THE IMPORTANCE OF PLANNING

There's a reason for everyone to spend time thinking about their financial future. Many people assume that "financial planning" applies only during their working years, when they are accumulating assets and preparing for their retirement. They often overlook the importance of continuing the financial planning process after retirement, while the assets are being used.

Post-retirement financial planning includes developing strategies to maintain purchasing power in the face of inflation, preparing for emergencies and major events in the future, determining how to use savings and other assets to supplement income, and – for many people – making major investment decisions, for example, as a result of the sale of a house. Another part of planning for older people, if they have not already done so, is beginning to think about the eventual disposition of their assets.

If your parents haven't taken stock of their financial future, you may be able to make a big contribution to their peace of mind (as well as your own) with some encouragement and coaching.

Ideally, financial planning should be done by your parents in partnership with trusted advisors who fully understand their financial situation and with whom they feel comfortable, for example, their accountant, insurance agent, broker, attorney, banker, or other professionals. Several resources for finding professionals who have expertise in financial and investment issues facing the elderly are listed on pages 57-59 in the Directory of Resources.

GETTING THE MOST FROM INVESTMENTS

Most retired people supplement their pension and Social Security income with some combination of earnings and principal from personal investments and/or employer-sponsored retirement and savings plans. Your parents' financial advisors can help determine in what order various categories of assets should be used, advise on legal and tax issues (for example, there are specific

"WHEN MY PARENTS RETIRED AND MOVED TO A SMALLER TOWN, THE OBJECT WAS TO SIMPLIFY THEIR LIVES A LITTLE. BUT WITH DAD'S PROFIT-SHARING DISTRIBUTION, MOM'S LUMP-SUM PENSION, AND THE PROCEEDS FROM SELLING THE HOUSE, THEY SUDDENLY HAD MORE MONEY TO MANAGE AND MORE FINANCIAL DECISIONS TO MAKE THAN THEY'D EVER HAD IN THEIR LIVES!"

MARTHA, AGE 46
NEW JERSEY

Practical Hint

If you have questions concerning your parents' current Medicare coverage, eligibility, or enrollment requirements, visit the Medicare Web site at www.medicare.gov and the Social Security Web site at www.ssa.gov, or your local office of either of these agencies.

requirements as to when they should begin drawing on any IRA accounts), and recommend financial products and investments to meet their needs.

If your parents are relatively young and in good health at retirement, they need to be aware of the potentially devastating effect on fixed incomes of even a moderate level of inflation over a long period of time. Many parents of today's baby boomers grew up during the Depression and are deeply distrustful of investments they consider "risky." But being overly conservative in their choice of investments may in fact be a high-risk strategy that exposes them to the danger of losing purchasing power. The fear of outliving one's assets during a long retirement can lead older people to deny themselves the enjoyment they could have with a little more to spend, or even to scrimp on the necessities of life. There are creative solutions to convert a portion of their assets into a dependable lifetime income, thus allowing other funds to be used, free of worry. Your parents' financial advisors should be able to describe investment programs and annuity-type products that address this concern.

Managing Their Day-to-day Affairs

What if your parents reach the point where – because of physical impairments or failing memory – they have difficulty keeping track of their financial situation and performing routine tasks like balancing the checkbook and paying bills on time? One solution is for you to take over some or all of these responsibilities. You may wish to check with utility companies, landlord or mortgagee, and others to arrange for bills to come directly to you, or alternatively for you to be notified if bills aren't paid on time. Consider providing your parents with a checkbook with NCR (No Carbon Required) paper, so there is a record of each check exactly as it's written. Other approaches include getting a durable power of attorney (see p. 27) which survives disability or, for smaller amounts of money, you can set up a joint checking account with your parents.

Additionally, entrepreneurial businesses have started up to help elderly people with their routine financial, legal, and medical paperwork. Social workers, geriatric care managers, accountants, or bookkeepers are good sources of references for this type of service. Be sure to interview the service provider, compare prices, and check with other clients before making your decision. "Treating" your parents to this type of service might be a much-appreciated gift.

