THE WALL STREET JOURNAL.

TUESDAY, JANUARY 22, 2008

When Inheritance Is Negative

Caring for Parents Can Cost Children; Planning Ahead

By Marshall Eckblad

People who don't prepare to care for their sick and aging parents could fall victim to what economists call "negative inheritance."

If the term seems foreign, the scenario it describes won't: It is when costs to children caring for their relatives outstrip any gifts or bequests they might receive in return.

To protect against the havoc a negative inheritance can wreak on a financial plan, financial advisers have developed detailed strategies, typically including a combination of family dialogue, long-term-care insurance and proactive management of the parents' remaining assets.

"We kind of plan for inheritance as if it were an asset class," says Bryan Wisda, a senior financial planner at Summit Wealth Management Inc. in Scottsdale, Ariz.

Researchers long ago projected a large portion of baby boomers would one day find themselves in what Barry Kohler, an adviser at BDMP Wealth Management in Portland, Maine, calls "the uncomfortable position . . . of becoming parents to our parents." They become the primary caregiver who ushers parents through old age and, very often, through chronic and debilitating diseases like Alzheimer's, diabetes or cancer.

Yet as taxing as caring for declining parents can be—both to the pocketbook and to the caregiver's emotional health—most baby boomers report being "generally pleased to be helping their parents," according to a survey by Putnam Investments, a unit of Power Corp. of Canada.

But where most Americans see a family obligation, a growing number of financial advisers see lurking risks, analogous to those carried by an asset class like commodities futures, that can destroy their clients' financial plans.

"If you planned to withdraw 5% from your portfolio every year to support your lifestyle," says Joe Birkofer, a principal at Legacy Asset Management Inc. in Houston, "and then you increase that by 50%" to care for ailing parents, "your financial plan's a mess."

While advisers say planning far ahead can pre-empt much of the emotional and financial duress that caring for a sick and aging parent entails, the most-crucial—and also most-elusive—ingredient is proactive family discussion.

Family dynamics surrounding money are famously tricky, and also entrenched, says Mr. Birkofer, since "all this behavior was established at the kitchen table" when the children were young.

To motivate clients who are otherwise reluctant to broach the subject with siblings, let alone mom and dad, advisers say it's most effective to target specific scenarios.

For example, "What happens when mom can't drive?" is a question Mr. Kohler will pose to his clients, and he says it's one of many that can get them talking.

In families that don't address these scenarios before they arise, a robust body of work by researchers suggests the bulk of caregiving responsibilities almost invariably falls to one child; according to the Putnam survey, the buck will typically stop at the desk of an "alpha child, most often daughter." And when the job of caring for mom and dad does fall on certain siblings, the ensuing tension and resentment "can tear families apart," says John D. Smith, a wealth manager at Balasa Dinverno & Foltz LLC in Itasca, Ill.

To help clients who are at higher risk of supporting and carrying their aging parents alone, advisers like Mr. Wisda say they request permission to speak with the parents to uncover their financial health and what plans, if any, they might have for their late-in-life care. Once Mr. Wisda has the parents' information in hand, he runs a series of projections "to see if there's any chance they will run out of money."

If that likelihood is high, the simplest first step is to buy long- term-care insurance, even if the children end up writing the check for the premiums. If premiums for robust coverage are too expensive, Mr. Smith advises clients to "hedge away some of the risk" by purchasing a policy that would cover half of the cost of in-home or nursing-home care.

When clients can't qualify their parents for long-term-care insurance, due either to age or pre-existing medical conditions, advisers say it can be even more important to proactively manage a parent's remaining assets, even up to and including what Mr. Birkofer calls "unwinding the family home." "Parents are very often house-rich and cash-poor," he says.

Apart from the financial strains of caring for aging family members, recent research suggests that middle-aged caregivers who are caught off guard by an ailing parent may suffer almost as much vocationally and emotionally as they do financially.

According to Ken Langa, a physician and associate professor at the University of Michigan's Institute for Social Research, caring for an elderly relative can itself require as much time as a part- or even full-time job. "The average older person requires about five hours of help per week," he says, adding that the caregiving workload can balloon to an average of 40 hours when the patient suffers from severe dementia, and especially Alzheimer's disease.

The result, says Beth Segers, Putnam's director of market planning and development, is a middle-aged child who probably gets "a lot less sleep, and has a lot less time to spend with peers." It's that mounting emotional toll that advisers say many clients underestimate, especially since it doesn't show up "on a balance sheet," Dr. Langa says.

Once every semester, Mr. Birkofer tackles the issue of negative inheritance in the Rice University financial-planning class that he teaches. He starts the conversation by showing his students an image from a Medieval wood carving that depicts a grisly scene of moaning, anguished skeletons.

He then asks a simple question: What's the Black Death for a financial plan? "More and more, I hear people get it right the first time," he says. "It's your parents."