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The CPA's Role in Estate Planning After the American Taxpayer Relief Act

By Martin M. Shenkman

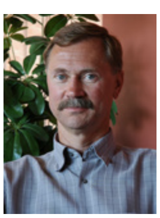
By now, every practitioner should be well aware of the changes made by the American Taxpayer Relief Act of 2012 (ATRA) to the estate tax in which the $5 million inflation adjusted exemption amount was made permanent, as was portability of the exemption. This can permit the surviving spouse to use the deceased spouse's unused exemption. Because ATRA was enacted following the end of 2012 and just before tax season, many practitioners may not have had time to digest the act's impact on their practices.

ATRA has changed estate planning in a profound way. It certainly will not be business as usual, but we can make it better than usual with proactive and creative steps.

New Estate Planning Psychology

Estate planning from the perspective of most clients has changed dramatically and permanently. In 2013, the inflation-adjusted exemption for a couple is $10.5 million, and that amount will increase in future years. Few

Chairman's Corner



In the fall of last year, the AICPA's governing Council granted the Personal Financial Planning (PFP) Executive Committee standard-setting authority, paving the way for the creation of enforceable PFP professional standards. These new professional standards will provide AICPA members who offer personal financial planning services with practice and competency guidelines.

As with any new AICPA standard, there will be an exposure period during which members can submit comments. While the official release date has not yet been determined, the anticipated date likely will be in early June. Watch AICPA and PFP communications for more information, and learn more about the responsibilities of CPAs as it relates to providing financial planning advice.

Dirk Edwards, CPA/PFS, JD
Chairman, Responsibilities in PFP Practice Task Force

WHAT'S INSIDE

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clients will exceed this level, so for the vast majority of clients, the federal estate tax is irrelevant.

These clients, however, will continue to need the guidance of the CPA as an estate planner, but what planning will be appropriate, and desired by clients, in the absence of an estate tax?

- What will get new estate planning clients in the door?
- How can you motivate existing clients to return to plan?
- What estate planning and related services can you offer clients?
- How will these services differ from those that CPAs have traditionally offered?
- What will clients be willing to pay for estate planning services?
- How can you cost-effectively serve these clients to maintain their business?

Until the end of 2012, clients were aware of the possibility of a $1 million exemption and a 55% rate, a fear that drove many to undertake estate planning and create irrevocable trusts, among other endeavors. However, with a permanent $5 million inflation adjusted exemption, the fear that drove much of the estate planning business is gone—most likely forever.

The CPA as a Catalyst for Growth

Planning will be fundamentally different for clients, including the wealthy who are beneath the new high federal estate tax exemptions. CPAs need to understand the impact on the role they play as part of the estate planning team, as well as the varying effects on other professionals involved in the estate planning process, in order to best target their efforts to serve clients and grow their estate planning practices.

The high exemptions could commonly dissuade a client with a family net worth of perhaps $3 million to more than $5 million as an individual, or even $6 million to more than $10 million for a couple, from returning to their estate planning attorney to be certain that their documents and planning are current. The perspective of many clients, even those who have these substantial amounts of wealth, is that they are sufficiently below the exemption amounts. As a result, they may believe that planning is not important for them and that they may not need to monitor it to the degree they did when tax worries were paramount. Unless a natural event such as birth, death, divorce, and marriage occurs, clients are likely to see their estate planning attorney less frequently. All this means a more important role, and more business opportunity, for the CPA.

In the past, many CPAs presumed that the client's attorney was handling estate planning and, therefore, viewed the attorney's role as more ancillary in nature. Although the attorney will continue to draft documents, it will be the

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CPA, with the annual or more frequent contact with the client, who may now be in the central position to start the estate planning discussion. Because of the periodic contact with clients regarding ongoing financial planning and tax compliance matters, the CPA will have opportunities to address estate planning and fill the planning void. Simply put, CPAs can, and in many cases should, assume the role of catalyst for estate planning that had largely been within the purview of estate planning attorneys in the past.

Modify Checklists and Marketing Efforts

To address this new and more significant role, practitioners should update the checklists they use at meetings with planning or business clients, tax return review, or intake meetings to enhance attention to estate planning issues. Marketing efforts should emphasize the consulting instead of the drafting role CPAs can provide in the estate planning process. Staff, even those outside of a trust and estate group, should be trained to identify estate planning opportunities, especially business succession planning, asset protection, and other concerns that are common to clients who may no longer focus on planning because their estates are safely under the $10.5 million 2013 exemption available to a couple.

What Estate Planning Will Entail

Although the federal estate tax may not be an issue, other planning topics remain important:

- State estate tax planning in a decoupled state.
- Succession planning for family and closely held businesses, including reviewing all existing plans focusing on estate tax concerns that may no longer be relevant.
- Asset protection planning. Regardless of the status of the estate tax, the litigious nature of society will not change, so some degree of planning is appropriate for most clients.
- Divorce planning, which is a priority for many clients. This will often entail the use of trust planning, similar to that used to minimize estate tax, but perhaps with a different goal or emphasis.
- Retirement planning will remain interrelated with estate planning. This includes not only planning for retirement plan distributions, but most importantly the basic budgeting and financial planning most clients are loath to do.
- Maximizing basis step-up at death to minimize capital gains, with consideration to the state (if any) and federal (if any) estate taxes.
- Repurposing existing trusts and entities to have continued relevance after ATRA, or liquidating or winding them down if they are not relevant.

The CPA's role is more essential than ever because none of these issues is likely to be addressed if the client is not motivated to have an estate planning conversation. Even intelligent and well-informed clients will require education and encouragement by their CPAs to address planning.