Planning for Financial Emergencies

The potentially devastating impact of a catastrophic or long-term illness is a great concern for most older people. Medicare, the federal health insurance program for the elderly and disabled, covers many basic medical expenses for people over age 65. Medicare Part A covers hospital costs, and Part B covers doctor bills and other medical costs. In 2000, this included hospital stays of up to 60 days, after a $766 deductible per stay, and 80% of Medicare-approved doctor bills, after an annual $100 deductible. After the first 60 days in a Medicare-certified hospital and continuing through the

90th day of hospitalization, the beneficiary must pay a coinsurance of $194 per day in 2000.

Health insurance from a private company (commonly called “Medigap” or supplemental insurance) can be added to fill in the holes in Medicare coverage. Policies can be purchased that cover your parents’ Medicare deductibles, longer hospital stays, co-payments for doctors’ services, and a portion of their prescription drugs. Medigap coverage is an important way to protect against catastrophic medical expenses should your parents become ill. All Medigap policies issued since 1992 must match one of ten standard benefit plans, regardless of the insurance company (except in Wisconsin, Minnesota, and Massachusetts). Your parents will want to understand their Medicare coverage and the benefits provided by the ten Medigap insurance plans before making a purchase.

Consumer interest in insurance to cover long-term health care has risen in recent years primarily because the rates charged for nursing home care can range from about $150 to over $300 per day. Medicare and Medigap coverage for skilled nursing home care is extremely limited, and Medicaid generally doesn’t cover full-time long-term care until your parents’ net worth dwindles to a few thousand dollars. Long-term care insurance to cover these costs can be expensive, but it can also protect your parents’ assets if they act early. Your parents should be aware that even if they can afford a long-term care policy, they may not qualify if they are already in poor health, and that coverage is more expensive and harder to qualify for as they get older. They should compare several different policies and insurance companies to determine which policy best fits their needs and budget.

Also, some employers offer long-term care insurance that employees can purchase on behalf of their parents, paying the premium for them. This can provide coverage for the older person’s long-term care needs while retaining their assets. Your parents may also have some health care protection available from previous employers. It is important to stay abreast of the available benefits, and to be sure not to duplicate coverage they already have.

As people grow older, their needs for life insurance may change and should be reviewed with a professional, keeping in mind that advancing age and poor health may make it very expensive – or impossible – to buy a new policy. Any decision to exchange a life insurance policy or to allow it to lapse should be made with this in mind.

Some Possible Resources if More Money is Needed

Emergencies or opportunities may arise which will require large amounts of cash. Before considering the liquidation of income-generating assets, the following options may offer a solution:

- Life insurance as a cash resource. If your parents have a whole-, universal-, or variable-life policy, it may be possible to borrow against the cash value. The loan, plus interest, is simply deducted from the death benefit when the insured dies. A “living benefit” enhancement is also available on many life insurance policies. If the insured person is

Practical Hint

For help in understanding the ten standard Medigap insurance plans, contact the United Seniors Health Council, listed on page 59 in the Directory of Resources. Ask for a copy of the annual Special Report Medicare Health Plan Choices: Consumer Update.

Practical Hint

If you are in a position to help your parents financially, there are a variety of ways to do so, for example – taking over some of their ongoing expenses, purchasing a home in which they live rent free, giving them an annuity that will augment their income, buying them a long-term health care policy, or giving a simple cash gift. You and your spouse may each currently give up to $10,000 annually to each parent without creating any tax consequences for them or yourselves. This $10,000 annual gift tax exclusion will be adjusted for future inflation. Check with your tax advisor.

diagnosed with a condition limiting life expectancy to, for example, six months or less, the policyholder may be able to receive, in advance, a substantial portion of the benefit that would ordinarily be payable at death. Your parents should contact their life insurance agent for more information.

- Utilizing home equity. If your parents own their home, there are potential "real estate paybacks" that can convert their home into cash. Some of them are:

  Reverse Annuity Mortgage
  This home equity loan has several different plans whereby a bank creates monthly income by extending a loan based on the existing equity and the owner's life expectancy. Your parents would retain the right to remain in the home until they choose to sell it, or until they die, at which time the loan is paid off to the lender, or the lender receives the home.

