Warning: Be careful when clients hire family caregivers

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Financial planning

Marguerita Cheng wishes more people would think like her late client. At 78, while still traveling to Europe and doing consulting projects, the client huddled with her daughters to plan for when she would get older and need care.

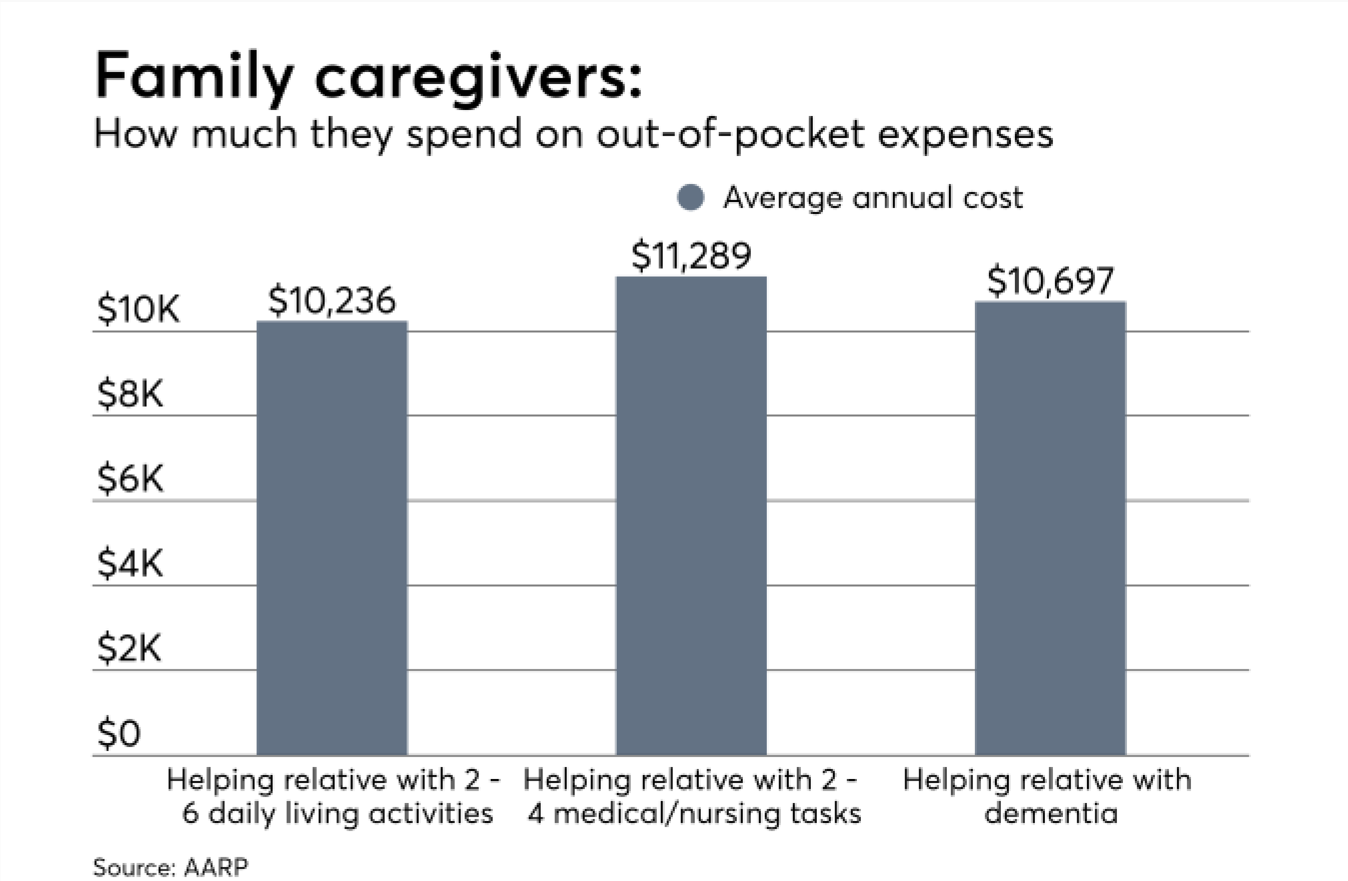
She and her “two girls” — a social worker and a nurse — decided to sell her condo so she could move into an assisted living facility where she would enjoy a high level of autonomy. They also decided to sell her vacation home and put the funds into an account that the daughters could access to pay for her out-of-pocket medical expenses.

“She was a very forward-thinking woman,” Cheng says of the client who passed away 14 years later at 92. “She wanted to make provisions to ensure that her girls weren’t stuck.”

Not many clients are willing to face their own mortality or the prospect of one day relying on family members or professional caregivers for help with grooming, hygiene and other basic everyday activities. Most, in fact, avoid the subject altogether or delay making decisions until it’s too late, according to many advisors.