Costly and Sophisticated Planning

Although some estate planners assert that clients living in decoupled states will continue to benefit from sophisticated planning techniques to save state estate tax, that argument won't be nearly as powerful a motivator for planning as the federal estate tax had once been. Consider the following:

- Although 21 states and the District of Columbia decoupled from the federal estate tax system, the exemptions in some decoupled states is relatively high, and most states still have no estate tax.
- Even when the client is domiciled in a decoupled state, the marginal cost of a state estate tax is not nearly as significant as the federal estate tax had been.
- Even though in absolute dollar terms the cost of a state estate tax may be significant, in many cases, it may not convince a client to bear the cost and complexity of the more complex and costly planning options. Even if those options are pursued, there

Resources to Plan for the Future

The Proactive Planning for 2013 toolkit provides resources, articles, web seminar recordings (including "Top 10 Estate Planning Ideas for 2013"), podcasts, and more to help you plan for estate and income tax changes enacted under the American Taxpayer Relief Act of 2012.

The 2013 edition of one of the most popular PFP/PFS member benefits will be available soon! *The CPA's Guide to Financial and Estate Planning* is a comprehensive 1,000-page, 4-volume downloadable publication that is available free to PFP/PFS members. It provides guidance to CPAs who advise clients in estate, tax, retirement, investment, and risk management matters. The 2013 guide will cover planning implications under the American Taxpayer Relief Act of 2012. Watch *PFP News* for an announcement about volume 1, which will be available soon.

is no guarantee of a net tax savings. If assets grow outside the estate, the incremental capital gains tax that may be incurred may outweigh the savings in state estate taxes. Benefit may only be achieved if a basis step-up is assured.

- Many clients move their residences to save state income and estate taxes. If moving could eliminate any state estate tax benefit that costly and complex planning might provide, will clients pursue the planning?

There's no doubt that planning will continue, and, in many instances, state estate tax planning will justify some advanced planning. In most situations, planning will have to be done creatively, more simply, and at lower cost to persuade clients to proceed.

What might some of this planning entail? One technique that is likely to be more commonly used will be gifts to lifetime trusts. Because no state other than Connecticut has a gift tax, clients who transfer adequate wealth to trusts pre-death can avoid state estate tax. Because few clients will put wealth out of their reach, these trusts will have to be structured so that a spouse, or even the client himself or herself, can access the assets. This latter type of trust, referred to as *self-settled* because the client set up the trust and is a beneficiary, will have to be established in states such as Delaware that permit these trusts. As this planning becomes more commonly used, it will become more readily accepted by clients, more standardized, and less costly.

The Income Tax is the New Estate Tax

For most clients, the income tax will be the new estate tax. This is a significant change in focus. Numerically, few clients will be subject to a federal estate tax, but many more will be subject to the higher post-ATRA income tax rates and the 3.8% Medicare tax on passive investment income. As a result, family limited partnerships that were formed to create discounts for estate tax savings may be counterproductive. Instead, practitioners can have those entities repurposed to provide a mechanism to shift income to lower bracket family members to save income taxes.

As the shift in emphasis from estate tax to income tax aspects of estate planning takes hold, the role of the CPA as the quarterback for the estate planning team will grow.

What We've Learned

There are many services CPAs can provide to clients after ATRA. Whereas some are certainly the same as before, many are different. Also, given the new high exemption amounts, the portion of services in the different categories will likely change substantially. For example, there will likely be far fewer qualified personal residence trusts and more work on business succession planning. Consider the following:

- Very few clients will be subject to the federal estate tax. The elimination of the fear of the federal estate tax decimating a lifetime of savings will result in fewer clients seeking estate planning help. This can actually work to the advantage of practitioners who proactively advise clients about planning opportunities.
- A tremendous number of decedents will need to file federal estate tax returns (namely Form 706) solely to elect portability of the deceased spouse's exemption. Because no tax will be due, proactive CPA firms may use this as an opportunity to significantly expand their involvement in this work at the expense of law firms that have higher billing structures. With no risk of a tax due, most clients will not view the incremental cost as worthwhile.
- Clients who are domiciled in decoupled states will want simpler and lower cost planning options to address state estate tax. Most will not accept the cost and complexity that they would have accepted as recently as 2012 when they feared a possible reduction in the federal estate tax exemption to a mere $1 million. CPAs who gain the knowledge of how to creatively and cost-effectively minimize state estate tax can play an active role in the estate planning process.

ATRA is a game changer. Although the initial reaction of many CPAs is a reduction in estate planning work, the opposite is likely to be true! However, in order to capitalize on what could be a business development bonanza, practitioners need to rethink how they market estate planning services, what services they offer, and how they network with allied professionals such as estate planning attorneys. For those practitioners who are proactive and creative, the act will provide great business opportunities and the potential to provide new and valuable services to a broad range of clients.

What You Need to Know About Reverse Mortgages

By Michael Kitces

Whether you advocate using reverse mortgages as a retirement planning tool or avoid recommending them to your older clients, you'll want to stay current on the latest developments.

On January 30, 2013, the Department of Housing and Urban Development (HUD) issued Mortgagee Letter 2013-01 announcing that, beginning April 1, 2013, reverse mortgage borrowers will no longer be able to obtain a fixed rate on the Federal Housing Administration's (FHA) Home Equity Conversion Mortgage (HECM) Standard reverse mortgages. Instead, only HECM Saver loans, with smaller loan limits, will be available with a fixed-rate option. In the future, those who wish to borrow a lump sum using a HECM Standard reverse mortgage will be required to select an adjustable rate structure, just as they must do now under either the monthly income or line-of-credit payment options.

