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Investment Guide

Save Big, Move Grandma In

Ashlea Ebeling, 05.25.09, 12:00 AM ET

William Gati, a 50-year-old Queens, N.Y. architect, started thinking about living with his 79-year-old mother and younger disabled brother, Paul, after designing two additions to accommodate multiple generations. A middle-age couple with two young boys built a rear addition for the husband's parents. Another couple, nearing their own retirement, added a second story so their divorced son and his kids could move in.

Gati's mom, Edith, is a retired Bergdorf Goodman fitter with $20,000 a year in income, $30,000 in savings and a paid-up home worth $600,000. Gati owns a $700,000 home with a $135,000 mortgage. He figures that if he can sell both houses and buy a two-family home for under $1 million, it will free up a little extra cash for Mom (he's been helping support her) and allow him to enter retirement mortgage-free. "You consolidate all your resources in one house," he reasons.

One of the side effects of the economic contraction is that Americans are about to rediscover the virtues of three-generation households. This is how families used to take care of their oldest members before that newfangled invention, the retirement home, arrived on the scene.

Facing longer life spans and shrunken assets, a growing number of the elderly are living with their children. Bernard Krooks, a New York City elder lawyer, reports that some clients who had planned to move into pricey continuing-care communities--houses and apartments with aides on call and nursing-home beds should you need them--are moving in with their kids instead. "They don't have the five grand a month," he says.

The moving vans are going in the other direction too, as adult children with their own kids get into financial jams--or simply conclude that if the family is going to live together, Mom has the nicer digs.

The number of multigenerational households usually rises in a recession and then declines. But what's going on now is more than a recessionary blip. The fraction of the U.S. population 75 or older has increased from 5.2% in 1990 to 6.4% today. At the same time, the percentage of those 75 and up living in their adult children's homes has been climbing too, from 4.1% in 1990 to 6.5% today, reports Kelly Balistreri, associate director of the National Center for Marriage Research at Bowling Green State University.

No, 75 isn't that old. But 95 is a pretty advanced age to be living alone and, if you need any sort of paid personal assistance, pretty expensive, too. A 65-year-old woman has a 1-in-7 chance of making it to 95. A 65-year-old man has a 1-in-14 chance. Not surprisingly, women are twice as likely as men to live with their children.

Architect Cinda Lester just finished a renovation for a 64-year-old woman who already shared her suburban Chicago home with her aging father. Now her daughter, son-in-law and grandson are moving in, too. The attached garage was turned into a wheelchair-accessible master bedroom suite with a separate entrance for the woman, who expects one day her daughter might need to care for her, the way she cares for her dad. One issue the architect didn't resolve: how Mom's dog and her daughter's will share turf.

When Lester renovated her own splitlevel house recently, she put an accessible bath on the lower level, in case her own 62-year-old mom, who lives happily on her own in Wisconsin, ever needs to move in. "It's just smart to plan," she says.

Even retirement community builders have noted the change. This year, Pulte Homes' Del Webb unit began offering dualmaster-suite house plans and optional guest "casitas" at some developments it markets to seniors. Why? In focus groups potential 55-year-old buyers said they anticipated their parents and/or adult children might move in.

Here's how to make multigenerational living work.

RESEARCH ZONING LAWS

Except in housing developments designed for those 55 and up, which enjoy a special congressional exemption, local laws can't forbid family members of different generations from living together. But zoning rules can forbid a property owner to create a de facto two-family unit (separate entrances and kitchens) in a single-family zone. That's a problem, since in most cases each adult generation wants privacy and independence, says Dwight Merriam, a lawyer in Hartford, Conn. and author of The Complete Guide to Zoning. Arrangements that work well--but might be barred--include a lower level with a walkout patio, an apartment over a garage and a guesthouse.

The AARP, the 40 million member lobby for those 50 and older, has been fighting, with some success, to change the most restrictive zoning rules. Meanwhile, don't be shy about seeking a variance to build an accessory unit. With increasing public attention to the need for affordable senior housing, you have a good shot at getting it approved, so long as your neighbors don't object, says Merriam.

CREATE A QUASI-SEPARATE SPACE

If you can't get a variance, or don't want to do a major renovation, find simpler ways to create a sense of privacy and independence. Say the rules bar a second living area with its own entrance. If your house opens onto a foyer with a staircase going up to a second floor, you may be able to legally add a door off the foyer that gives privacy to a first-floor granny flat--so long as you don't lock the door.

Some laws forbid a second living area with its own kitchen. But in many cases, you can still install a "minikitchen" with a bar sink, a hot plate and a microwave or convection oven instead of a stove. This might suit all the separate cooking an older person wants to do and comes in handy if that granny flat later becomes a rec room.

