Your Family's Money

How can you ensure that your family's wealth lasts through the generations? Smart planning? Sure. Savvy investing? Absolutely. But first you've all got to talk.

Walter Updegrave
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(MONEY Magazine) -- See the Family Money special

EVEN THE CLOSEST FAMILIES CAN FEEL UNCOMFORTABLE talking about money. It's just so, well, uncomfortable. You know you should find out whether your parents have enough money to support themselves as they get older and whether they've made arrangements to pass on any assets that are left over, but you don't want to come across as nosy or, worse yet, as if you're just itching to get your hands on your inheritance. And if you're the parent of adult children, perhaps you've held off broaching the topic with your kids because you know they have their hands full with their own finances. Or maybe, to be frank, you just figure it's none of their business.

Not Carrie Thomsen. The 64-year-old retiree from Hot Springs Village, Ark. doesn't believe in pussyfooting around the topic of money with her family. She has already talked with her father Dan Mabee, 89, about his will. Now she and her husband Marshall, 63, want to be sure there's no confusion among their eight children and 12 grandkids about what the couple own or who gets what after they're gone.

So she has jotted down contact information and account numbers for every asset she owns in a book titled Making Things Easy for My Family. She's also listed all her jewelry, clothing and antiques, indicating who she wants to inherit what. She has even noted the music that she wants at her funeral ("Sweet, Sweet Spirit" and "Amazing Grace"). "Previous generations were reluctant to share this kind of information, but why keep it all secret?" says Thomsen. "Our kids will inherit whatever we have left anyway, so why not make it easy for them?"

In fact, if you can just bring yourself to raise the subject, discussing these issues could be a lot easier than you think. In a survey last year by The Hartford, about three-quarters of parents in their seventies said they would feel very comfortable talking with their kids about the financial issues they'll face later in life, from how they want their assets divided to their funeral plans. The adult kids were up for talking too (although they weren't quite as comfortable, especially about their parents' estate). What was worrisome: The parents thought their kids knew a lot more about their financial resources and plans than the adult children actually did.

That kind of miscommunication doesn't surprise Vic Preisser of the Williams Group, which counsels families about how to pass along their wealth. In a study of 3,250 affluent families, the firm found that only a third had managed to transfer the family fortune to the next generation and grow it. Lack of communication, not financial ineptitude, was the big reason. "The most important thing a family can do to successfully pass along their wealth is start a conversation," says Preisser. "Talk about your passions, your interests, what's in your hearts--and really listen to each other."

Today's longer life spans make this sort of intergenerational conversation especially crucial. And that's where this special report, designed to help parents and adult children work together as a team, can help. On the following pages, you'll find practical steps to help you meet the three biggest challenges that families face: managing the expenses of older age; investing wisely so retirement money safely grows to help meet those bills; and providing a meaningful legacy for heirs. Next you'll learn how to guard against con artists who target the elderly; in the last story you'll get advice about how to help parents as they age, without undermining your own financial security.

One thing is certain: Whether you're an older parent or an adult child, the time for you to start talking is now.

MAKING THE NEST EGG LAST

WHAT YOU NEED TO KNOW Keeping spending in check is key. So is managing health-care costs. The good news for today's families--that you can expect to enjoy the company of the oldest generation for far longer than has ever before been the case--also presents the greatest financial challenge. Consider: At age 65, a man now has a 50% chance of living to 85; a woman, to 88. And the odds are one in four that at least one of them will still be around at 97. That means you now have to plan for your savings to stretch 30 to 35 years or more vs. the 20 that planners used to recommend.

The key is to get a realistic handle on the expenses you face, budget for them, and then keep spending in check, particularly early in your retirement. (To see how your needs may change during retirement, see "Three-Speed Retirement" on page 74.) Start by projecting how much you're likely to spend on fixed expenses or bills you can't control (like housing and health care) and on discretionary items (like travel and entertainment). Whatever your initial estimate for health care is, you might need to double it: A recent survey by Fidelity found that people commonly believe a 65-year-old couple retiring today would pay about $80,000 out of pocket on health care--less than half the $200,000 that Fidelity says is likely.

Then see how your vision of retirement squares with your resources--your yearly income from Social Security, pensions and withdrawals from savings. This part is critically important: Count on limiting those withdrawals to no more than 4% of your portfolio's value in the first year of retirement, then increasing that amount with inflation each year. Research has shown that this 4% rate comes close to assuring you won't run out of money before you run out of time.

If you can't support your lifestyle on just 4% and you aren't willing or able to do part-time work to supplement your income, go back to the discretionary part of your budget and look for places to cut back. (For assistance with this process, see "Getting Online Help," page 78).