Of course, this is a moot point for planners who have only recently begun to consider reverse mortgages for clients when the less expensive HECM Saver loan became available, which can still be done with a fixed-rate structure. In addition, many reverse mortgage strategies are based on the monthly income or line-of-credit payment options that require an adjustable interest rate loan structure. Nonetheless, for the reverse mortgage industry—where, in recent years, the majority of loans were fixed-rated HECM Standard loans—the change is significant.

Perhaps the greatest irony of the HUD change, though, is its reported reasoning. A rise in defaults by fixed-rate borrowers who extracted the maximum equity from their home found the equity they drew out wasn't enough. As a result, they began to fail to make their property tax and homeowner's insurance payments, triggering a reverse mortgage default. In other words, HUD is finding that it's very problematic when consumers use reverse mortgages as an income-of-last-resort solution instead of engaging in the reverse mortgage earlier as an income source coordinated as a part of the individual's overall financial plan.

Rule Changes For Reverse Mortgages

The reverse mortgage changes announced in HUD's Mortgagee Letter 2013-01 came suddenly. Although the guidance was released on January 30, the effective date was April 1, so prospective borrowers had only 2 months to obtain a fixed-rate HECM Standard mortgage. Technically, the borrower had to submit an application, complete the requisite reverse mortgage counseling program, and receive a case number by the deadline; the loan could then have closed as late as July 1. But, once April arrived, the HECM Standard reverse mortgage, with its various payment options—lump sum, monthly income, or line of credit—was only available with an adjustable interest rate structure. From now on, those who wish to borrow with a fixed interest rate will be required to use the HECM Saver reverse mortgage, which fortunately has lower upfront mortgage insurance costs but, as a result, offers lower loan limits.

Thus, the true net effect of the change is that those who wish to borrow using the fixed-rate option will simply not be able to borrow as much anymore because the loan will be required to conform to the HECM Saver principal loan limits instead of the higher HECM Standard amounts.

Notably, the HECM fixed-rate option is only available when the borrower takes out the full amount of the intended loan, up to the maximum limits, as an upfront lump sum. Consequently, borrowers who planned to use the line-of-credit or lifetime-monthly-income reverse mortgage payment options have already been required to use adjustable rate loans.

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Nonetheless, the fixed-rate structure has been increasingly common in recent years, with HUD reporting in a recent *Wall Street Journal* article that as many as about 70% of reverse mortgage loans are now the fixed-rate variety. However, given that the fixed-rate lump sum reverse mortgage will still be available, the industry expects that the total number of loans are not likely to be impacted (source: *Reverse Mortgage Daily*); it just may be at somewhat lower borrowing amounts given the lower loan limits available on the HECM Saver (about 10% to 15% lower than HECM Standard loan limits).

Why the Reverse Mortgage Change?

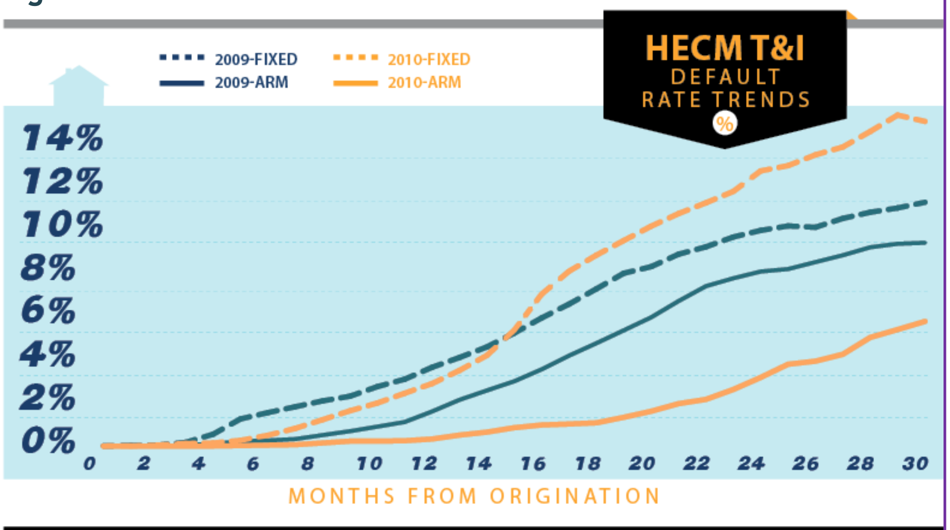
Given that fixed-rate lump sum mortgages will still be available under the HECM program (albeit under the Saver instead of the Standard loan terms), why the change?

The fundamental problem is that as the number of reverse mortgages increased in recent years with the rising popularity of the program and the increasing number of baby boomer retirees, so too has the number of reverse mortgage defaults. Of course, the whole point of a reverse mortgage is that no payments are due on the loan; the interest simply compounds on the balance and is paid off from the net proceeds of the home, which means it's not possible to default on reverse mortgage payments themselves. However, reverse mortgages *do* require that the borrower make timely payments of property taxes and homeowner's insurance to keep the loan in place. When the taxes and insurance payments aren't made, the loan can go into default.

As Figure 1 shows, the default rate due to taxes and insurance is significantly worse for HECM fixed-rate loans than the adjustable rate mortgage (ARM) structure. The difference is that the pool of ARM loans includes many line-of-credit and monthly-income borrowers who did not borrow the absolute maximum amount up front. Therefore, they are likely to have the capacity to draw further funds in the future against the reverse mortgage to pay ongoing tax and insurance obligations.

