will pay?

Those needing long-term care often live longer and more productively when cared for in the familiar environment of their own homes...



Straight Talk About Benefiting Yourself and Your Loved Ones NOW... Whether Your Estate is Large or Small

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Elimination of Estate Taxes a Popular Topic

(cont'd from page 1)

tax rate will probably remain at a manageable 20%.

But what will be eliminated, under the Congressional plan, is the **“step-up” in basis (value)** of some inherited assets. As noted by Daniel Kadlec, in a recent essay in Time Magazine, **“the step-up may sound arcane, but it’s a bedrock of estate planning.”**

Let’s say that you own an asset, such as a rental property or stock portfolio, which has increased in value since you made your initial investment(s).

If you were to sell the asset, you would be liable for payment of capital gains taxes.

If the assets pass to your heirs, under the current system, their “cost basis” for the purpose of determining capital gains tax, is the *value of the asset on the day they inherited it*. This is called the “step-up in capital basis.” The new owners (your heirs) have now received an asset with no taxable capital gain.

The proposed elimination of the estate tax will also eliminate this

“step-up” provision. *This means that your heirs will inherit your capital gains basis, and will owe capital gains tax when they dispose of the asset.* Let’s look at an example:

“If you’re not careful, the government is going to clock you.”

Suppose you own \$300,000 worth of stock, from an initial investment of \$25,000. If you sell the stock during your lifetime, you’ll be liable for payment

of \$55,000 in capital gains tax, (the 20% tax on a profit of \$275,000). If you hold this stock until your death, however, the person who inherits the stock will receive it at a “stepped-up basis” of \$300,000. If the stock is, thereafter, sold at \$300,000, no tax is owed. If it is sold at a profit, tax is owed only to the extent that its sale price exceeds its “basis” of \$300,000.

Aside from the capital gains challenge, we need to remember that there still exists in some states a *state inheritance tax*. In fact, all of the states that do not have separate inheritance or estate taxes now participate in *revenue sharing* with the federal government. Without a federal estate tax, many states will not receive the usual

estate tax split, and there is a strong likelihood that **states will quickly act to create their own estate and inheritance taxes**, resulting in a system that replaces the federal government tax table with numerous tax tables, depending upon the state where death occurs and where assets are located.

Under the bill proposed in Congress, some assets could be passed on with a stepped-up value. But this exception offers a single person only \$1.3 million in asset protection, and difficult choices (or guesses) must be made concerning which assets should receive the stepped-up basis exemption.

If you have investments with changing values, it will be important to monitor your estate planning to take full and best advantage of the capital gains exemption.

As noted by Daniel Kadlec, “the proposed system puts tremendous strain on your record keeping. Before, everything got stepped up to market value when heirs took over. Now you’ll need an army of accountants. This bill shifts the tax burden from the estate to heirs, who must remember not to spend everything. Owing tax on a windfall is what you call a good

EXTRA! EXTRA! Grieppe & McRee go the *extra* mile!

Yes, it’s true! We will “go the extra mile,” to get to your **family gathering, business or employee meeting, church or community organization**, in our ongoing effort to serve our clients and our community.



We have a variety of programs and materials, covering everything from basic estate planning and retirement distribution planning, to more specialized topics, such as **charitable trusts** (for your church or service group?), limited liability **partnerships** or family limited partnerships

(for your business?) **grantor-retained residence trusts** (to transfer your home?), and a number of other topics.

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Galen F. Griep and **Sharon McRee** offer the maximum in client service and lawyer accessibility. At our firm, we embrace a professional *team approach* to estate planning. We strive to build and maintain ongoing contact with our clients, as well as with their other professional advisors, so that our work enhances each client's personal and business goals.

We do not provide "one shot service."

We build client relationships.

We recognize an obligation to offer education to our clients and to the public. We do not strive to "sell" ideas or service, because we know that *when intelligent people are given access to valuable information and ethical professional guidance, they will make sound decisions.*

Don't be caught short by NEW 2001 IRS Regulations!

Understanding and Managing Your Retirement Plan

Do you need to re-evaluate your retirement plan *beneficiary designations*, in light of the new IRS retirement account rules?

Are you feeling overwhelmed by retirement and estate planning issues, perhaps feeling that the rules have changed just as you were beginning to understand the *old rules*?

comprehensive estate plan, or do you have a *friend or business colleague* who would like this information?

Which of your professional advisors do you need to consult, now that the rules have changed?

Have you heard confusing or conflicting information or advice through the media, various advisors, well-meaning friends or family members?

Invite your family members, friends, and even your advisors, to our relaxed and informative
Retirement Planning Workshop.

Are you clearly informed and confident about the dates, deadlines and timing that are imposed by the new rules?



Well informed Trustees are critical to the success of your estate plan...

Do you need a "refresher" about retirement planning as part of an overall

Saturday, March 17

10:00 am—noon

Please call to make reservations

626 584-8900