

Let's Not Forget Those Good Friends We Leave Behind

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Baby boomers are aging. With age comes the inevitable realization that we are all finite beings. At the conclusion of a long fruitful life, we all leave this world for somewhere else. What about those that are left behind?

We usually focus on estate planning with special emphasis towards the beneficiaries in providing for wealth transfer to subsequent generations that meets the needs and obligations that we have in a lifetime to hopefully discharge those obligations and design plans that meet our needs for the early transfer of wealth. Surprisingly, this commentary is not focused towards that end, but rather an alternative: providing for a pet's well-being after an owner's death. Several options exist in making sure precious pets will be cared for following death of the owner.

In the case of a first-to-die spouse, the surviving spouse is usually given that privilege. Providing the surviving spouse has the same affinity towards the pet that the deceased spouse had, the pet's remaining life is often assured to have safety and dignity.

When the surviving spouse predeceases a pet, who will care for that pet? Often, a family member will step up and volunteer. Can the well-intended family member care for the pet? Will this family member have adequate resources? Geriatric pets cost more to maintain than younger pets. Will the family have adequate resources to cover the cost?

For these issues, direct requests are often placed within a will or through direct allocation of funds in a joint survivorship account for the care and nurturing of the pet after the final owner's death. The amount needed is often miscalculated. Inflation is a factor of life. Pet care increases rather than decreases as the years progress.

Placing a simple annuity in a bank savings account may be inadequate. What we normally recommend in calculating the amount that may be needed is to take the useful life anticipated of the pet for the specific breed and add 40.0%. That accounts for the potential longevity for good pet care.

Statistics presently used for breed life are based on experience. That experience is founded in the historically-based medical and surgical services provided in prior years. Sophistication and competency of the doctors of veterinary medicine providing those services has increased over the years; therefore, pet longevity (as human longevity) has also been increased. Accordingly, we recommend the 40.0% allocation for the total useful life of a pet before calculating the money that will be needed.

Secondly, once we have the term of the life of the pet determined, subtract the existing life to arrive at the remaining anticipated life of the pet. This becomes the term for your annuity. The next step is to determine the rate of increase of cost for pet care.

The inflation rate for 2006 was 3.40%. We anticipate that rate to go up in order to fund our deficit spending in armaments and social programs as well as the general expansion of government cost at the federal, state, and local levels.

Veterinary inflation is 2.0% above the inflation rate in order to cover the technological costs. A pet owner, in assessing an annuity calculation, should start out with at least 7.5% annual growth required for the annuity. Taking an amount every year and increasing it by 7.5% thereby compounding on the preceding years is a fairly safe calculation.

The final step is to account for some form of interest. The difference between the interest rate received and the cost incurred is the incremental cost of the annuity for payment every year. On this last point, we recommend a discount rate back based on current interest rates of 3.0%. With all this information available, in the course of a few nano seconds, a competent accountant can calculate the amount that will be needed to be placed in a separate savings account for the benefit of a pet.

To assist your competent CPA, we have attached an exhibit of our calculation. Please remember that this exhibit is based on certain facts and assumptions. Some of these facts include an estimated normal life span projected for a target pet in a specific breed as 12 years. Our theory is that good veterinary care can extend that life all the way up to 40.0% more or about 16.8 years.

We estimated for the present care of a pet the cost of food, annual veterinary care, miscellaneous toys and other expenditures, boarding while the caregiver is away, grooming costs, and an amount that may be assigned to a family member to pay for the annual care of the pet. We normally budget 50.0% to 55.0% of the total cost for a pet to be paid to the family member.

In our projections, we factored into the calculation the fact that as pets age, the cost for their care increases, as it would follow with a human being. We have assigned an annual premium that is added to the normal cost for geriatric care. Advances in care of patients will further increase the cost. We have not factored the increased costs of future advances in veterinary medicine.

In the calculations shown in the example, we took into consideration the estimated age for a pet that is well cared for, an annual inflation rate, an annual interest or yield rate on the amount of money that might be placed in an account net of related taxes, and then a calculation of what would be needed to be deposited in that savings account, certificate of deposit, etc. to meet the minimum and maximum needs of the pet.

Factors can affect the calculation in a variety of manners. The quality of pet food that the owner anticipates to be spent will have a bearing as well as the extent of the health of the pet and the stipend that the caregiver may wish to pay a relative to care for the pet annually. This is not the final calculation that is needed but one of the many calculations that provide a benefit anticipated for a loved one in the present charge of a caregiver.