In contrast, not only is the fixed-rate loan entirely an upfront lump sum payment, but it also generally *requires* the borrower to draw out the maximum loan amount. Borrowers who find this option appealing may be both in more desperate financial straits and also less likely to have other resources available. As a result, once the lump sum runs out and there remain neither resources nor further borrowing capacity on the reverse mortgage, taxes and insurance can no longer be paid, and the defaults start to rise.

Figure 1



Source: *The Reverse Review*

Web Seminar, Podcast, and Articles on Reverse Mortgages from Michael Kitces

In this podcast, Michael Kitces discusses the shifting landscape in the market for reverse mortgages and why it might be time for financial planners to take a fresh look at using reverse mortgages in their planning. Kitces covers a brief history of reverse mortgages; the current marketplace; how reverse mortgages work; the risks, cost structure, and decisions a client must consider when evaluating reverse mortgages; true economic realities of using reverse mortgages to help finance retirement; some of the feasible options and strategies for using reverse mortgages; and where reverse mortgages may be appropriate.

For a more in-depth look at reverse mortgages, listen to the archived recording and download the presentation materials from the April 24th web seminar with Michael Kitces, "Taking a Fresh Look at Reverse Mortgages."

Kitces has also provided the following two newsletters (complimentary for PFP/PFS members):

(continued on p. 7)

In other words, consumers seem to be especially likely to use fixed-rate lump sum reverse mortgages as a loan of last resort when they're in serious financial trouble, deplete the amounts borrowed, and then proceed into default anyway. The reverse mortgage turns out to be too little too late to solve the underlying financial situation or spending problem. Whereas this may potentially be true with fixed-rate HECM Saver loans, the upshot for HUD and the FHA is that with lower loan limits, if there *is* a default, at least there's a reduced risk that the loan will be under water. This better reserves the health of the Mutual Mortgage Insurance Fund that backs reverse mortgage loans.

Fitting the Reverse Mortgage Into the Financial Planning Picture

Ironically, the results that HUD is seeing on reverse mortgages imply that consumers might be better positioned if they proactively used a reverse mortgage earlier, coordinated as part of a broader income and spending plan over time, rather than waiting and relying on it as a last resort when the planning situation may be too far gone.

Recent research in the *Journal of Financial Planning* supported similar conclusions. The article "Reversing the Conventional Wisdom: Using Home Equity to Supplement Retirement Income" by Barry Sacks and Stephen Sacks found that drawing on a reverse mortgage line of credit for early retirement expenses and then tapping retirement accounts later could boost sustainable retirement income. Similarly, they found that using a reverse mortgage line of credit to systematically tap during market downturns and replacing it thereafter could enhance lifetime retirement income.

A later study by John Salter, Shaun Pfeiffer, and Harold Evensky, "Standby Reverse Mortgages: A Risk Management Tool for Retirement Distributions," that also used a reverse mortgage line of credit as a standby to manage spending during market downturns (and then be replenished after recovery), found similar improvements to retirement income sustainability. Notably, such temporary uses of a reverse mortgage line of credit are also less sensitive to interest rates from adjustable rate reverse mortgages because the loans are only maintained for a limited period of time instead of reverse-mortgage-compounded for decades.

The previous studies focused on adjustable rate reverse mortgage structures, but an analysis in the November 2011 issue of *The Kitces Report* found benefits to using a fixed-rate reverse mortgage as well, especially for clients who already intend to hold a mortgage in retirement. To the extent that it's beneficial to hold a mortgage in retirement in the first place—for the opportunity to keep a portfolio invested for a greater return than the cost of borrowing—the strategy is even more effective when done with a reverse mortgage.

After all, if the investor's goal is to maintain a certain amount of inherent leverage on his or her balance sheet by keeping a mortgage, a traditional mortgage is less efficient because it amortizes and de-leverages itself over time. Conversely, for those who are comfortable with the investment risk of the strategy, a reverse mortgage eliminates the requirement to repay and allows the retiree to maintain the mortgage for life (while keeping the portfolio invested as well).

The bottom line to all of these strategies is fairly straightforward: reverse mortgages may work far better when they're *not* done as a last resort but, instead, as a part of an ongoing retirement plan. And, the loss of the fixed-rate HECM Standard may not necessarily be a big issue because many of the recent research strategies assume the use of an adjustable rate line of credit anyway.

For clients who do wish to use lump sum fixed-rate strategies, the good news is that the HECM Saver loan option remains available. This was often the preference of planners anyway, given the lower initial costs of the HECM Saver reverse mortgage because it avoids the upfront 2 percent mortgage insurance premium that exists for HECM Standard loans. However, with lower loan

Web Seminar, Podcast, and Articles on Reverse Mortgages from Michael Kitces

(continued from p. 6)

- *The Kitces Report*, "A Fresh Look At The Reverse Mortgage"
- *The Kitces Report*, "Evaluating Reverse Mortgage Strategies"

Member Discount on *The Kitces Report*

If you liked this article on reverse mortgages adapted from Michael Kitces' blog, "Nerd's Eye View," then you might be interested in a monthly subscription to *The Kitces Report*. Kitces has graciously extended a discount on a monthly subscription to *The Kitces Report* to PFP members, inclusive of CPA/PFS credential holders. Enter discount code AICPAPFP to obtain 10% off a new standalone subscription.

limits on the HECM Saver, it is perhaps more important than ever to recognize that if there's an intention to use a reverse mortgage at any point during retirement, it needs to be implemented before the available loan amount is too small to save the client's retirement plan.

An Overview of the Affordable Care Act

By Carolyn McClanahan

Healthcare reform is in full swing. Despite being challenged in multiple ways through court proceedings, elections, and funding, the Patient Protection and Affordable Care Act (PPACA), enacted March 2010, stands. Many people kept their heads in the sand during the fights and are now struggling to understand the law.

