

# Guidance for Financial Planning for Forest Landowners

---

Susan Lacy

September 29, 2013

Women and Their Woods Fall Retreat

# Estate Conservation

- Manage assets during your lifetime
- Distribute assets upon your death

# Benefits of Estate Conservation

- Select who will receive your assets
- Determine distribution of estate
- Choose individual to manage your estate
- Reduce settlement costs
- Choose guardian for any minor children
- Provide liquid capital

# Challenges to Estate Conservation

- Complex Assets
- Family Discord
- Lack of Planning
- Long Term Care
- Estate taxes

# Estate Documents

- Will
- Power of attorney – legal and financial matters
- Durable power of attorney – if disabled or incapacitated
- Medical durable power of attorney – medical treatment
- Living will – medical procedures you will allow in event of debilitating illness

# Beneficiary Review

- Is beneficiary form current?
- Primary beneficiaries?
- Contingent beneficiaries?
- If multiple beneficiaries, is each beneficiary's share clearly stated?
- Do the shares total 100%?
- Do all relevant parties have copies of beneficiary forms?

# Misconceptions About Long Term Care

- It will never happen to me

## Long Term Care

35% of people 65 and over think they will need long term care.

70% of those turning 65 this year actually will require it.

# Women and Long Term Care

- Women live, on average, 5-6 years longer than men.
- Older women are more likely to live alone.  
The average age of widowhood in the US is 55.
- Older women often need more assistance with activities of daily living (ADLs).
- Older women tend to have fewer financial assets.

# Misconceptions About Long Term Care

- It will never happen to me
- **My health insurance (SS/Medicare) will cover it**

# Long Term Care

Many Americans think that their long term care needs will be covered by Social Security, Medicare, Medicaid or their existing health insurance

# Misconceptions About Long Term Care

- It will never happen to me
- My health insurance (SS/Medicare) will cover it
- It can't be that expensive

# Rising Costs of Long Term Care

Years	Home Care	Facility Care
Current	\$175	\$285
5	203	330
10	235	383
15	273	440
20	316	515
25	366	597
30	425	692

Daily cost of care, assuming 3% rate of inflation annually

# Rising Costs of Long Term Care

Years	Home Care	Facility Care
Current	\$175	\$285
5	223	363
10	285	463
15	364	591
20	464	755
25	593	963
30	756	1,229

Daily cost of care, assuming 5% rate of inflation annually

# Misconceptions About Long Term Care

- It will never happen to me
- My health insurance (SS/Medicare) will cover it
- It can't be that expensive
- **My family will take care of me**

# Federal Estate Taxes

- 2011 - \$5,000,000 exemption – 35% tax on remainder
- 2012 - \$5,120,000 exemption – 35% tax on remainder
- TRA 2010 expires on December 31, 2012  
Rates revert to 2001 levels  
2013 - \$1,000,000 exemption – 55% tax on remainder
- 2013 - \$5,250,000 exemption – 40% tax on remainder  
Portability Retained

# Portability

- Only applies to the surviving spouse
- Does not help control bequests
- Does not address asset appreciation
- Does not apply to generation –skipping transfer tax

# State Death Taxes

- Estate Tax – based on value of deceased person's estate
- Inheritance Tax – based on who receives a deceased person's property and how the beneficiary is related

# Pennsylvania Inheritance Tax

- 0% Surviving Spouse or Child 21 and under
- 4.5% Direct Descendants
- 12% Siblings
- 15% Other Heirs (except charitable or exempt organizations)

# Act 85 – Agricultural Exemptions

- Agricultural commodities – includes Christmas trees
- Agricultural conservation easements
- Agricultural reserves – non-commercial open space lands for outdoor recreation open to the public
- Agricultural use property – producing agricultural commodities
- Forest reserves – 10 acres or more stocked by forest trees and capable of producing timber

# Conservation Easements

- Legal agreements that permanently limit uses of the land to protect conservation values
- Allow landowner to continue to own and use land
- May have current income tax benefits
- Removing development rights lowers market value of property and reduces estate tax impacts

# Financial Planning Strategies

- A-B Trust (Bypass Trust)
- Irrevocable Trust
- Irrevocable Life Insurance Trust
- Charitable Trusts
- Last Survivor (Second to Die) Life Insurance

# Forest Land Business Management Organization

- Partnership
- Limited Partnership
- Sub Chapter S Corporation
- Corporation
- Limited Liability Corporation

# The Forest Estate Plan

- Forest management or stewardship plan
  - Activity records
  - Appraisal and tax records
- Long term goals
- Other legal and financial documents
- Conduct a family meeting
- Select and meet with Succession Planning Team
- Identify a successor
- Create a family business entity

# The Succession Planning Team



# Review Your Estate Plan

- Every 1-2 years
- Change in the law
- Life changes
  - Marriage
  - Retirement
  - Move to another state
  - Change in family members
  - Buy or sell a business
  - Changes in financial status

# Action Steps

- Determine your long term goals for your forest
- Meet with your family to discuss goals
- Consider whether your plans align with interests of your heirs
- Develop options for Forest Succession Plan
- Create Succession Planning Team

# Action Steps

- Organize all financial documents
- Conduct an insurance review – update where needed
- Review beneficiary statements and ensure they are current
- Establish Powers of Attorney
- Develop estate plan or review/update existing plan
- Keep your Succession Planning Team informed

# The Succession Planning Team