The savings account with specific instructions to the co-account holder and an amount jointly held with a trusted relative is the easiest way to accomplish this. Other options could include a pet care trust.

A pet care trust could be a revocable living trust where the caregiver makes himself/herself trustee. Upon the death of the caregiver, an alternative trustee would take over who was also named in the original revocable trust document. That trustee would manage the trust in very similar manner to the simple joint savings account that we mentioned earlier. This caregiver would have physical control over the pet. The caregiver could be a family member or even a financial institution. There may be a need to adjust the payment to care for the pet annually if a financial institution is named. Alternative options could include a tax-exempt organization as the trustee for the trust.

As you can see, we have attempted, in this example, to anticipate life expectancy, potential expense for medical and surgical treatments, trustees' fees, caregiver costs, etc. We also included in our calculation a premium for pet insurance as an alternative to help hedge the bet on catastrophic costs that could occur. Over the last decade, pet insurance programs have become far more popular and their utilization within the corpus of a caregiver trying to provide anticipated future benefits for their trusted companion can be far more easily projected. Pet insurance is an excellent means to help cushion the cost of unexpected medical expenses for a pet after the death of the pet's caregiver.

The trustee of the pet care trust could be an individual other than the caregiver. The caregiver would receive an amount from the trustee in principal and interest every year. The danger always exists that expenses may be greater than what was expected.

An essential part of the pet care trust would be instructions to be given to the trustee as to the level of housing, grooming, feeding, and medical and surgical care that would be anticipated. Clearly spelling these points out can be of great assistance to the trustee to ensure that the person charged with the care of the pet is fulfilling his/her end of the bargain. The trustee may even have the power to remove the pet and place the pet with an alternative caregiver in the event that the caregiver anticipated in the pet care trust is not living up to his/her end of the bargain.

One final comment would be to provide in the trust where any remaining funds might go if the pet dies prior to the exhaustion of funds from the trust. Some pet care trusts might provide for the remaining corpus to go to a family member or possibly to a tax-exempt organization such as a humane society.

Care trusts may specify that the doctor who would care for the pet during their lifetime receive the funds to be held in a separate account for the benefit of other indigent pets that may come to the practice from time to time. Whatever the intention of the maker of the trust would be, that intent should be clearly specified in the corpus of the document.

We hope these thoughts on pet care trusts, savings accounts with joint ownership, and the total thought process of caring for a pet after one's death are of some assistance.

No one answer exists. For that reason, a dialog between the pet owner, their doctor of veterinary medicine, their attorney, and of course their CPA is not only appropriate but essential.

OEM/alb

Exhibit I

Calculation for Determining the Corpus Needed in a Savings Account to Care for a Pet

Revised at February 6, 2006
OEM

Facts:

The entire lifespan projected for this pet's breed is 12 Years

The pet is 6 years old

Present care for the pet	\$	%
For Food Annually	600	16.2%
For Veterinary Care Annually	450	12.2%
Miscellaneous Toys etc. Annually	100	2.7%
Boarding while away	300	8.1%
Grooming	250	6.8%

Payment to relative to care for pet annually 2000 54.1%

Total Projected Costs in Today's \$ **\$ 3,700 100.0%**

Add:

Projected Additional Veterinary Costs
to Care for Geriatric Patients 350

Total Projected Costs in Today's \$

after Geriatric Premium

\$ 4,050

Calculations:

Well cared remaining life

Useful life of the breed 12 Years
Premium for well cared pet 40%

Estimated life for Well Cared Pet 16.8 Years

Present Age of Pet

6 Years

Estimated remaining life anticipated

10.8 Years

Price leveled aggregate total inflationary costs per year

Assuming that inflation rate over the
estimated remaining life is to be

7.50% Annually

Future Value of annual inflation and
geriatric adjusted costs over the
estimated remaining life for a well

cared pet

\$63,925 Total Aggregate Payments

Calculation of a Present Value Needed to Fund the Aggregated Future Payments

**Estimated Annual Interest or Yield to be earned over the estimated remaining life of the pet
Net of Related Income Taxes for Federal, State, and Local Governmental Entities**

Minimum	1.5%
Mean	3.0%
Maximum	4.5%

Present Value Needed to be deposited	
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Minimum	\$54,430
Mean	\$46,454
Maximum	\$39,739