The press has mainly focused on the healthcare coverage and health insurance aspects of the act. However, the PPACA addresses much more; it is an overhaul of our entire healthcare system. In addition to changes to insurance, there will be changes to the way healthcare is delivered, a move toward wellness and prevention, and changes to the way our healthcare system is paid to deliver care.

Many organizations participated in creating the law, and the result is akin to a novel with 10 titles in 2,409 pages, with each title addressing a different part of our healthcare system. This article provides an overview of the law and resources for you and your clients to help prepare for the changes.

Title I is "Quality, Affordable Health Care for All Americans" and is 374 pages. This is the most important and widely discussed part because it deals with health insurance. It is important to understand how insurance will change. First, you cannot be turned down for coverage because you have an illness. Second, *everyone* is required to have healthcare coverage. It is the only way coverage is financially viable. Third, people who have difficulty affording coverage will get assistance paying for it unless they are under the 138% poverty level. People living under the 138% poverty level will be covered by Medicaid unless their state refuses to expand Medicaid.

People will obtain health insurance the same way they do now, through large groups, small groups, the individual market, or public programs. Although there is a concern that many employers will cease to offer coverage, individual policies, fortunately, will be as robust as the policies available through employment. People can shop for their insurance on Healthcare.gov if a policy is not provided by their employer. Policies will be standardized from state to state, providing some ease in shopping for insurance coverage. To learn more details about the insurance provisions, Kaiser Family Foundation has a great primer with the basics.

In Title II, "The Role of Public Programs," Medicaid and Indian Health Services are covered. There will be significant changes to how care is delivered. The exciting part of this provision is the development of medical care homes, which provide home-based care for the chronically ill. This development signals a change from a paternalistic model of medicine to a team-based approach.

This is also the section of the law the Supreme Court struggled with: expanding Medicaid and withholding funding from states that won't expand Medicaid. Each state is approaching this differently. To learn how your state is coping with the Medicaid decision, visit the Advisory Board Company.

Title III is the most important section for healthcare providers. **"Improving the Quality and Efficiency of Health Care"** dedicates 501 pages to changing how healthcare will be delivered. This is where true overhaul is needed, and great ideas were submitted by smart organizations such as Mayo Clinic and Kaiser Permanente. It moves us from a

About the Author
Carolyn McClanahan, M.D., CFP®, is the founder of Life Planning Partners, Inc. In addition to her financial planning practice, she provides education to financial planners and healthcare professionals on the interplay between health and financial issues, particularly regarding insurability and healthcare reform. She writes a weekly blog for *Forbes* regarding all issues intersecting money and medicine. Contact Carolyn at Carolyn.mcclanahan@gmail.com.

Healthcare Reform Resources

Carolyn McClanahan presented "Healthcare Reform: How Will the Healthcare System Change for Your Clients" during the 2013 Advanced Personal Financial Planning (PFP) Conference; video and audio recordings and presentation materials of this session are available in the AICPA's online library. Registered attendees for the 2013 conference have complimentary access when they log in through the website

(continued on p. 9)

fee-for-service system toward payments based on quality of delivery, starting with changes in Medicare. These provisions will eventually go a long way toward controlling costs.

Title IV is a very positive section of the law. **"Prevention of Chronic Disease and Improving Public Health"** addresses the problem of chronic illness in our country. Chronic illness is very costly, and we either need to do a better job of preventing disease or treat it very early before expensive complications arise. Our current healthcare system does a poor job of addressing chronic disease, and these 130 pages aim to change that.

Title V is what I call "The Jobs Bill." It is actually the **"Health Care Workforce,"** and the legislation in these 256 pages addresses the lack of primary care in this country, recognizing that we don't have enough healthcare workers to take care of everyone. For example, most of the health-related problems we have do not require the work of a specialist. Because we have rewarded specialty care through the years, the primary care system has been decimated. Countries with strong primary care systems have healthier populations with lower costs.

Another important component is an increase in the Public Health Service Corps and creation of the Ready Reserve Corps. Improving public health is imperative to quick and effective response to pandemics and bio-terrorist events. This is a matter of public defense and security.

Title VI is 323 pages. **"Transparency and Program Integrity"** is dedicated to reducing fraud and abuse. Billions and billions of dollars are lost each year in waste through fraud and abuse. This section of the law has already reduced losses significantly.

Title VII, **"Improving Access to Innovative Medical Therapies,"** is 65 pages dedicated to improving access to generic drugs. This section isn't much of a game changer, but bringing down the high cost of pharmaceuticals in this country may make a dent in our healthcare costs.

The one part of the law that was troublesome from the beginning was **Title VIII, "Community Living Assistance Services and Supports Act (CLASS Act),"** a bill that instituted a federally run long-term care insurance program. These 53 pages would have been a nightmare to implement because they created another system similar to our current Social Security disability system. Fortunately, this part of the law was repealed.

Title IX is the 93-page **"Revenue Provisions"** spelling out how we were going to pay for the PPACA. By now, you know the main provisions: the 0.9% additional Medicare tax on income above $200,000 for individuals and $250,000 for married couples, and an additional 3.8% tax on net investment income above $200,000 for individuals and $250,000 for married couples. There are multiple other provisions dealing with origin of the money that will fund the law; the IRS has a list outlining the revenue sources.

Resources to Help You Plan After the Medicare Surtax

The Medicare surtax will affect your clients in 2013 and beyond, but there are things that you can do to protect your clients' interests and mitigate the surtax's effects on your clients and their estates. Utilize the Proactive Planning for 2013 toolkit for tools, resources, podcasts, web seminars, and articles to help you educate your clients and proactively plan for the Medicare surtax in 2013.

