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Caretaker Challenges

Clients who care for aging parents need more than financial and tax help from advisors.

By Ben Mattlin

We know Americans are living longer than ever before. That's the good news.

But that good news comes at a cost. With age comes a slew of limitations, ailments and needs. More often than not, aging people turn to their family members for help. It may seem like the easiest solution for the family as a whole, at least until the caretaker realizes he or she will be helping an aging person with an increasing number of infirmities that won't ever be reversed and that the care will go on indefinitely, taking a toll on everybody.

Recent studies indicate this trend is on the rise, especially with the ballooning number of seniors among baby boomers. One found that Americans who take time off work to care for their aging parents are losing some $3 trillion in wages, pensions and Social Security benefits. Between 1994 and 2008, the percentage of women providing custodial care for a loved one tripled to 28%, while for men it quintupled to 17%.

"The situation is getting worse and worse," says Brian Gordon, president of MAGA Ltd., a Riverwoods, Ill.-based firm that advises financial advisors on long-term-care options. "More people need care, and they need it for longer periods of time than in the past."

What can be done to help people cope with such an outcome, or better yet prepare for or even avoid it? And how can those facing this financial and emotional drain get through it without going broke?

"Caring for aging parents is having a definite impact on the younger or 'sandwich' generation — both financially and emotionally," observes Elizabeth Roberts, senior vice president and director of trust administration at Bryn Mawr Trust, a financial services firm headquartered in Bryn Mawr, Pa. "Many are [taking care] of their own children while assuming a parental role with their mothers and fathers. It is not unusual for one spouse to cut back or even leave his or her outside employment position just to supervise a parent's care."

Often, the burden falls on the child who lives closest to the parent and whose own income may be the most fragile, says Roberts. "These caregiver children often spend down their personal resources, leaving them exposed to financial hardship for their own retirement and elder care."

This scenario is so likely, in fact, that many experts recommend it be taken into account with every client's long-range financial plan. Roberts says that a comprehensive financial planning process requires a holistic view that includes such burdens.

That kind of forethought is rare, says Jean Dorrell, a certified elder planner with Senior Financial Security in Ocala, Fla. "Most advisors don't have a clue and play ostrich when it comes to this subject," she says.

Documents In Order

Dorrell herself had to take time off last year to care for her octogenarian parents. Besides needing empathy, she needed to arm herself with useful resources. "I have relationships with attorneys who can draw up the documents you need when caring for a parent, especially if the parent is showing signs of dementia," says Dorrell.

Senior Financial Security, Inc.

"After the parent is diagnosed, it's too late to get these documents."

Those documents include separate powers of attorney for health-care and financial matters, authorization granting access to medical records under the Health Insurance Portability and Accountability Act, a will, a living will and so on. "These documents should be reviewed regularly to assure that they conform to changing administrative and tax laws," says Roberts.

In addition, if a child named to a specific responsibility has moved away, say, or is suddenly facing his or her own financial or health-related setback, it may be necessary to designate a fallback.

"A good option for flexibility in handling the finances of the parent is to couple the financial power of attorney with a revocable trust," Roberts says. "The child could be the named agent under the power of attorney, which includes authority to fund an existing revocable trust for the benefit of the parent. The trustee of the revocable trust could be a corporate fiduciary … which could provide professional asset management and bill-paying services, often much more efficiently than through working solely under the power of attorney document."

Caring For The Caretakers

Aging clients should also organize their personal documents, including account statements and property deeds, so their loved ones can find them easily. They should even designate a preferred home-health agency and nursing home, so that when the time comes the transition can be swift and relatively easy. A geriatric care manager can be a critical component to this sort of elder-care planning.

But for the dutiful child (or spouse) who is suddenly facing these new demands, there are other, hard-to-define issues. "Most advisors focus on tax and financial issues," says Herbert Daroff, an attorney and certified financial planner licensee at Baystate Financial Planning in Boston. "Some will also help address the legal issues. All too few properly address the people issues as well."

Clearly, there is no simple one-size-fits-all solution. "It's always a difficult decision, how to balance taking time off of work and caring for a parent," says Scott Laue, a financial advisor and attorney at Savant Capital Management in Rockford, Ill. "In my opinion, most advisors unfortunately are not well prepared. Most advisors are more concerned with selling a product that generates income."

