

HERITAGE AMERICA NEWSLETTER

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INSIDE THIS ISSUE:

Reverse Mortgage—Is it right for you?

Death and Taxes— Giving the gift of tuition.

Fighting Back—Protecting yourself and your property.

Need more income? Maybe a Reverse Mortgage is right for you.



How Reverse Mortgages Work

If you are age 62 or older and are "house-rich, cash-poor," a reverse mortgage (RM) may be an option to help increase your income. A reverse mortgage is a type of home equity loan that allows you to convert some of the equity in your home into cash while you retain home ownership. RMs work much like traditional mortgages, only in reverse. Rather than making a payment to your lender each month, the lender pays you. Unlike conventional home equity loans, most RMs do not require any repayment of principal, interest, or servicing fees for as long as you live in your home. Funds obtained from an RM may be used for any purpose, including monthly housing expenses such as taxes and insurance.

Requirements and Responsibilities

To qualify for an RM, you must own your home. The RM funds may be paid to you in a lump sum, in monthly advances, through a line-of-credit, or in a combination of the three, depending on the type of RM and the lender. The amount you are eligible to borrow generally is based upon your age, the equity in your

home, and the interest rate the lender is charging. Because you retain title to your home with an RM, you also remain responsible for taxes, repairs, and maintenance. Depending on the plan you select, your RM becomes due, with interest, either when you permanently move, sell your home, die, or reach the end of the pre-selected loan term. The lender does not take title to your home when you die, but your heirs must pay off the loan. The debt is usually repaid by refinancing the loan into a forward mortgage (if the heirs are eligible) or by using the proceeds from the sale of your home.

RM loan advances are nontaxable. Further, they do not affect your Social Security or Medicare benefits. If you receive Supplemental Security Income, RM advances do not affect your benefits as long as you spend them within the month you receive them. This is true in most states for Medicaid benefits also. Interest on RMs, however, is not deductible for income tax purposes until you pay off all or part of your total RM debt.

For more information on RMs, consult your financial advisor or contact Heritage America for a referral to a RM specialist.

DEATH AND TAXES

Tuition Gifts May Help Solve The Riddle

You can't take it with you, and the IRS will make sure of that. For individuals with large estates, estate tax rates after death can run as high as 55 percent. If you try to give it away to your friends and relatives while you can see them enjoy it, gift taxes on non-charitable gifts can be similarly steep.

More and more donors are finding that paying tuition for their friends and relatives—particularly their grandchildren—is an attractive alternative to giving money to the IRS. The growing popularity and flexibility of state education savings plans and a recent IRS decision have made tuition payment plans even more practical and powerful estate planning tools.

Gifts of tuition fall outside the scope of gift taxes. While there are some strings attached (tuition gifts must be paid directly to the institution, and can't cover non-tuition expenses like books or housing), these gifts are particularly useful because they don't count toward an individual's annual exclusion. They can therefore be made in addition to any annual exclusion gifts during the year.

Combine a lifetime of annual exclusion gifts with tuition gifts that may start in kindergarten and end at graduate or medical school, and it's easy to see why donors are paying tuition as part of their estate planning. First, although donors can't take a charitable deduction even though the tuition is paid directly to the school, they don't owe gift taxes. Second, the gifts over the course of a lifetime can significantly reduce the taxable portion of a donor's estate. The money passes for the benefit of a future generation without incurring any tax.

Two recent developments, one legislative and one administrative, also make these exclusions, when handled properly, even more useful for donors.

State Tuition Plans

Qualified State Tuition Plans, or "Section 529 Plans", allow donors to use their annual exclusion gifts to make flexible, tax deferred investments in state-sponsored tuition plans. The donor can change the beneficiary later and, with a small penalty, revoke the gift entirely, too. There's no tax deduction for the cash contribution (and no escape from capital gains taxes if you have to sell investments to fund the gift), but the investment grows tax free. When the beneficiary ultimately draws from the fund for education expenses, the distributions are taxed at the beneficiary's (presumably lower) tax rate.

Front-Loaded Tuition Payments

The IRS recently ruled that prepaid tuition counts as a tuition gift and is thus not subject to gift taxes. Donors can now make large, up-front tuition payments gift-tax free. The taxpayer in the ruling prepaid ten years of private K-12 tuition (more than \$150,000) on behalf of her two granddaughters. Her agreement with the school provided that the payments would not be refunded, even if her grandchildren ceased to attend the school. The grandchildren's father also agreed that he would pay any excess, should tuition increase at a later date.

The IRS held that the tuition payments were exempt from gift tax because they were direct payments of tuition, even though the payments were for future years. Shortly after the payments had been made, the grandmother died. The IRS further held that the payments were not included in her taxable estate.

Lifetime giving, through annual exclusion gifts, Section 529 Plans, or direct tuition payments, can be an economical and powerful estate planning tool. Your financial advisor can assist you further.

