The "Daily Plan-It™"

HOOPES & ADAMS, PLC

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The Negative Inheritance

The Negative Inheritance is a growing financial blind spot for many families. As advisers, you can help people identify whether this will potentially affect them, and initiate a dialogue about it. This will enable the family to develop a strategy on how to reduce its financial impact.

Let the kids pay for it

Negative Inheritance is when the potential financial cost of care for a parent is larger than the potential gifts or inheritance that the parent may leave to the caregiving child. Chronic disease, Alzheimer's, and just plain running out of money have created burdens for the children of financially strapped parents. In most cases, providing for a parent is an obligation that many children are proud to take on, but some have never adequately prepared for it in their financial planning.

In our previous articles, we've encouraged advisors to talk to their clients about the need for long-term care insurance, self-funding for nursing home cost, and qualifying for Medicaid. These are all ways for a parent to provide for his own care. Rarely do parents say, "My kids will pick up the tab." Unfortunately, there's a chance that such a scenario may transpire as baby boomers age, and the cost of care outstrips a parent's ability to pay.

Planning on paying for it

The one issue not addressed in many financial plans is—"Where does the money come from to pay for a parent's care?" Naturally, most children are willing to pay for it themselves; however, they may not have budgeted for such a commitment. If you think about it, you can see how Negative Inheritance can immediately eat into current cash flow, savings, and ultimately, investments for the child's own retirement. How do you, as an advisor, open up this conversation and help a client think through this emotionally charged issue?

The first step is to identify the potential problem so that your client understands it, and determine whether it's relevant or not to his situation. In some families, it's not an issue. In others, they know it's coming, but haven't thought through the details of paying for it.

What if mom can't drive?

Opening up this conversation is a challenging task. The questions we suggested in the previous section—"Where will the money come from to pay for your parent's care?" or "How have you planned to step in and pay for your parent's financial obligations?" may be too confrontational. In a *Wall Street Journal* article dated January 22, 2008, it was suggested that an advisor could begin the dialogue with one simple question—"What if mom can't drive?" This naturally leads to other questions that may be involved with a parent's care.

There are multiple strategies to plan for this issue. The child could fund a life insurance policy for the parent that could be used as reimbursement upon the parent's death. The child could also put aside funds in an investment account, in case they're needed in the future. The key is to raise this critical issue before it becomes a blind spot and a financial black hole, as well as an emotional crisis.

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