BE LEERY OF JOINT OWNERSHIP

Say Mom moves in with her daughter's family and will occupy a $100,000 addition that she is paying for. She might want her name on the deed, too, out of fear that if her daughter gets divorced, she'll be out her money and have nowhere to live.

But adding an aging parent to a deed-- as many families do--can backfire if she later needs extended care. Three-fourths of those in a nursing home for more than a year end up having their bills paid by Medicaid, the federal-state program for the poor. After a Medicaid nursing home patient dies, the state can enforce a lien on her home to recoup what it paid for her care. The Medicaid law protects a jointly owned house if a patient's spouse or, in some cases, child or sibling is still living there, but that protection goes only so far. The lien is enforced after the second spouse or other relative moves out or dies.

In one case lawyer Krooks dealt with, a CPA had added Mom as a "joint tenant with right of survivorship" to the deed on her daughter's house. As a result, when the daughter died of breast cancer, her mother, rather than her kids, inherited the house. Later, it had to be sold to pay the mother's nursing home costs. If the daughter and her mother had owned the house as "tenants in common," the daughter's share would likely have passed to her children, putting only Grandma's share at risk for nursing home bills. If the house had been left solely in the daughter's name, Medicaid couldn't have touched it.

PROTECT THE OLDER GENERATION

Just because Mom's name isn't on a deed doesn't mean she can't be protected. One option: She can buy a life estate giving her the right to live in her child's home for the rest of her life. The price is based on Mom's age and the value of the home. One Krooks client paid her daughter $300,000 for a life estate in a $1.2 million house. This isn't an estate-tax ploy--the $300,000 counts against the $1 million you can give away while alive without worrying about gift tax. But it protects Mom from eviction and her family from nursing home bills; once Mom has lived in the house for a year, that $300,000 transfer doesn't affect her eligibility for Medicaid benefits, as other transfers to relatives often do.

Another approach: When Barbara Mattes, 59, and her husband, Reinhold, 71, moved to a Del Webb retirement community last year, they built a $90,000, 500- square-foot casita with money borrowed from Barbara's 92-year-old mom, Ruth Petersen. Petersen stays in the casita from November to April and will move there yearround if keeping up her Nebraska home becomes too difficult.

Meanwhile, the Matteses pay Petersen interest and principal on the loan and deduct the interest on their tax return. Since Petersen doesn't need the income now, she gives her daughter and son-in-law enough cash each year to make those payments, using the $13,000 annual gift tax exclusion (which is over and above the lifetime $1 million exclusion).

REVIEW ESTATE PLANS

Another reason not to put Mom's name on the deed is that it could make the whole house, or a share of it, part of her estate. The federal estate tax doesn't usually apply to estates of less than $3.5 million, but some states tax far smaller estates--New Jersey, for example, exempts just $675,00 left to a non-spouse.

What if the move goes the other way? If one son and his family moves in with Mom and another doesn't, that too could require rewriting a will. If the son living with Mom has his name added to the deed, he could inherit part or all of the house outside of Mom's estate, wrecking her plans to divide her estate evenly among her kids. Conversely, if the son living with Mom has no ownership interest, what protection does his family have when Mom dies? Resolve these issues before Mom moves in.

ALLOCATE TAX BREAKS

Decide in advance who will pay for what, keeping in mind the tax consequences. In order to deduct mortgage interest or real estate taxes, you must be legally obligated to pay these bills and actually do so. If Mom's name isn't on the mortgage and she pays it, no one gets to claim the mortgage interest deduction. If Mom's name is on the deed and she writes the check for the real estate taxes, she can deduct those taxes, but the kids can't--unless she paid from a joint account.

It often makes more sense for the younger generation to pay and deduct all mortgage interest and taxes, since they're likely in a higher tax bracket. Mom can then reimburse them for her agreed share of household expenses.

DISCUSS EXPECTATIONS

"You might think Mom is coming to help you with day care, but she might have a whole lot of other ideas of what she wants to do," says Elinor Ginzler, a senior vice president at AARP.

How often do you plan to eat dinner together? Who will cook and shop? Reinhold Mattes likes the arrangement he and his wife have with his mother-in-law. "She has supper with us six nights a week, and she takes us out one night a week," he says.

Three years ago Flora Gentry, 87, and her husband, Arva E. Gentry, 89, moved into a 1,450-square-foot garage apartment, complete with elevator, on her daughter Carole Davidson's Chesapeake Bay property. Before making the move A.E., a retired bank marketing officer, insisted on drawing up an agreement. "It set the parameters of how we're going to do this," he says, down to requiring that the Gentrys provide personal property insurance for their own belongings and pay a prorated share of the fees for an access road to the property.

"If they need us, we're here, and if we need them, they're here," says daughter Carole. "We're all together as such but still separate and independent. It's been a gift."