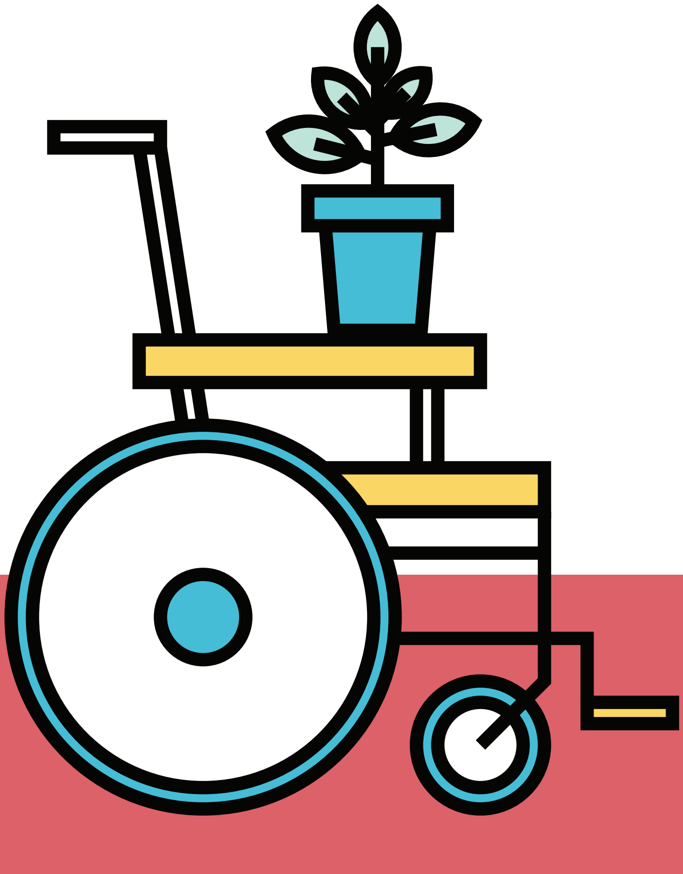
TAKING CARE OF YOUR FINANCES
while taking care of your aging parents

by Rob Cordeau, CFP®



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Introduction

Caring for aging parents is like taking on a second full-time job. It is exhausting – emotionally, intellectually, physically and financially. If you're providing eldercare, chances are you've had to give up a major part of your life – your job, friendships, free time – to take care of your parents during their final years.

This is our guide to handling your and your parents' finances while they are under your care. We will begin by providing important questions to ask your parents when you begin to notice their health failing. Then we will discuss what to do in case of a diagnosis of Alzheimer's. After that, we give eight tips on how to tactfully take over your parents' finances when the time comes. Then we will cover what it means to be a member of the "sandwich generation," sandwiched between caring for your children and your parents at the same time. Finally, we will discuss the important steps of handling finances after your parents pass.

Financial Questions to Ask Your Aging Parents

Your parents are getting ahead in years and you know their good health won't last forever. You know the day will come when you have to take over their finances.

Knowing when to step in financially can be difficult, but it's incredibly important. According to [Money Management International](), one in nine people age 65 or older have Alzheimer's disease, and one in ten Americans age 60 or older have fallen victim to financial fraud or abuse.

Keep an eye out for the signs – unopened mail, trouble balancing their checkbook, difficulty with simple math. If you're noticing any of these, it might be time to talk to your parents.

Knowing when to step in can be difficult...

Here are a few questions (and a suggestion) you should consider during the conversation:

Who has power of attorney?

Make sure your parents have prepared a power of attorney form, a health care proxy and a will.

A power of attorney form grants financial power to someone else. It might grant that power immediately upon signing, or it may be a "springing" power of attorney that "springs" into action upon the incapacity of your parent.

A health care proxy grants the power to make life-and-death medical decisions. Having this document in place can relieve an enormous amount of stress from children who are tasked with these stressful decisions.

A will outlines how your parents want their assets divided when they're gone. Just remember that assets controlled by a trust, or assets with beneficiary designations (typically found on IRA accounts, life insurance policies, and JTWROS, TOD or POD accounts) are NOT controlled by the will.

Make sure your parents prepare these now before it's too late. For that matter, you should get one, too. Everyone should have a will set up as we never know what might happen. If you and your parents don't have one, do it together. It might help motivate them.

If your parent doesn't make these decisions known, you might have to go through court to claim guardianship over your parents, and this is an expensive, time-consuming, headache-inducing process that can easily be avoided by planning ahead.

Where do your parents keep their finances?

