Members of the sandwich generation find themselves in a unique situation

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The “sandwich generation” is a large segment of the population. These are people who find themselves caring for both their children and their parents at the same time. Accordingly, estate planning — which traditionally focuses on providing for one’s children — has expanded in many cases to include one’s aging parents as well.

Steps to ease complex issues

Including your parents as beneficiaries of your estate may raise a number of complex issues. Consider these five planning tips:

1. ***Plan for long-term care ("LTC") costs.*** The annual cost of LTC — which may include assisted living facilities, nursing homes or home health care — can reach well into six figures. These expenses aren’t covered by traditional health insurance policies or Social Security, and Medicare provides little, if any, assistance. To prevent LTC expenses from devouring your parents’ resources, work with them to develop a plan for funding their health care needs through LTC insurance, investments or other strategies.
2. ***Make gifts.*** One of the simplest ways to help your parents financially is to make cash gifts to them. If gift and estate taxes are a concern, you can take advantage of the annual gift tax exclusion, which currently allows you to give each parent up to $15,000 per year without triggering gift taxes.
3. ***Pay medical expenses.*** You can pay an unlimited amount of medical expenses on your parents’ behalf, without tax consequences, so long as you make the payments directly to medical providers.
4. ***Set up trusts.*** There are many trust-based strategies you can use to assist your parents. For example, if you predecease your parents, your estate plan might establish a trust for their benefit, with any remaining assets passing to your children after your parents die. Another option is to set up trusts during your lifetime that leverage your current $11.7 million gift and estate tax exemption. Properly designed, these trusts can remove assets — together with all future appreciation in their value — from your taxable estate. They can provide income to your parents during their lives, eventually passing to your children free of gift and estate taxes.
5. ***Buy your parents’ home.*** If your parents have built up significant equity in their home, consider buying it and leasing it back to them. This arrangement allows your parents to tap their home’s equity without moving out while providing you with valuable tax deductions for mortgage interest, depreciation, maintenance and other expenses. To avoid negative tax consequences, be sure to pay a fair price for the home (supported by a qualified appraisal) and charge your parents fair-market rent.

Find the right balance

As you review these and other options for assisting your aging parents, be cautious of pitfalls. For example, if you give your parents too much, these assets could end up back in your estate and potentially be exposed to gift or estate taxes. Please contact us for help in addressing both your children and parents in your estate plan.

The Law Office of Eugene Gorrin, LLC
17 Watchung Avenue, Suite 204
Chatham, NJ 07928
973.701.9300
egorrin@gorrinlaw.com
www.gorrinlaw.com