  Deferred Payment Loan
  With this type of home equity loan your parents use their home's equity as a line of credit that allows them to draw cash as needed. The interest on a deferred loan accrues and is added to the principal when the loan is repaid. The loan is payable upon the sale of the property or your parents' death.

  Sale Leaseback
  Your parents sell their home to someone who will allow them to live in it at a specified rent for a specified time – usually for as long as they live. This is sometimes called a "life rights" lease.

Financial Assistance Programs

If your parents' resources have become depleted, and family members are unable to provide direct financial support, there are various local, state, and federal programs to help with basic living expenses such as medical care, food, and housing. Older people are frequently reluctant to accept governmental financial aid and social services. Having paid their own way for most of their lives, they may be uncomfortable to admit that they now need financial help. If your parents feel that way, you might remind them that they have worked hard and paid taxes to support these social programs, so they are entitled to use them.

Once you and your parents have determined that they indeed require assistance, contact the Social Security Administration office and the Area Agency on Aging (AAA) in their community. A social worker can tell you which government programs and community services could help your parents, and whether they meet the eligibility requirements, which can include age and state of health, as well as level of income.

Visit the Web sites hosted by Medicare and the Social Security Administration to check out their consumer information. See page 53 and 58, respectively of the Directory of Resources section.

EXAMPLES OF ASSISTANCE AVAILABLE TO ELIGIBLE SENIORS ARE:

- Rent subsidies
- Utility company discounts
- Municipal programs established for low-income elderly
- Health fairs that provide free diagnostic screening
- Physicians who accept Medicare and Medicaid assignments
- Nonprofit and governmental health care providers who offer health services on a sliding-fee basis
- The Veterans' Administration's Non-Service-Connected Pension with Aide and Attendance Program for honorably discharged veterans who meet criteria for disability and financial need
- Supplemental Security Income (SSI) paid by the Social Security Administration to seniors living below the poverty level (SSI provides additional monthly income and Medicaid coverage for many medical expenses not covered by Medicare)
- Supplemental aid programs provided by state agencies in consultation with the Social Security Administration
- Food stamps, housekeeping services, home-delivered meals, home health care, and transportation

ESTATE PLANNING

The section on Your Parents' Legal Affairs on pages 25-28 of this guide discusses the importance of having an up-to-date will and other legal instruments to be sure your parents' wishes are carried out in the event of disability or death. There are many financial issues to be taken into consideration when planning for the ultimate disposition of assets following the death of a parent. Key estate planning issues to consider include:

- Determining the benefits payable from all life insurance and employee benefit plans in the event of death
- Reviewing major financial arrangements that would need to be taken care of (pay off a mortgage, transfer ownership of a business, etc.) and working with your parents' advisors to make sure the structure of the transactions is clear and the funding is in place to accomplish them as desired
- Reviewing the way in which property is owned (joint ownership, tenancy-in-common) in light of laws that would govern disposition of these assets and could supersede the wishes expressed in the will
- Estimating the size of the estate for estate or inheritance tax purposes, and being sure there are adequate provisions for funds to meet any tax requirements
- Reviewing strategies to limit estate tax liability (for example, affluent elders can reduce the size of their estates by giving gifts of cash or other assets to family members rather than waiting to pass along all their assets after death)

These estate planning issues are best addressed with the help of a professional who understands your parents' financial situation and personal philosophy as well as the legal and tax framework that will apply.

PRACTICAL HINT

Current Federal law allows the first $675,000 of an individual's estate to be passed on – free of estate taxes – to any beneficiaries, in 2001. This amount will gradually increase to $1,000,000 per individual in 2006 and thereafter. Many people don't realize that if they own an insurance policy on their own life, the proceeds of this policy will be included in the estate and could well put the total amount over the 2001 $675,000 limit, thereby needlessly incurring estate taxes. This problem can usually be avoided by transferring ownership of the life insurance policy to an irrevocable trust or to another member of the family at least three years prior to death.