Additionally, PFP/PFS members save an additional 10% off the already reduced AICPA member price on *Tax Planning After the Healthcare Surtax* by Robert S. Keebler, Stephen J. Bigge, Michelle J. Ward, Peter J. Melcher, and Christopher W. Schuler, which analyzes and explains the application of the 3.8% surtax, strategies to avoid the surtax, and more. It also provides a variety of tools, including client letters, checklists, PowerPoint slides, charts, and flowcharts. This downloadable (PDF) book is packed with citations, explanations, and examples. Learn how to protect your clients' interests, minimize the effects of this surtax, implement practices that will yield benefits in 2013 and beyond, and preserve client assets.

Healthcare Reform Resources

(continued from p. 8)

(see instructions to access). Those who did not attend can create an account to purchase audio recordings and presentation materials.

Forefield Advisor recently launched a new, comprehensive Health-Care Reform Resource Center (free access to PFP/PFS members). Your clients and prospects may have questions about the PPACA, such as the following:

- If I already have health insurance, can I keep my existing coverage?
- Do small businesses have to offer health insurance to employees or face a penalty?
- How does the law affect seniors and Medicare?
- What are health exchanges?

These are just some of the questions and topics that the Health-Care Reform Resource Center explores.

In addition, be sure to read the CPA/PFS profile of Jim Sullivan in this issue of *Planner* on page 10. Jim discusses healthcare planning in retirement, and there are several resources for more information at the end of his profile.

Title X was the most challenging section of the law, and it ended the legislation the way it began: complicated. Remember Title I, "Quality, Affordable Health Care for All Americans?" As it turns out, we needed another title in the same law to strengthen it. Title X is called **"Strengthening Quality, Affordable Health Care for All Americans.**" My name for it? How about "The Bucket List?" These 372 pages include a lot of neat pilot programs for changes in healthcare delivery and the usual favors for special interests. For example, there are two pages dedicated to gun owner rights and a provision that Nebraska doesn't have to follow the Medicaid rules because the state's senator would only vote for the law if his state was exempt.

Although the PPACA is very complex, CPA financial planners can do a great deal to help their clients understand the basics, answer questions, and guide them toward appropriate resources. As we move deeper into 2013 and implementation, there's no doubt that industry experts will continue debating the ins and outs of this legislation.

CPA/PFS Profile: Jim Sullivan

Jim Sullivan, CPA/PFS, could be what many may consider a different kind of CPA financial planner. A registered investment adviser with Core Capital Solutions, LLC, *in Naperville, Illinois, Jim specializes in retirement planning with a special emphasis on helping his clients control the specific risks of retirement. He is a former member of the AICPA Elder Planning Task Force.* Planner *recently sat down with Jim to discuss his unique approach, investment philosophy, thoughts about long-term care insurance as a planning tool, and more.*

Planner: *Explain what you mean by "helping clients control the specific risks of retirement."*

Jim Sullivan: Retirees face what actuaries refer to as *low-frequency, high-severity risks*, so I help clients understand and plan for these types of specific risks. One emerging issue I see is individuals and couples going into retirement and being heavily in debt. Consider the impact of chronic health problems, the need for long-term care, investment risks, and even the drop in home values in recent years.

Planner: *Of these risks, is there one area you focus on more than others?*

Jim Sullivan: That would be healthcare costs after retirement. Most individuals have a very poor understanding of how Medicare works, what it will pay for, and what it will not cover. Planning begins with education, and I provide that to my clients.

Planner: *With healthcare issues front and center, how do you see the market for this insurance changing over the next few years? How can CPA financial planners help their clients figure out whether long-term care insurance is worth the investment?*

Jim Sullivan: That is a hard argument to make with clients nowadays because of rate increases and several companies getting out of the business. Underwriting standards have also tightened with 4 out of every 10 applicants over age 65 being declined.

I think the answer may be in what I refer to as *alternative approaches*. For example, short-term policies that provide good coverage for one year are gaining in popularity. They are more affordable and address what I call the "crisis moment," which is when an individual is suddenly told he or she can no longer live independently and must move immediately to a skilled nursing facility.

Here's another reason for the short-term product. I recently heard that 42% of long-term care events last less than 1 year. I've had families in my office experiencing these moments, and it is very tough. They don't know where to turn and cannot afford the monthly cost.

Other alternative solutions may be in hybrid products, especially life insurance with a long-term care feature. However, let's face it: none of these approaches is ideal and often doesn't compare well to a traditional long-term care product that provides 3 to 5 years of coverage. But, something is often better than nothing. I also think longevity insurance will become more popular. I've been saying that for many years, so I'm sure I'll eventually be proven correct!

Planner: *What is your investment philosophy?*

Jim Sullivan: It's very conservative, with asset preservation first. I often recommend using a simple, straight life annuity to create a steady stream of retirement income. My client profile is not upper income; most are middle class and upper middle class with $500,000 to $3 million in their retirement nest egg. There's a small margin of error to absorb financial shock and not a lot of room for risk.

Even in a low interest environment, straight life annuities have a role to play in income retirement planning. Matching annuity income with Social Security and any pension payment should cover the necessities of life. The retirement nest egg can be used to keep income in step with inflation and cover big, one-time expenses such as vacations.

Planner: *How has the Personal Financial Specialist (CPA/PFS) credential helped you, and how does it help your firm?*

Jim Sullivan: It gives me a lot of added credibility. Of course the CPA has been, and still is, a premier designation as a financial professional. The PFS designation demonstrates to clients that I am serious about specializing in financial planning and also work in areas well beyond tax planning. In addition, the resources made available to CPA/PFS credential holders and those who join the AICPA's Personal Financial Planning Section are tremendous—well worth the annual cost. I can't say enough good things about how the Section expanded its resources in the last few years.

