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Dear Mom and Dad: Here's Something That's Easier to Read Than to Discuss

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My brothers and I recently discussed what would happen if either of our parents fell ill or died.

We agreed that we should talk to our folks about their wishes concerning things like nursing homes, life-support machines and funeral arrangements. We also agreed that we should push them to get some critical legal documents drawn up, including living wills and durable powers of attorney.

In fact, we agreed on a lot of things—everything, that is, except who is going to pick up the phone and have the big discussion. We still haven't agreed on that one.

Just how do you get the ball rolling? I put that question to Richard Kohan, an estate-planning expert at Price Waterhouse.

"Ask your parents what they would like to accomplish with their estate," he suggested. For instance, he said, there might be needy friends, political causes or favorite charities that your parents would like to benefit.

"If you put it in that context, it makes estate planning less morbid and it makes parents realize the importance of doing estate planning."

And just what does estate planning involve? At a minimum, each parent should have a will, a durable power of attorney and a medical power of attorney. A medical power of attorney designates somebody to make health-care decisions for your parents, should they become too ill to do so themselves, while a durable power of attorney designates someone to handle their finances. Your parents may also want to draw up living wills, which state their wishes concerning life-prolonging medical procedures.

Even if your folks already have wills, they may need to update them—especially if they have moved to a different state, if there's been a change in federal or state tax law or if there's been a big change in the value of their estate. Also, encourage both of your parents to draw up a letter of instructions, which specifies who should receive their personal belongings.

Next, ask your parents whether their estate, including the value of their home and all investments, is likely to top \$600,000. How come? Your parents can pass on their assets to one another without paying any federal estate taxes. But if either of them leaves more than \$600,000 to their children, grandchildren and anybody else, federal estate taxes kick in

at rates that start at 37% and rise rapidly.

What should parents do? A good estate-planning lawyer can suggest a variety of ways to save on estate taxes. But for starters, you might mention a couple of popular strategies.

Your parents may want to use a bypass trust, which would allow both of them to make full use of the \$600,000 federal estate tax exemption. Here's how it might work. When the first parent dies, \$600,000 goes into a trust earmarked for the kids, but the surviving spouse continues to get the income kicked off by the trust. That ensures that the first parent's \$600,000 exemption gets used. On the death of the second parent, another \$600,000 will be exempt, thereby sheltering a full \$1.2 million from federal estate taxes.

Both of your parents could also shrink their estates by taking advantage of the annual \$10,000 gift-tax exclusion. Every year, they could give a combined gift of \$20,000 to each of their children, without triggering the gift tax.

Moreover, if your parents want to help with medical bills or a grandchild's college tuition, these gifts aren't counted toward the \$10,000 annual exclusion, so long as the money is paid directly to the medical provider or college.

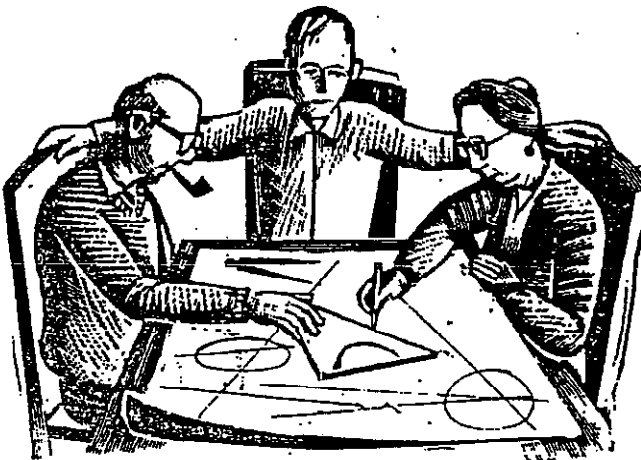
Of course, all these clever arrangements can be thrown into disarray if kids don't know where to find their parents' key documents. "You want to know the whereabouts of all estate-planning

documents, all insurance policies, all collectibles, all brokerage accounts," said San Francisco investment adviser Malcolm Gissen. "You also want to know whether they're owed money or whether they owe it."

Mr. Gissen advises asking your parents what they plan to do if maintaining their home becomes too burdensome. They may be able to hire somebody to help with chores, or they could take in a lodger who does housework in lieu of rent. "But if you need somebody to look after your parents around the clock, it can get very expensive," Mr. Gissen said. The alternative? "There's a range of options, from senior housing to nursing homes to living with the children."

And if you've worked your way through all the other issues, you might as well finish the job. So go ahead, ask about funeral arrangements.

But it sure isn't easy to ask your parents whether they want to be buried or cremated. As a cop-out, you could simply send them this article. That's what my brothers and I plan to do.



Roman Scott