Find out the bank(s) your parents use for savings and checking accounts. Ask your parents if they have a safe-deposit box. Get to know your parents' accountant or financial advisor. They can be very useful when your parents pass.

By working with your parents' financial advisor, you can make sure their investments stay current, which can be vital to making sure they have enough funds through retirement.

If you don't do have this financial information, you run the risk of having to sleuth out where they keep all their money.

What are your parents' monthly expenses?

Do your parents pay a mortgage on a house or insurance on a car? What's the average amount your parents pay per month in utilities — gas, water, electric?

Ask about credit card debt, as well. By figuring out these expenses, you can develop a solid financial plan to help them.

If your parents are still paying a mortgage, talk to them about automatically receiving a copy of the bills. That way, you can monitor payments and prevent an issue before it's too late.

A suggestion: Include your siblings in these conversations

This one isn't a question, but it is very important, especially if you've been given power of attorney.

Managing your parents' finances can cause a strain on even the strongest of family relationships. A lot of silent bitterness can build up when siblings don't know what's going on. Make sure to keep your siblings in the loop.

Managing your parents' finances can be stressful. By having a conversation with them today, you can ease some of the stress associated with it.

If your parents have been diagnosed with Alzheimer's, you may need to act more quickly.

Organizing Your Finances After Alzheimer's

It's difficult when a loved one is diagnosed with Alzheimer's disease. The initial signs may seem like normal symptoms of growing older — you start forgetting things — but the symptoms compound into disorientation, struggles with communication, and withdrawal from family. These symptoms can take over rapidly.

Financially, Alzheimer's disease can also be a nightmare. According to the Alzheimer's Association, the average lifetime cost of an Alzheimer's patient is $174,000. You might be looking at an adult day care center for your dad —about $23,000 a year — or a nursing home for your mom — about $84,000 a year. But nursing home costs can run north of $100,000, depending on which part of the country you are in.

If one of your parents is beginning to show the signs and symptoms of Alzheimer's disease, you need to do two things: act early and know all your funding options.

Act early

As soon as someone shows the first symptoms of dementia, sit down and hammer out the most important legal details with them – a will, power of attorney and a health care proxy.

It's imperative you have this conversation early on while the affected parent still has his/her mental capacities. By discussing legal matters early, everybody involved will be able to participate, including your ill parent. This can give you peace of mind that you are carrying out procedures the way your loved one would have preferred, and it is always reassuring when you eliminate guesswork.

Not only that, but these conversations can save you money as well. If, for example, you don't have a power of attorney or health care proxy signed and you have to start making financial or health decisions for your parent, you will have to claim guardianship over your parent in court. This is an expensive and time-consuming process.

Know all of your funding options

Paying for Alzheimer's care out of pocket can drain your parents' retirement savings. Before your parents blow through their savings, make sure they know of other available options:

Government programs

Loved ones older than 65 generally have health insurance through Medicare, which covers hospital visits, bills, doctors, tests, etc. Medicare premiums are based on a sliding scale according to income.

Depending on your parents' retirement savings, they might be eligible for Supplemental Security Income (SSI). SSI is a minimum monthly income for people who are 65 or older, who are disabled, and who have limited income and assets.

Community organizations

A source of relief could be just down the street. Many community organizations provide low-cost or free services to people suffering from Alzheimer's disease. Some of these services include respite care, support groups, transportation and home-delivered meals.

You can use this *eldercare locator* for help finding a program near you.

Tax exemptions

For some medical expenses, tax deductions are available. For example, you can write off most medical expenses greater than 10% of your adjusted gross income (for those age 65 and older, the floor is 7.5% of adjusted gross income for 2015 and 2016 before jumping up to 10% in 2017). These deductions are complex though, so you should consult a financial professional.

It's difficult, both emotionally and financially, to have a parent with Alzheimer's disease. By acting early and knowing your funding options, you can begin to organize your finances now to help your loved one.

But there will almost definitely come a time when you need to worry about organizing not only your finances, but also your parents' finances.

Eight Tips for Taking Over Elderly Parents' Finances

Imagine this scenario: One day, your mother is doing great. She's operating independently, she's fully cognizant, and retirement has never looked better. The next day, she has two strokes on the right side of her brain, and now you have to take care of her.

It would be an understatement to call this a stressful situation. On top of health concerns, if you have been given her power of attorney, it also means you'll have to manage her finances.
If this is the case, take the following steps:

1 Get the proper authorization to handle your parents' finances

If your parents have given you power of attorney, you can handle their finances. You can now sign their checks with "[parent's name] with [your name] signing as power of attorney."

