

Analysis: Best ways to financially support aging parents

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By Lynn Brenner

NEW YORK (Reuters) - Millions of Americans have assumed a new role: They've become the Bank of Sons and Daughters, providing financial assistance to their aging parents even while they struggle to save for their own retirement.

But they often have no choice. Many older Americans were outliving their savings even before the financial crisis hammered their investments and the value of their houses. "It's a gut-wrenching situation," says Don Froude, president of the personal adviser group at Ameriprise Financial. At 55, Freud supports his 79 year-old mother, still living independently in a house he bought for her.

Froude is far from alone. The proportion of adult children spending money -- as well as time -- on their parents' care has more than tripled in the last 15 years. It now represents 25 percent of adult children nationwide, according to a MetLife analysis of National Health and Retirement Study data (see link.reuters.com/nev64s). A new Caring.com survey of family caregivers finds 32 percent of adult children spent more than \$5,000 on their parents' expenses in the last 12 months -- and more than 76 percent of them worry about the impact on their own finances.

That anxiety reverberates across the income spectrum: More than one-third of affluent Americans surveyed by Bank of America Merrill Lynch say intra-family financial responsibilities keep them up at night; and 45 percent of that sleep-deprived group supports a parent or elderly relative.

"There are just a ton of families where the second or third generation needs to help the first generation," says Mark Nash, a partner at PriceWaterhouseCoopers in Dallas. "People are asking, a lot, about how to do it."

The answer depends on your parents' situation as well as on your resources. It's often prudent to consult an elder law attorney to make sure your help won't inadvertently disqualify them any government benefits, says Larry Elkin, president of Palisades Hudson, a New York-based financial planning firm.

One option is annual gifts. The law lets you give up to \$13,000 a year per recipient to an unlimited number of people with no gift tax consequences. If you give more, you must file a gift tax return even if no tax is due. (If you exceed the \$13,000 annual per person limit by more than \$5 million during your lifetime, your estate is taxable when you die.)

If you're married, together you and your spouse could give your Mom and Dad \$52,000 a year without overstepping the limit. You could pay their medical bills directly to the providers without eating into the \$13,000 tax exclusion. In the saddest scenario, adult children must become their parents' legal guardians, says Nash. In that case, supporting their parents is their legal obligation; there are no gift tax issues.

Sometimes, it makes more sense to give your parents a loan rather than a gift. Paul Jacobs, manager of Palisades Hudson in Atlanta, has worked with clients whose parents had accumulated significant credit card debt, for example. In that situation, he says, "a direct gift can be a slippery slope, and lead to dependency issues no one truly wants." Giving your parents a loan helps them avoid exorbitant interest rates, but they're still responsible for their own debts.

The least you can charge is an IRS-approved interest rate that changes monthly; it's currently 1.19 percent for loans that mature within three to nine years. It's wise to document any loan as meticulously as if you were lending money to a stranger and report any interest on your tax return. This satisfies the IRS, and can also forestall a family fight after your parents' death.

Real estate transactions are another possibility. Often, Mom's only asset is her house. But buying it from her takes a bigger lump sum than most people can afford without bank financing, says Robert Siefert, a Boston financial planner. Instead, he recommends creating a reverse mortgage - a loan in which the lender pays the borrower. No repayment is due until the borrower dies, moves, or sells the house. Then the loan is repaid, with interest. "This doesn't have to be a lump sum transaction," says Siefert. "The kids can write a check every month to Mom and Dad." The siblings hire an attorney to draw up the mortgage document. Since siblings participate according to their abilities, Siefert recommends having the same attorney create a limited partnership as the entity that makes the loan; it simplifies the bookkeeping. A tax accountant can create a year-end snapshot of the mortgage and tell each sibling how much interest he or she has earned.

Loan and interest are repaid when you inherit the house. During the life of the loan, you'll owe taxes on the phantom interest you earn. But you inherit the house at a "stepped-up basis", which means you won't owe capital gains taxes when you sell it.

Siefert adds that if your parents need Medicaid assistance for nursing home care, this mortgage can shelter the house from its claims



after their deaths. In some states, Medicaid is entitled to recover its payments from the sale of a primary residence after the owners' deaths. But when a house is sold, the mortgage holder is the first creditor to be repaid, says Bernard A. Krooks, a New York City elder law attorney and former president of the National Academy of Elder Law Attorneys. In this case, that would be the kids.

(Editing by [Lauren Young](#) and Beth Gladstone)

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