When working with clients who are also caretakers, it's important to maintain flexibility. "These individuals have a hard time meeting with us and following up on critical items due to time pressures," says David Okrent, an elder-law attorney and CPA in Dix Hills, N.Y. "We try to reduce their time pressures as much as we can, through e-mail, teleconferencing, etc."

Hiring Help

There's little question that being a caretaker can be unbearably stressful. "We advise all our caregiver clients to try and find their limit and back up a few feet, especially when the caregiver is an aged spouse with his or her own issues," says Okrent. "It's usually better to hire outside help sooner rather than later."

But what is the cost of hiring that outside help? Laue notes that it is often difficult to quantify how much one should set aside for assistance. Nevertheless, he says, it's important to get the conversation started.

"While additional expenditures earmarked for a parent from one's accumulated assets can put stress on the overall success of one's financial plan," he says, "realistic scenarios are always the best." That helps clients avoid undesirable surprises or outcomes.

Such "realistic scenarios" can come with a hefty price tag—anywhere from $50,000 to $110,000 or more per year, depending on where the clients live and the degree of expertise they require. That should give pause to clients, even if they have a net worth in the millions.

"Many high-net-worth individuals feel they have enough money to self-insure," says MAGA's Gordon. "But that's taking on a lot of risk. You can deplete your estate, your entire inheritance." Health insurance and government programs such as Medicare and Medicaid won't cover ongoing custodial care, he adds.

LTC Insurance

To hedge the financial risk, many experts recommend long-term-care insurance. Many types of coverage exist, but all will help pay for extended medical or personal-care needs. It's advisable to take out a policy before age 65—in fact, the younger the better, some say—to improve eligibility and possibly lock in low rates.

That said, LTC policies are not right for everyone. "The financial advisor doesn't need to sell it to the client," says Gordon, "but at least recommend looking into it."

A Family Affair

The best plans take into account all parties—and generations. "We start educating our clients as soon as it's evident this scenario is to be a part of their future," says Robert Mollenhauer Jr., a partner at the Metis Group, a financial planning and accounting firm in New York. "The parents are also involved in the education process, to help limit the financial duress that's on the horizon for both caregivers and parents. Family meetings are planned [to discuss trying] to share the responsibilities of caregiving. In families with more than one available caregiver, duties may be shared and plans designed so to avoid burnout."

It often comes down to prioritizing competing needs. "We're frequently asked by young parents, 'Which should we fund first, our retirement or our children's education?'" says Baystate's Daroff. "We explain that their parents' custodial care should also be considered. Financial planning today must cover at least three generations."

Though high-net-worth clients are obviously in better shape than others to bear the economic burdens, some advisors say they are often the least well prepared. "They tend to address these fiscal challenges by changing their own consumption and lifestyle goals—an ad hoc approach," says Stephen Horan, head of private wealth at the Charlottesville, Va.-based CFA Institute. "They do not buy long-term-care insurance and don't specifically build up precautionary savings to address their own long-term-care needs."

What Next?

Given the growing uncertainty over caretaking, a rise in multigenerational households seems likely. "Multigenerational households provide the obvious benefit of expense sharing but also permit a crude form of risk sharing," says Horan, adding, "Different generations may even be able to provide one another non-pecuniary benefits as well."

But moving an aging parent across city or state lines—without carefully considering the potential legal and financial consequences—can be a costly mistake. "Such a move is often made so that parent and child are closer to each other," says Roberts, of Bryn Mawr Trust. "However, laws vary from state to state with respect to powers of attorney, qualification for benefits and other items."

The more light that's shone on these issues, though, the more likely financial advisors will rise to the challenges. "I see this situation leading us to a giant leap forward," says Michael Mullins, a financial advisor at JHS Capital Advisors in Bloomington, Minn. He says advisors may become "truly prepared to give, and be accountable for, [all sorts of] fiduciary advice. Just pushing securities sales to this generation of potential and actual caregivers is actually unethical in some cases. In all cases, it is not good business, and does not demonstrate the caring nature our industry desperately wants to convey."