If your parents have not granted power of attorney to anyone, you might have to go to court to become your parents' guardian. This is an expensive and time-consuming process.

2 Find all financial accounts and documents

You should know your parents' finances inside and out – Do they have a savings and checking account? A safe-deposit box? What investments do they have?

If your parents have a safe-deposit box, open it and take inventory of what's inside. Take a witness with you and use a smartphone to record the process of opening and taking inventory of it.

If your parents have a financial advisor, consult them about their investments. That way, you can work with the advisor as your parents' life goals change. Investments should match your parents' goals through their entire lives, and the investments will not be working in your parents' best interest if they aren't monitored after their illness.

3 Pay your parents' bills

We all know bills don't go away if you ignore them. Usually, ignoring them makes them worse.

This depends entirely on your parents' finances, but you should work to get everything current as soon as possible. If your parents' financial situation is flush, make sure to pay the bills promptly. If your parents are struggling, prioritize which bills need to be paid now and which ones can wait. The most important element is to get everything current as soon as possible.

4 Research what benefits are available

Plenty of resources at the state and federal level can help your parents financially. Two useful sites to visit include the [National Council on Aging] and [The Administration on Aging].

On The National Council on Aging's site, you'll find resources for paying for necessities like food, medicine and utilities.

The Administration on Aging's site lists local services for things like Alzheimer's disease, transportation and health care for the elderly.

5 *Evaluate your parents' current plans*

Maybe your parents need a fraction of the life insurance they currently have. Consider reducing their insurance so they don't have to shell out so much money each month.

6 *Consider transferring assets early*

If your parents have more assets than they need to live on, you might want to consider transferring assets early. Each of your parents are able to gift up to $14,000 a year to each recipient without triggering the need for a gift tax return to be filed. This could help you reduce the size of your parent's estate, and avoid having to deal with estate taxes. It's important to do this right, so take a look at *our article on the subject*, and make sure to consult a financial professional before proceeding.

7 *Document everything you do*

Keep copies of every check you write. Maintain bank statements. Take detailed notes. This way, you can show your siblings you're managing Mom and Dad's finances properly.

8 *Consult a financial advisor*

Managing finances for your parents is stressful, and it's difficult to handle on your own. A financial advisor can help you manage both their finances and your own while keeping an eye on tax minimization and sound investing decisions.

If you're taking over your parents' finances while caring for children of your own, you are a member of the "sandwich generation," whether you know what that means or not.

Five Financial Bites the Sandwich Generation Should Take

If you are "sandwiched" between taking care of a parent and providing for children, then you are a part of what is known as the sandwich generation. [A Pew Research Center report] indicated that 47 percent of adults in their 40s and 50s are in this situation.

Being part of the sandwich generation is extraordinarily tough on finances, and it could be affecting your retirement. Don't let it.

Here are five financial moves to help you provide for your parents and children while saving for retirement as well:

Encourage your children to apply for college scholarships and loans

Maybe your high school senior has plans to attend a university out of state: She'll live in a dormitory and hang out with friends at the student union as she figures out what subject she'd like to major in.

Those ambitions are great, but they're also expensive. Out-of-state tuition will cost you more than in-state, and then you'll have to pay more for room and board. However, if you don't help, your daughter is looking to take on a substantial amount of debt in student loans.

Your daughter can take out a loan for college – you can't take out a loan for retirement.

You probably still want to help. Encourage her to apply for college scholarships and find other ways to offset the cost of college.

Consider retirement homes for your parents, or even encourage them to move in with you

It might be easier to search for a retirement home for your parents. You can consider facilities near where they live or encourage them to move closer to you. Or, if you have to, you can even encourage your parents to move in with you.

Understand first that having a parent move in with you can be extraordinarily difficult in an emotional sense. If living with your parents was hard the first time around, there's a good chance it won't go so well the second time.

But it could be the best option in the long run. You can reduce costs in either homeowner's insurance or paying for a retirement home. This could even improve your parents' quality of life, as they'll get to spend more time with family. By keeping your children involved in their lives, your children will develop deeper connections with their grandparents.

Let your adult children move back in

This one may seem counterintuitive, but it truly is a tough market out there for recent college graduates. If your child is unemployed, she'll probably be looking to you for financial help whether she lives with you or not. By allowing her to stay at home, you don't take on the costs of her rent and bills. You will see a few increases — in groceries and utilities — but these pale in comparison to what they could be.

Remember, you're not her ATM. She should fund her own social life. Communicate regularly with your child about a plan to get her working and living independently again.

Educate yourself

Make sure you consult the right people — financial advisors, tax planners, estate attorneys — about your options. You might be able to claim your adult children or parents as dependents. If that's the case, you're looking at a deduction of roughly $4,000 a year for each child or parent under your care.