Planner: *Think back to the book you read that motivated you the most. Why was it inspirational?*

Jim Sullivan: It's actually one I'm reading right now: *Simple: Conquering the Crises of Complexity* by Alan Siegel and Irene Etzkorn. I do a lot of writing for publications and for clients, so I am a stickler for keeping my writing simple and to the point. No matter what I am writing, I try to keep the reader in mind. I want to give them a reason to read what I wrote. Siegel and Etzkorn call it "having empathy for the reader." That is my goal: always write for the reader and keep it simple and clear. I can't say I always succeed, but I try!

Healthcare Planning in Retirement

In his CPA/PFS profile, Jim Sullivan discussed helping clients plan for retirement. If you want more information about this topic, his guide, *The CPA's Guide to Financing Retirement Healthcare*, is now available. In addition to an overview of Medicare, Medicaid, and long-term care, the book covers

- hospice care,
- Medicare supplemental policies,
- preexisting conditions,
- Medicare Advantage Plans,
- special tax considerations,
- health savings accounts,
- custodial care, and
- Medigap

This guide was prepared in cooperation with the AICPA Personal Financial Planning (PFP) Division, the PFP Executive Committee's Elder Planning Task Force, and the AICPA Private Company Practice Section. It is available to PFP section members, inclusive of CPA/PFS credential holders, as a free download or may be purchased as a paperback with the revised title *Unlocking the Mystery of Healthcare Planning in Retirement.*

Additionally, Forefield Advisor recently launched a new, comprehensive Social Security Resource Center (free access to PFP/PFS members). As they approach retirement, Americans want to understand how Social Security works. How much will they receive from Social Security? When should they begin receiving retirement benefits? What challenges is the Social Security system facing? These are some of the topics that the Social Security Resource Center explores. Look for Forefield's new Retirement Plan Participant Resource Center this summer.

PFP/PFS members will also want to know about *The CPA's Guide to Social Security Planning* written by Ted Sarenski, CPA/PFS, and technically reviewed by the Elder Planning Task Force. This handbook, designed by CPAs for CPAs, is organized around questions a client might ask a CPA; its format enables practitioners to easily find the answers to common concerns and planning situations.

In January 2013, Michael Kitces MSFS, MTAX, CFP®, CLU, ChFC, presented "Latest Trends & Developments in Long-Term Care Insurance." The web seminar recording and presentation materials are available in the PFP Web Seminar Library. In addition, review his article, *Big Changes Are Underway in the Long-Term Care Insurance Marketplace*, in the January/February 2013 *Planner* newsletter.

A new article, *An Overview of the Affordable Care Act*, by Carolyn McClanahan, is included in this issue of *Planner* on page 8. In addition, be sure to check out the PFP Division's Retirement Healthcare resource page for additional links to checklists, articles, sample client communications, and other material on this topic.

PFP News

Recently Released PFP/PFS News & Resources *To Help You Practice Competently & Profitably*

Below is a brief recap of the news, resources, advocacy, and education made available to PFP/PFS members since the past issue of *Planner*. This is just a small snapshot of the many benefits you receive as a PFP/PFS member. Review the core PFP/PFS member benefits provided to help you practice competently and profitably. Provide feedback on the benefits you value most and/or additions and improvements you'd like us to consider.

- AICPA Council Votes to Offer Specialized Credentials Internationally
- *A Guide to Financial Decisions: Implementing an End-of-Life Plan* (updated for 2013)
- Prudent Practices for Investment Advisors (updated for 2013)
- Prudent Practices for Investment Stewards (updated for 2013)
- Chart: Domestic Asset Protection Trust State Rankings (updated April 2013)
- April *Inside Information* from Bob Veres covering valuing your practice and more
- May *Inside Information* from Bob Veres covering risk parity and sophisticated portfolio concepts
- E-Columns from Bob Veres on advisory fee structures in the financial planning/adviser profession
- Access to free newsletter from The Ultimate Estate Planner, Inc.
- Media Reviews from Bob Veres
- *Free web seminar: Using Intentionally Defective Grantor Trusts to Intentionally Do Great Things*
- Free web seminar: *Taking a Fresh Look at Reverse Mortgages*
- Free consumer web seminar: *2013 Taxes: Start Your Money Plan Here*
- Free web seminar: *Proactive Planning in 2013*
- Free web seminar: *Top 10 Estate Planning Strategies for 2013*
- Free web seminar: *Top 10 Income Tax Planning Ideas for 2013*
- Free web seminar: *AICPA Virtual Town Hall: Tax Season 2013*
- Free web seminar: *The Mobile Adviser: Everything Financial Advisers Need to Know to be Safe, Connected, and Productive in the Mobile Age*
- Free web seminar: *PFP Power Hour: Utilizing Social Media In Your Firm* (access seminar at the PFP Web Seminar Library)
- Free web seminar: *Understanding the Administration's Proposals and How They Would Impact Your Individual Clients* (access seminar at the PFP Web Seminar Library)
- Podcast from Bob Keebler on critical provisions in the President's FY 2014 budget proposal
- Podcast from Michael Kitces on reverse mortgages
- Forefield Video: Long-Term Capital Gains Tax
- Forefield Alert: What Is the Consumer Financial Protection Bureau?
- Forefield Alert: ERISA Fiduciary Issues: A Practice Guide for Advisors
- Forefield Alert: Six Last-Minute Tax Tips
- Forefield Alert: Employers Receive Transition Relief for the Work Opportunity Tax Credit
- Forefield Alert: Health-Care Reform: Looking Back and Ahead
- Scholarship for Emerging CPA for the Advanced Estate Planning Conference
- Leg/Reg updates covering IRS letters being sent to foreign trust and foreign gift taxpayers and reminding members to file FBARs by June 30.
- Advocacy: The AICPA represented your interests in Washington by recommending simpler small business tax rules to Congress, commenting on the IRS's proposed guidance regarding the cancellation of debt, sending tax reform proposals to House Ways and Means study groups, commenting on the proposed regulations regarding the Medicare Surtax for trusts and estates, and testifying to the House Ways and Means Committee on a challenging tax season and the IRS budget.

