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A HITCHHIKER'S GUIDE TO PLANNING YOUR PARENTS RETIREMENT

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Douglas Adams' classic *The Hitchhiker's Guide to the Galaxy* is remarkable for its wisdom as well as its idiosyncratic humor. The work's tag line, "DON'T PANIC," is a suggestion that makes sense broadly. Although you are not dodging extraterrestrial monsters while careening through space, you may be navigating a similarly stressful process: looking after your parents during their retirement.

In addition to funding our children's educations and planning our own retirements, some of us in the so-called sandwich generation now have to contemplate helping with our parents' living expenses and health care costs. Here are some tips.

REMEMBER: DON'T PANIC.

Begin by gathering and organizing all of your parents' financial information and critical documents. Important things to keep track of include:

- Bank and investment statements
- Birth certificates
- Checkbooks
- Insurance policies
- Investment policy statements
- Unpaid bills
- Wills

You and your parents should evaluate their financial goals for both appropriateness and feasibility. You may want to consider drafting an investment policy statement with your parents to spell out portfolio objectives and set out who is responsible for ongoing portfolio management. This will create clarity, give you peace of mind, and allow your parents to have some control over decisions about their money.

CLARIFY EVERYONE'S ROLE

You should consider appointing individuals—whether relatives or advisers—to act on your parents' behalf should they become incapacitated. Powers of attorney can be useful for ensuring that their wishes are carried out, irrespective of their mental and physical competency. A general power of attorney can be used to provide broad power for an appointed individual to act on your parents' behalf. Such powers can be made contingent on a doctor deeming your parents incapacitated. Such contracts enable the appointee to:

- Access safe-deposit boxes
- Buy, manage, or sell real estate and other property
- Exercise stock rights
- Handle banking transactions
- Manage tax returns and filing for government benefits
- Transact in security markets

In the event that a parent becomes ill, it is helpful to have a document that allows his or her financial wishes to be carried out. But what about a document that allows for similar oversight of their medical wishes? Health care powers of attorney exist for this purpose. They allow a trusted appointee to make decisions in case your parents are unable to.

Health care powers of attorney are sometimes mentioned at the same time as living wills. Health care powers of attorney differ in that they appoint a decision maker rather than lay out preferences. It is probably a good idea to designate a decision maker in case a decision must be made that was not anticipated in the living will. Consult your lawyer to ensure that an enforceable and robust set of powers of attorney exists for your parents.

BUDGETING FOR FUTURE MEDICAL EXPENSES

When you're budgeting, remember to keep in mind your parents' original plans, but don't create a plan that ignores financial reality. Aging individuals are likely to have rising medical expenses and may eventually require dedicated care specialists. These costs can be substantial, so it's important to consider how they will be met in the future.

Americans aged 65 and older are eligible for Medicare (at the time of writing, August 2010), but the program has notable exclusions.

Seniors relying on basic Medicare (Parts A and B) to pay health expenses should be aware that they will be responsible for the costs of:

- Routine dental services
- Most foot care, including orthopedic shoes
- Eye exams and eyeglasses
- Routine physicals
- Hearing exams and hearing aids
- Many immunizations
- Unskilled (custodial) nursing home care

Private companies provide Medicare Part C (Medicare Advantage) plans, which go beyond basic government coverage and provide programs for vision, hearing, dental care, and wellness. Part D provides prescription drug coverage. To compare plans in your area, consult the Medicare Plan Finder, which can be found at www.medicare.gov.

In contrast to the broadly offered Medicare program, the Medicaid program targets lower-income individuals. For a list of eligibility requirements and for contacts by state, consult the website of the Centers for Medicare and Medicaid Services: www.cms.gov.

In certain states, the Program of All-Inclusive Care for the Elderly (PACE), an optional benefit under Medicare and Medicaid, allows some people to receive care at home that approximates nursing facility services. For a list of provider organizations, consult www.cms.gov.

It's important to remember that government programs usually require beneficiaries to deplete their own assets—spend what money they have—before they can receive any benefits. Expert estate planners can help in setting up trusts and "gifting" plans to help manage that risk, but these methods often require years of advance planning.

COVER SOME OF YOUR COSTS WITH LONG-TERM CARE INSURANCE

Depending on where you live, the average cost of a nursing home stay can be almost $80,000 a year. There isn't currently a program similar to PACE that provides long-term care in a nursing home. Long-term care insurance generally provides a specific dollar amount of care for a prescribed time once an individual is unable to perform two or more activities of daily living (ADLs). ADLs include using the bathroom, dressing, eating, and performing similar activities. Once a claim is approved, the insurer begins making payments after the number of days agreed upon in the insurance policy for the duration of the benefit period.

Although the policy can be expensive, the premiums may be tax deductible, and saving for the expected cost of long-term care can be daunting. Be aware, however, that government programs do exist and that owning private long-term care insurance may affect your eligibility for them. For more information, consult "A Hitchhiker's Guide to Long-Term Care Insurance," a CFA Institute publication.

OTHER WAYS TO FUND LONG-TERM CARE EXPENSES

Be sure to address basic retirement needs before locking up funds for future services that your family member may or may not need.

- Some wealthier individuals might choose to pay the costs of long-term care on their own rather than buy insurance they don't need or care to purchase.

- Individuals in the United States without substantial assets may prefer to focus on other, more immediate concerns and deal with the issues of long-term care when and if they need to.

Here are two tools you might consider if you elect to save on your own.

- **Fixed annuities** come either as deferred or immediate investment vehicles. An immediate vehicle will translate a "lump" premium payment into a series of periodic payments, often until the death of the client ("annuitant"). A deferred annuity provides for an accumulation phase and a payout phase, with a potential inheritance left for heirs.

- **Trusts** are a flexible estate planning tool. Speak with a professional about how to establish a trust to pay current income to health care providers while leaving an inheritance for heirs.

Frances Melville and William Ortel contributed to this article.

For more information, please consult http://www.cfainstitute.org/about/investor/