Likewise, you might be able to help support your parents through programs like Medicare, Medicaid, veterans' benefits, social security, etc. Have a professional ensure you aren't missing out on any financial breaks or opportunities available to you.

Let your parents and children make decisions.

Remember, your parents and children are people, too. They are entitled to take part in the decisions that affect their lives. If you've decided to take care of them financially, communicate openly about your financial situation and allow them to weigh in. If your children are younger, model good financial skills so you can avoid funding their lives after they leave the house.

Being a part of the sandwich generation is not as delicious as it sounds, especially where finances are concerned. But it doesn't have to ruin your retirement. By taking these five financial bites, you can provide the support your parents and children need without neglecting yourself.

As much as you may hate to think about it, the day will come when your parents will both be gone. It will be an emotionally taxing time, and you need to be prepared to protect your finances.

Six Ways to Protect Your Finances after Your Parents Die

When you lose a loved one, your life becomes a whirlwind. Not only are you grieving their loss, but you may have to plan and attend a visitation and funeral, as well as work out their finances. And chances are their finances are going to affect yours.

1 *Don't assume any of your parents' debt*

Unless you've cosigned one of your parent's loans or accounts, any debt left over from your parents should be fed into the estate. You should not be held responsible for any of your parents' debt, although the debt could affect your inheritance, as debts are often handled by the estate before inheritance is factored in.

If the house still has a mortgage on it, you might inherit the mortgage. It's a very complicated process, but the bank won't be able to call the loan on you and make you pay the remainder immediately. You will probably have to make monthly payments on the house, though.

2 *Find out if you're a beneficiary of a life insurance policy*

This one *falls through the cracks frequently*, so it's important to be proactive about it.

This all depends on if your parents listed you as an individual beneficiary of their life insurance or if they listed the estate as the beneficiary. If the estate is listed as the beneficiary, then the money goes toward the estate and is used to pay off any outstanding debts first. If you are listed as the individual beneficiary, then the money goes directly to you.

3 *Don't serve the money; let the money serve you.*

Children can often feel like they have to use an inheritance to serve what they believe their parents' wishes would have been. This can lead to financial paralysis or, even worse, putting money to less than stellar use. Your parents gave you this money. Unless there's some sort of caveat in the will about how you have to use the money, it's yours to use however you'd like.

4 *Consider how your future looks before you do anything with an inheritance.*

If it looks like you might be stretched thin for retirement, inheritance is an opportunity to shore up your retirement fund. If your journey to retirement is looking fairly stable, you could consider other investment avenues. Sitting down with a professional to consider your options can be a huge help in this situation.

5 *If you are inheriting a house, determine a plan for what to do with it.*

Inheriting a house can be the trickiest financial aspect of losing your parents, especially if you have siblings. Let's assume you have siblings for this one: Determine with your siblings what you want to do with it.

Perhaps you all agree you would like to sell the house. If that's the case, figure out how to split the money and it's over. That was easy, right?

But maybe you or a sibling don't want to sell the house for sentimental reasons. In that case, you could rent the house as a vacation home and then use it for special occasions: holiday get-togethers, summer family reunions, etc.

If you or a sibling live nearby and are looking for an upgrade, perhaps one of you want to move into the house and pay the others their portion of the house in the form of monthly rent. Keep in mind, if you are going to move into your parents' house you might pay more in property tax than you were before. This can affect your budget dramatically.

6 *Don't lose sight of your family over money.*

Feeling entitled to somebody else's money is dangerous, and nothing risks estranging siblings like an inheritance. It seems like every other week we hear about another celebrity family feuding over an inheritance. While we can all agree that a huge windfall would be nice, if the inheritance ends up being less than you'd hoped, don't let it get in the way of your relationship with your siblings.

Losing a parent is a whirlwind situation: a whirlwind intensified by finances. By following the six steps above, you should have a clearer picture of how to organize your finances.

Conclusion

Caring for aging parents is tough. You're not alone. Stay in contact with your friends and family. Make time to get away every now and then. Sit down with a financial professional to look over your finances and those of your parents.

WHAT'S NEXT?

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ROB CORDEAU, CFP®

As McLean's Director of Financial Planning, Rob's thoughtful and thorough approach provides the guidance that helps individuals and families make prudent financial decisions that result in an exceptional wealth management experience.

In addition to being a member of the Financial Planning Association (FPA), Rob was named to Northern Virginia Magazine's 2015 Top Financial Professionals list.

ABOUT McLEAN

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