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How to Avoid Being a Financial Burden on Your Children

Planning, delaying retirement, and using your home as an asset are some possible solutions

By Rachel Koning Beals
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It ranks right up there with sex, religion, and politics. Money can be a tough conversation across generations. That talk can be even more delicate as longer lifespans and market volatility strain retirement and extended-care planning.

Senior citizens and the baby boomers who need more money to fund retirement than past generations are worried about being financial burdens on their families. A 2010 survey of 2,151 adults conducted by consultant Age Wave and Genworth Financial found that, on average, respondents would ideally like to live to age 92, believe maintaining good health is twice as important as any other factor that comes with a long life, and are more than five times more worried about being a burden on their family than dying.

Crucial family money talks don't have to be an agitated debate, just a fact-finding discovery between adult kids and their parents. Ideally, the discussion takes place as both parties are fully engaged in their respective savings and investing pursuits—and long before any financial or medical crisis pushes everyone into emergency action. Revealing expectations about which generation will cover the other and in what circumstance (if at all) is the primary goal. Clearly, no one expects either generation to leave the other out on the street.

"Baby boomers are getting better about it, but for the World War II and Korean Conflict generation, they were almost pathological with regard to avoiding talking about money. Families have had to change that," says Linda Leitz, certified financial planner and co-principal of Pinnacle Financial Concepts in Colorado Springs, Colo.

"We all have great pride when it comes to independent living," adds Leitz. "But the reality is that most of today's seniors will live long enough to reach a point where they can't live independently, and thus there is planning involved."

According to U.S. Department of Health and Human Services data, roughly 70 percent of adults aged 65 and older will need some type of long-term care during their lifetime. The average 65-year-old couple may spend $200,000 on healthcare in retirement. If one of them heads to a nursing home, that bill could top $500,000.

Costs are currently greatly outstripping incomes, putting added pressure on savings and investing. Genworth's 2011 Cost of Care Survey reveals that the median cost of care in a private nursing home room rose 3.4 percent over the past year to $77,745 nationally, well above the

$49,777 in real median annual household income for Americans. The comparable annual cost for an assisted living facility is $39,135, up 2.4 percent.

Are there steps you can take now to ensure you'll remain financially (if not physically) independent well into your golden years?

Hard-working portfolio. One of the first myths financial planners like to debunk is the notion that you have to go super-conservative with your portfolio nearing and in retirement. More conservative than earlier? Yes. Ultra conservative? No. These days, most planners advise clients to remain in diverse assets that offer a fighting chance against inflation.

To better take on a lengthy retirement funding challenge, separate your portfolio into the "lifestyle" category (the necessities) and invest this portion in tax-advantaged and lower-risk options, such as 401(k)s, bonds, annuities, and non-traded real estate investments, says Erin Botsford, CEO of financial planning firm Botsford Group, and author of *The Big Retirement Risk: Running Out of Money Before You Run Out of Time.*

Then dedicate a portion of your portfolio to "hybrid" investing—budgeting for what you plan to spend each year on leisure, perhaps travel. This is the money you can afford to keep in slightly riskier and potentially better-performing assets, which might include master limited partnerships (MLPs), dividend-paying stocks, bonds, and a variety of alternative investments. Consider keeping a sliver of your holdings in daring growth assets, such as commodity ETFs, and keep emergency funds in cash (such as checking or savings accounts), Botsford writes.

Consider other resources first. If you need to borrow money, consider all available resources (your own bank account or your own portfolio) before turning to family members in order to avoid the emotional cost of a loan or gift.

Pinnacle's Leitz says retirees and advanced seniors often don't keep their assets liquid enough for easy access. They're not empowered then to deal with their own financial road bumps, raising the odds that they will need a quick or short-term loan from family members. Leitz advises clients to have enough liquid holdings (in cash or investments readily converted to cash) to cover three to five years' worth of expenses.

Some retirees have too many assets tied up in a home that they've paid off, she says. In this case, the homeowner might consider a modest mortgage. This is not a reverse mortgage or a second mortgage; it's borrowing anew on the equity of the home. For instance, a retiree might draw out $50,000 to $100,000 on a home worth $750,000 and invest that loan in a higher-performing but liquid portfolio. They make the loan payments, which are steady and easy to budget for, deduct the interest on their income taxes, and collect the interest on their investment. It then serves as an income generator and a cash stash to access in case of emergency. Again, this does pull out equity, and should be considered carefully.

If pulling value out of your home isn't an option, under dire circumstances, retirement funds can be tapped for what's considered a hardship withdrawal. Rules apply and all plans may not qualify. A hardship withdrawal isn't a loan. You can't repay it, and you lose the tax and retirement-income advantages of the money. You'll have to pay income taxes on the withdrawal. In most circumstances, if you're under 59 1/2, you'll also pay a 10 percent early withdrawal penalty.

Know that you'll be making a potentially big sacrifice. Someone over the age of 59 1/2 who's in the 25 percent federal income tax bracket would have to withdraw more than $13,000 to have $10,000 left over after taxes have been paid. Someone under 59 1/2 would have to withdraw more than $15,000 to net $10,000 after taxes and penalties.

Many plans do allow loans, which is different than a hardship withdrawal and can be repaid over time. If you have a Roth IRA, you can withdraw your contributions (but not earnings on your contributions) without having to pay taxes or penalties. You may have other options. Whole life insurance policies typically have a cash value pool that you can borrow. Selling other stocks or assets, without the penalty of early withdrawal, can be considered as well.

Retirement-light. Advisors at T. Rowe Price are working to change not just how people save for retirement, but how they view retirement overall.

Treat yourself to a mini retirement or "practice" retirement while still working. This involves keeping your job but starting to splurge a little, say, in your late 50s and 60s. Take big trips, start new hobbies. Your physical condition is likely to be better than deep into your retirement anyway, and you're drawing income and delaying having to collect Social Security benefits and crack your nest egg.

According to T. Rowe Price, a person who saves 15 percent annually and retires at age 62 with a nest egg worth $584,000 would have an annual retirement income of $52,000, including Social Security, and would be withdrawing about $20,000 from the portfolio each year.

The same person who continues working until age 70, but stops saving in their 60s, would retire with $1 million in assets with an annual retirement income of $88,000, including Social Security. That person withdraws $35,000 annually from their portfolio.

Consider the positive message this sends the next generation, too: independence and enjoying life. It's this kind of progressive thinking, along with communication, planning, and sound portfolio positioning that can hopefully keep the family focus on Little League games and birthday parties.

This article can be found at http://money.usnews.com/money/personal-finance/articles/2012/03/14/how-to-avoid-being-a-financial-burden-on-your-children.