PFS Exam, Review Class and Referral Program

The Summer 2013 PFS exam will be offered June 17-July 26, 2013 at approximately 300 locations nationwide. PFP/PFS members save $100 off the already reduced AICPA member registration fee. Learn about discounts, sponsorships and more. Note that you may not be required to take the PFS exam if you have successfully passed another comprehensive financial planning exam.

The AICPA PFP Division is offering a live review class on June 26-28 at AICPA headquarters in Durham, North Carolina for CPAs who want to prepare for the Summer 2013 PFS exam, refresh their financial planning skills, learn more about financial planning or add it to their service offerings. The two and a half day class will help students understand the technical foundation of the personal financial planning discipline and prepare CPAs for the PFS exam.

Participants will receive a consolidated and intensive introduction to the principles and analytic techniques of personal financial planning. The review will cover all topics in the personal financial planning process, including professional responsibilities, income tax, estate, retirement, investments and insurance/risk management planning. Self-study in-depth education and exam review courses are also available.

PFP/PFS members save an additional $100 off the already reduced AICPA member price. Additionally, qualify for the PFS sponsorship program for reimbursement of $200, $400 or $600 of costs for the exam and exam review depending on the type of review program used. Already a CPA/PFS? CPA/PFS holders can receive a dues credit equivalent to a year (or more!) of PFS dues by participating in the CPA/PFS referral program. Current credential holders are rewarded for referring other CPAs to either become a CPA/PFS credential holder or sit for the PFS Exam.

For every qualifying referral, the CPA/PFS will receive a credit for one year of future CPA/PFS dues. There is no limit on the number of referrals you can make. Refer 10 people and have a decade of CPA/PFS dues paid in advance.

PFP Calendar of Events

Note: PFP section members, including CPA/PFS credential holders, attend Web seminars free without CPE unless otherwise noted or for a discounted price with CPE. View the complete list of Web seminars and registration links.

Event Title	Format/Location	Dates	More Information
*Registration links for upcoming **Web seminars** are available on the **PFP website**.*			
Advising and Communicating with Clients in the Current Market and Interest Rate Environment with Lyle Benson, Jean-Luc Bourdon, Michael Goodman and Scott Sprinkle	Online Web seminar	June 6, 4:00-5:15 p.m. ET	Free without CPE; Discounted CPE available.
Medicare Surtax and Its Impact on Estates and Trusts Under the New Law with Bob Keebler and Jere Doyle	Online Web seminar	June 12, 1:00-2:45pm, ET	Free without CPE; Discounted CPE available.
Advertising and SEC Examinations: What CPA Financial Planners Need to Know with Ellen Bruno	Online Web seminar	June 19, 1:00-2:30pm, ET	Free without CPE; Discounted CPE available.
Investment Tax Strategies for 2013 with Bob Keebler and Bob Gordon (Session 4 of Series: *Planning After ATRA*)	Online Web seminar	June 25, 1:00-2:45p.m. ET	Free without CPE; Discounted CPE available.
Should You Trust a Trust as an IRA Beneficiary? with Mary Kay Foss	Online Web seminar	July 10, 1:00-2:00p.m. ET	Free without CPE; Discounted CPE available.
Impact of the New 3.8% Tax on Net Investment Income on Individuals and Pass-Through Entities with Carolyn Turnbull	Online Web seminar	July 17, 1:00-2:00p.m. ET	Free without CPE; Discounted CPE available.
Defend Your Business Against Hacking, Phishing, and Spoofing Attacks with Bill Winterberg	Online Web seminar	August 6, 1:00-2:45p.m. ET	Free without CPE; Discounted CPE available.
*Registration links for upcoming **conferences** are available on the **PFP website.***			
2013 Practitioners Symposium and Tech + Conference	AICPA Conference Las Vegas, NV	June 10-12	PFP/PFS members: use promocode **PFPPSTECH** to save an additional $75 off the AICPA member price.
Live PFS Exam Review Class	AICPA Boardroom, Durham, NC	June 26-28	PFP/PFS members save an additional $100 off the AICPA member price.
AICPA Conference on Advanced Estate Planning	AICPA Conference Baltimore, MD	July 15-17	PFP/PFS members save an additional $100 off the AICPA member price.
AICPA Sophisticated Tax Planning for Your Wealthy Clients	AICPA Conference Boston, MA	November 18-19, 2013	PFP/PFS members save an additional $100 off the early bird AICPA member price.
AICPA Advanced Personal Financial Planning Conference	AICPA Conference Las Vegas, NV	January 19-22, 2014	PFP/PFS members save an additional $100 off the early bird AICPA member price.

Is there a cutting edge or hot topic you would like covered in a Web seminar, or have you heard a fantastic speaker we should invite to speak on behalf of AICPA PFP section members? Share your ideas with the PFP team.

The views and opinions expressed in Planner *are those of the authors.*

AICPA® Personal Financial Planning Section