Willms, S.C.
Client Newsletter

August 16, 2013

WILLMS, S.C.
LAW FIRM

In this issue:

- Two Ways to Save on Estate Taxes
- Reviewing the Terms of Your Annuity Contract
- Considerations for Long-Term Care Insurance

Links:

- Two Ways to Save Taxes...
- That Bland Annuity Notice May be Anything but Routine
- More Bad News for Long-Term Care Insurance...

Contact us

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A Note to Clients and Friends:

We hope your summer has been as relaxing (or as productive) as you had hoped. You still have a few weeks to get in those late summer travel plans, but meanwhile children (and those who pursue educational opportunities well into their adult years) are learning their class assignments and getting their backpacks filled with new school supplies in preparation for the upcoming school year. This transitional time of year is also a great time to make sure we have the supplies to keep our financial plans running smoothly in the second half of our year. We are providing you with some of those informational supplies in this edition of our newsletter. This newsletter, we have included information regarding ways to maximize your estate tax savings, ways that your annuity contract may surprise you, and items to consider when considering a long-term care insurance policy.

Two Ways to Save Taxes: Portability Election and a Credit Shelter Trust

Atty. Maureen L. O'Leary

The "estate tax exclusion amount" refers to the amount of assets that a decedent can shelter from estate tax upon their death. The estate tax exclusion amount has been steadily rising for years. (See Exhibit A.)

The estate tax exclusion amount is scheduled to continue to increase annually for inflation in 2014 and beyond, until such time as Congress may change the law again.

Many people who die in 2013 will not use their entire $5,250,000 estate tax exclusion amount. For example, if a married person dies and simply leaves their entire estate outright to their spouse without taking any further action, the decedent's entire estate tax exclusion amount is wasted.

If a married couple has a combined estate worth $10,000,000 and the husband dies and gives his half of the estate directly to his wife,

EXHIBIT A

Exclusion Amount	Years
$675,000	2000-2001
$1,000,000	2002-2003
$1,500,000	2004-2005
$2,000,000	2006-2008
$3,500,000	2009
unlimited	2010
$5,000,000	2011
$5,120,000	2012
$5,250,000	2013

then his wife's estate would be $10,000,000. No estate tax would be due upon the husband's death because of the unlimited estate tax marital deduction that allows a married person to give an unlimited amount of assets to their spouse estate tax free. However, if the wife dies when the estate tax exclusion amount is $5,500,000, the wife's $5,500,000 estate tax exclusion amount will not be sufficient to shelter her entire $10,000,000 estate from estate tax. $5,500,000 of her estate could be sheltered by her estate tax exclusion amount, but the remaining $4,500,000 in her estate would be subject to estate tax. The estate tax rate is currently 40% (although this rate is likely to change in future years). Estate tax on $4,500,000 at an estimated 40% rate would result in an estate tax bill of $1,800,000 due within 9 months of the surviving spouse's death.

With proper planning, there are at least two ways to avoid this estate tax bill under current law. One way is by making a Portability Election and another way is to establish a Credit Shelter Trust. It is also possible to combine these two techniques. For information on these strategies, visit the full text of this article, "Two Ways to Save Taxes..." on our website.

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Insurance Companies Back Tracking on Promises to Annuity Contract Owners

Atty. Andrew J. Willms

Annuities have long been a favorite with investors who are looking to guarantee a steady source of income, especially investors who are near or at retirement age and would like to supplement the distributions they will receive from qualified retirement plans and individual retirement accounts. However, insurance companies have begun backtracking on the promises made to owners of annuity contracts.

In particular, the "Great Recession" is making it increasingly difficult for insurance companies to live up to the expectations of annuity contract owners. As this article discusses, "That Bland Annuity Notice May be Anything but Routine," the recent financial crisis has led many annuity issuers to try to back out of the most appealing guarantees included in their contracts. Unbeknownst to most annuity purchasers, the contracts often include escape hatches that allow the issuer to back track if they so choose.

As a result, some annuity owners are finding that their primary objective in acquiring an annuity contract – financial security – is being threatened. Unfortunately, for most people it is simply impossible to read and understand complex annuity contracts, which can exceed 100 pages. Therefore, we recommend to our clients that they consult with an independent advisor before purchasing annuity contracts or accepting revisions to existing annuity contracts.

Considering Long-Term Care Insurance

Atty. Jessica A. Liebau

The question of long-term care insurance continues to present a quandary for many of our clients. The policies can be expensive, and how much do we know about the companies that issue the policies? Recently, there has been some less than encouraging news from the long-term care insurance industry. As the recent article in Forbes ("More Bad News for Long-Term Care Insurance…") discusses, the largest seller of long-term care insurance products is currently considering changes to its policies that would increase premiums and limit available benefits.

But before writing off long-term care insurance, this news has to be measured against other realities. A sizeable portion of us will need long-term care at some point in our lives, and that care will be expensive. The government does provide a safety net in the form of Medicaid for those who cannot afford the expense, but those forced to rely on Medicaid lose a considerable amount of choice regarding who provides that care and where that care is provided, to speak nothing of losing the ability to pass assets on to the next generation. While the long-term care industry is possibly headed toward more restrictive policies, the Medicaid laws in our state are almost certainly headed that way. The most recent budget in Wisconsin put extreme restrictions on Medicaid eligibility rules that particularly affect business owners and married couples, and in the upcoming months we will learn exactly how those will affect Wisconsin citizens.

The bottom line is to talk to an attorney or financial advisor who understands the trade-offs and can help guide you to an educated decision on planning for your long-term care.

We hope you have found the information contained in this newsletter helpful. Please let us know how we can help you get prepared for what lies ahead.

Sincerely,

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