FIGHTING BACK

Each year, about two million seniors become crime victims. The elderly are targets for robbery, personal and car theft, and burglary. Older people are more likely than younger victims to face attackers who are strangers. They are more often attacked at or near their homes. Chances are that an older victim may be more seriously hurt than a younger victim.

It isn't only strangers who hurt older people. Sometimes, family members, friends, or caretakers may physically, mentally, or financially abuse older people through neglect, violence, or by stealing money or property.

Even though there are risks, do not let a fear of crime stop you from enjoying life. There are things you can do to be safer. Be careful, and be aware of what is going on around you.

Fighting Crime

You can fight crime. The best thing you can do at **home** is to lock your doors and windows. You can also protect yourself at home in other ways:

- Always try to see who's there *before* opening your door. Look through a peephole or a safe window. Remember, it is okay to keep the door locked if you are uneasy.
- Make sure that locks, doors, and windows are strong and cannot be broken easily. Many police departments will send an officer to your home to suggest changes that could improve your security.
- Mark valuable property by engraving an identification number on it, such as your driver's license number. Make a list of expensive items such as jewelry or silver. Take a picture of the valuable items and store the details in a safe place like a bank safety deposit box.

On the **street**, stay alert at all times, even in your own neighborhood and at your own door. Walk with a friend. You can also:

- Have monthly pension or Social Security checks sent direct-deposit, right to the bank. If you visit the bank often, vary the time of day you go.
- Don't carry a lot of cash. Try not to carry a purse. Put your money, credit cards, or wallet in an inside pocket. If you are stopped by a robber, hand over any cash you have.
- Leave good jewelry, furs, and other valuables in a safe place to avoid tempting would-be robbers.

Money and property crimes come in many forms and are a big problem. Older people may be victims of consumer fraud such as con games or insurance scams. Even family members or friends can sometimes steal an older person's money or property. Trust what you feel. Protect yourself.

Neglect or mistreatment of older people is called **elder abuse**. It can happen anywhere, at home by family or friends, or in a nursing home by other caregivers. Physical, financial, or emotional abuse by family or friends is very hard to deal with. There is help for people who are being abused. Most states and many local governments have Adult Protective Services programs. The Eldercare Locator (1-800-677-1116) can direct you to a local agency.

Reporting Crime

You can help your friends and neighbors by reporting crime when it happens. Police say that more than half of all crimes go unreported. If you don't report a crime, because of embarrassment or fear, the criminals stay on the streets. If you are the victim of a crime, there is help. Contact the National Organization for Victim Assistance (NOVA), 1757 Park Rd., NW, Washington, D.C. 20010. NOVA's 24 hour hotline is 1-800-TRY-NOVA.

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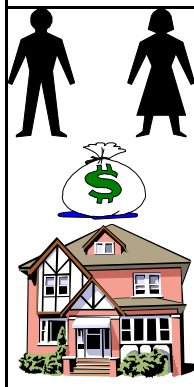
TO:

ARE YOU READY FOR A MEDICAID SPEND-DOWN?
THE HERITAGE AMERICA 'APLLC' CAN HELP

THE MEDICAID FACTS

- ◇ Medicaid was designed by the federal government to provide nursing home care to those who "qualify".
- ◇ To "Qualify" you must liquidate and spend ALL of your assets except "Exempt" assets.
- ◇ Assets you must spend include: All of your Cash, CDs, Mutual Funds, Stocks, Bonds, Life Insurance, IRAs, Pensions, Annuities, Real Estate, Antiques, etc.
- ◇ "Exempt" assets include personal property and about \$2,000. If you are married, your home, one car, and about \$80,000 of other assets are exempt - during your lifetime.
- ◇ After the death of you and your spouse, Medicaid will place a claim against your estate to take back anything they paid on your behalf. At this point, your home, and any remaining assets, may be confiscated by Medicaid.
- ◇ Assets used for "self-support" in a business are classified as an "Exempt" asset and Medicaid can not force it to spend it's assets!
- ◇ Assets in the APLLC can NOT be confiscated by Medicaid after your death - the assets inside of it are SAFE!

Assets Placed in an APLLC Are Safe !!!



Asset Protection Limited Liability Company

- ◆ You Stay In Control Of Your Assets.
- ◆ This "Business Device" Will Protect Your Assets From A Medicaid Spend-Down.
- ◆ A Nursing Home Can Not Reach The Assets.

The APLLC Provides Other Benefits!!!

Asset Protection Limited Liability Company



- ◆ Income flows back to you!
- ◆ If you go into a nursing home, your home becomes "rental property" and provides you income.
- ◆ If tax "losses" are generated, they flow out to your personal return.
- ◆ Adding a "living trust" allows you to pass control to your heirs, and avoid an "Estate Recovery".

For more information on the 'APLLC'
Please contact your Heritage America representative
Or the home office at:
(800) 487-8780