“It’s not talked about as much as we’d like,” says Cheng, who runs Blue Ocean Global Wealth in Gaithersburg, Maryland.

However difficult, conversations around caregiving in later life are critical, particularly if clients such as Cheng’s don’t want to have their children liquidate assets to pay for their care. Family caregivers spend an average of $7,000 annually on out-of-pocket expenses, according to a report from AARP. For caregivers assisting relatives with dementia or those needing help with bathing or other activities of daily living, the costs are even higher, averaging more than $10,000 a year.



Some people tackle the issue by making informal arrangements with family caregivers, often at the last minute and without informing other relatives. They might, on occasion, earmark money for caregiving or hire a family member to do chores like housecleaning or cooking. They may also have family caregivers move in with them, but these arrangements are rarely communicated or documented — a situation that often leads to family conflicts down the road.

“I don’t see people doing as much as you think they should,” says Marcia Urban, an advisor with Wells Fargo’s Abbott Downing ultrahigh-net-worth business in Minneapolis.

In recent years, Urban has seen some of her clients quit their jobs or work part time to care for loved ones, particularly if they’re already close to retirement. One woman, 55, moved into her parent’s home after her 89-year-old widowed father became sick. She and her three siblings agreed that she would live with him until they either found a suitable care facility or hired in-home care. During the three months that she lived with her father, the client cleaned the home, prepared meals, took him to the doctor and helped him with dressing and other daily activities. She was not — nor did she want to be — paid for her services as she was retired and well-off financially, unlike her siblings.

Urban knows of many other instances when family caregivers moved into a parent’s or relative’s home on a temporary basis either to provide or oversee care. “One third of family caregivers provide care of some sort,” Urban says, explaining that care is often provided on a rotational basis, with a child or grandchild taking turns providing help.

Often times, caregivers will move in on a permanent basis, according to Alex Chalekian, founder and CEO of investment advisory firm Lake Avenue Financial in Pasadena, California. He has seen many family caregivers move into their parents’ old home and live there rent-free with the understanding that they’re going to take care of a frail parent. Two of his clients, a husband and wife in their 60s and recently retired, for example, moved in with the wife’s mother who did not have enough assets to afford a professional caregiver.

“The retired couple looked at this as an opportunity to save on retirement because they didn’t have a big nest egg,” Chalekian says.

Moving in with frail relatives may seem like a big disruption, but for many caregivers it’s a way to save money while providing vital care to a loved one. Some caregivers may carry a lot of debt or live in an area where rent prices are so high they’re unable to save to buy a home.

“In a situation where the kids are struggling financially, this is a way for them to get out of the financial mess that they’re in,” says Chalekian.

In some cases, caregivers move in knowing that they will inherit the property once their parents pass away. “The parent might say, ‘take care of me until I die and once I die you can have the house,’” Chalekian says.

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If this is the arrangement that clients make with their caregivers, they should let other family members know to avoid surprises and resentment when their wills are read. Often when family members are unaware that a childhood home is going to a family caregiver, they’ll accuse the caregiver of being manipulative or taking advantage of the elder, advisors say.

“The family is ripped apart at the end because there wasn’t transparency and openness,” says Nancy Anderson, a senior financial planner at Key Private Bank in Salt Lake City. “I’ve seen it time and time again.”

To avoid family rifts, parents need to explain their decision for leaving their home to a child who is caring for them. They should remind the other children of all the caregiver has given up so that the ailing parent can stay at home and be taken care of in the way they wish to, Urban says.

In addition to letting them know why the caregiver is getting the house, they need to communicate and document all the caregiving arrangements they’ve made, including whether or not the caregiver is living in the house rent- and utility-free, and whether the car is at their disposal.

They should also inform family members of the types of services the caregiver will provide and the rate at which they’ll get paid. This is especially important if the client qualifies for Medicaid, according to Urban.

“It’s important to show that the caregiver earned that money,” Urban says, explaining that Medicaid could argue that the money was given away.

Clients might pay their family caregivers an hourly or daily rate or flat rate for the year. Whatever they agree on, it should be documented in writing, Urban says.

Some clients earmark assets to pay their caregivers and other long-term care costs. Others, like Cheng's client, open accounts with proceeds from a real estate sale. Some open lines of credit on their homes or offer to pay for their grandchildren's college education. Still others repurpose old life insurance policies by adding long-term care riders.

If they repurpose an insurance policy for long-term care and name a family member as a caregiver, they should make sure that the caregiver can get paid under the policy even if he or she is not a professional, Anderson says.

"Some long-term care policies require that paid caregivers are certified," she says.

However they fund the caregiving, they should keep it simple, and keep everyone in the family informed.

"They should be open with their family members so that everybody knows what their plan is," Anderson says.