

OCTOBER 16, 2006

Strategies for the "Sandwich Generation"

Caught between responsibilities for older parents—and kids? Here are tips from financial pros on how not to get squeezed

Whether you're a baby boomer or a member of Generation X or Y, chances are you'll someday belong to the Sandwich Generation. Spanning in age from the mid-30s to 60s, these people are "sandwiched" between caring for their aging parents and supporting their children at the same time.

There's even a group called "club sandwich" or "triple decker" to describe caregivers of three generations: their parents, kids, and either grandparents or grandchildren. No matter how you slice it, the financial and emotional burdens can be huge. "Day-to-day caring for children and parents is a tremendous strain," says Virginia Morris, author of *How to Care for Aging Parents*.

The costs for the Sandwich Generation can add up, even if your parents have been saving for their own future care. That's because they're living longer, maybe into their 90s, thanks to better medicines and health care, and the cost for that care is rising.

The estimated average cost for a nursing home stay was around \$64,000 a year—or about \$176 per day—for a semi-private room, according to the 2005 MetLife Market Survey of Nursing Home & Home Care Costs. A private room runs just over \$74,000, or \$203 per day.

Assisted living at home can run more than \$38,000 a year, or \$19 per hour for a home health-care aid. The survey found that these costs can be higher in larger metropolitan areas. The average stay in a nursing home is about 2.5 years, but that can vary.

COST OF LOST TIME. Then there are the skyrocketing costs for your children's education. The 2005-06 cost of a four-year private college averaged \$21,235 (up 5.9% from last year), according to the College Board. A four-year public university averages \$5,491 a year (up 7.1% from last year).

On top of those costs, caregivers can lose income because of the time away from work needed for doctor visits, filling prescriptions, cooking meals, and other daily demands. On average, 18 hours a week are devoted to care, says Patti Brennan, president of Key Financial, a financial planning firm in West Chester, Pa.

This means that many caregivers, who tend to be women, must either leave their full-time jobs or work part time and give up important benefits. They might also turn down promotions and the higher salary that comes with them because they can't devote the necessary time for additional work responsibilities.

On average, care costs an estimated \$659,000 during a person's lifetime in reduced salary, lower 401(k) contribution, and lost retirement and health benefits, Brennan says. "It's absolutely huge, and will be a drain on our economy and workers," she says.

SETTING PRIORITIES. What's more, elder care can take a psychological and emotional toll, because not all siblings and family members will agree on how to take care of a parent, who will be the primary caregiver, and who will pay for it. "There is nothing like money to break up a family," says Morris, who has studied elder care for the past 15 years. "And when dealing with parents' demise, families that were relatively close can be ripped apart."

To avoid disaster, caregivers need to get their own finances in order and retirement plan in place. "You'll never get these years back to plan for retirement," says Neil Elmouchi, president of Summit Financial Consultants in Westlake Village, Calif. "You have to do this first."

Especially when children are in the mix, caregivers must set priorities and have open communication with their entire family to figure out ways to share the financial, emotional, and time burdens. "The more you communicate and hear each other, the fewer battles there will be," Morris says.

Here are some tips from financial planners and other experts to cope with being sandwiched:

1. Don't dip into your retirement savings.

"Don't sabotage your own financial future to take care of a parent—you don't want this vicious cycle to affect your children," Brennan says. You should max out your 401(k) account and take advantage of the company's match. If not, you're giving up free money, says Geordie Crossan, certified financial planner and president of NBS Financial Services in Westlake Village, Calif. So if your company offers a match of up to 6%, you should contribute that much of your salary to the 401(k) account.

2. Start a college savings plan for your children.

Your financial responsibilities to your children have to take precedence over those to your parents, because your children don't have anyone else to look to, Crossan says. Set up a 529 plan or other college savings plan, even if it's just \$25 or \$50 a month, Crossan advises (see BusinessWeek.com, 6/7/05, "Multiple Choice in College Savings").

Make sure to sign up for automatic withdrawals, just like your 401(k), because if you have to write a check every month you'll find an excuse not to do it, he says. If you put away \$100 a month earning 8% return, within 10 years you'll have \$18,000 for college, he figures. Other family members can contribute or set up these plans for your kids as well. And when the time comes, your kids can apply for student loans and financial aid to cover college costs.

3. Make sure your parents have long-term care insurance.

When your parents are in their late 50s and early 60s, the topic you should be talking about is long-term care insurance, says Michael Bischoff, planner and chief operating officer of Webb Financial Group in Bloomington, Minn. Policies typically range from \$1,500 a year for stripped-down benefits to \$3,000 a year for all the bells and whistles with lifetime benefits for people age 50 to 65, Brennan says.

The sooner you buy it, the less expensive it should be, so don't wait until your parents are in their 70s and/or get ill. Also, make sure the policy is paid every year and doesn't lapse. "While it's not cheap, the [potential] cost to a family and loss of dignity to the parents makes this insurance worthwhile," Brennan says.

Also, with any insurance policy, read the fine print. "Some policies pay for home care and some don't—you need to understand the policy," warns Frank Corrado, partner at Lighthouse Financial Advisors in Red Bank, N.J., who has one of four children living at home along with his 80-year-old mother, who suffers from Parkinson's disease and respiratory and pulmonary problems.

4. Establish a durable power of attorney, a health-care directive, and update wills.

Urge your parents to name a durable power of attorney, which gives that person the legal authority to handle bills and finances if a parent becomes disabled. It must be signed by your parents before they become disabled. "We should all have one," Morris says. "Make sure your parents have someone they truly trust."

Another form that's easy to fill out (find it at your local government's Web site) is the power of attorney for health care, which gives someone the right to choose treatment if the parent becomes disabled and can't make that choice. In addition, make sure your parents have a living will or will that's been updated in the last few years. Keep these documents in one place that's easy to find.

5. Take inventory of your parents' assets and consolidate accounts.

"Get assets consolidated in one place so they're easy to access," Bischoff says. For example, your parents might have stored stock certificates in a drawer somewhere, or have multiple investment accounts and credit cards or even store cash in a can in the garage. "Make sure one child knows the information about your financial situation, where the documents are, and what your wishes are," Bischoff says.

6. Seek help from social services and elder law attorneys.

A good place to start for information and to find local support services, Brennan says, is the government's National Family Caregiving Support Program. Financial planners also recommend seeking advice from an elder law attorney who keeps track of laws affecting Medicaid and Medicare and the qualifications needed for coverage. "They're becoming more popular and can handle the unique aspects of people living longer," says Elmouchi.

7. Continue saving despite family obligations and control debt.

Although you may feel strapped between your mortgage, raising children, and shouldering some of the cost to care for your parents, try to sock some money away. Stick to your budget and keep your debt under control, Crossan advises. At the same time, teach your kids how to spend and set priorities, such as paying off high-interest credit-card debt before winding down their lower-interest student loans.

"Kids need to understand the threat of debt," says John Diehl, certified financial planner at The Hartford. If you have boomerang kids, ones that return home after graduating from college, ask them to help pay for groceries or other household expenses.

In the end, the right financial planning and communication could help you inherit some of your parents' wealth and eventually allow you to pass your assets left over from retirement to your kids.