HOW TO START THE CONVERSATION For adult children, the goal is to help your parents create a sound spending plan without appearing intrusive. Maybe you start by showing them an article or a brochure from a financial services company about how to make your money last in retirement. Or you talk to them about some aspect of your own retirement planning. Both backdoor approaches can lead naturally to further questions and discussion that will help you determine if your parents can really afford their lifestyle.

Make sure you ask about your parents' wishes regarding medical care. Among the critical questions: If you get sick, is it important to you to receive care at home for as long as possible? How would you feel about moving to a retirement community that has on-site medical care?

The answers will help guide a discussion about how to pay for it. Besides simply dipping into savings to pay for care, there are two basic choices: Buy long-term-care insurance, which covers the cost of a nursing home, an assisted-living facility and, often, home care. Or buy into a continuing-care retirement community (CCRC), which offers on-site health care and a range of housing choices, from independent living to assisted living to nursing-home care. The idea is that you can move from one arrangement to another as your medical needs dictate.

Neither is cheap. A long-term-care policy for a 60-year-old couple might cost from $1,500 to $4,000 a year, depending on how long a nursing-home stay is covered and whether the policy's payments rise with inflation. With a CCRC, there's an entrance fee ranging from $100,000 to more than $500,000, and monthly fees, typically about $3,000--although much of these costs might be covered by the sale of an existing home.

For Hildy, 76, and Van Gathany, 80, the choice was to move into Lake Forest Place, a CCRC in Lake Forest, Ill. with a fitness center, on-site medical facilities and restaurant-quality dining. Both of them had parents who happily lived in similar communities. Remembering the sense of relief they felt seeing that their parents were well cared for as they aged, Hildy and Van wanted the same for their own children. "We thought it would be a big load off our kids' minds knowing that we'll always be taken care of here," says Hildy.

INVESTING FOR THE LONG (LONG) TERM

WHAT YOU NEED TO KNOW Count on owning a lot more stock than past generations of retirees. Sure, you still have to protect your savings from market downturns, which means that bonds, CDs and other fixed-income investments should remain a core part of your portfolio. But you also need to keep your money growing, both to preserve your purchasing power over a superlong retirement and to create a financial cushion for anything from a medical emergency to helping the grandkids with tuition. That means owning more stock throughout your retirement than financial advisers used to recommend.

How much stock? T. Rowe Price senior financial planner Christine Fahlund recommends having 40% to 60% of your portfolio in stocks or stock funds when you retire, then gradually decreasing the percentage and boosting bondholdings as you age. But, she suggests, keep 25% to 35% in stocks even in your eighties.

Dave and Ruth Frederickson, both 73, of Paradise Valley, Ariz., have worked hard at achieving that balance among growth, income and capital preservation. Five years before Dave retired as CEO of a heavy-equipment dealership in 2000, he had about 75% of his savings in stocks and 25% in fixed-income investments. He began shifting out of equities and into bonds as he neared retirement, but he never gave up on growth altogether. Today he still has about half of his retirement stash in stocks and stock funds, with the rest in bonds. Dave expects that he and Ruth will be able to live off the bond income and have the stocks as a reserve they can tap in an emergency or eventually leave to their kids.

HOW TO START THE CONVERSATION Like spending, investing is a sensitive topic for adult children to broach with their parents, and vice versa. But a faulty investment strategy can have catastrophic consequences--after all, if you can't support yourself throughout retirement, chances are your children will have to pick up part of the slack. At the least, poor investment choices can put the kibosh on plans to leave a nice inheritance for the younger generations in your family to enjoy. So it's imperative that you talk.

Typically, the onus falls on adult children to initiate the conversation. Start by mentioning to your parents that you need to know where their assets are in case anything happens to them. If they don't already have a list handy of their bank, mutual fund and brokerage accounts, offer to help them put one together. Then, in a series of conversations over time, you can ask questions about their investments to make sure they're properly diversified.

Have the talk soon--the earlier you're aware of problems, the more you can do to help your parents correct them. For example, Richard Duff, owner of a commercial sign shop in Beltsville, Md., started talking about saving and investing with his parents when they were in their early fifties. He found they'd saved almost nothing for retirement. So Richard persuaded his dad to max out his company retirement plan and encouraged both parents to fund IRAs that he opened for them. When his parents retired in the mid-1990s, Richard encouraged them to sell their house and invest the proceeds.

His efforts paid off. His dad Wendell, 82, and mom Edith, 78, can now afford to live at Buckingham's Choice, a continuing-care community in Adamstown, Md., where Edith teaches line dancing and Wendell enjoys biking and swimming in the indoor pool. "We're living the good life now," says Wendell. "But we couldn't have done it without Richard's help."

PASSING YOUR WEALTH ON

WHAT YOU NEED TO KNOW Okay, writing your will is obvious. But what are you going to give now? Leaving a legacy typically conjures up images of pinstripe-suited lawyers in mahogany-paneled offices drawing up estate plans. And, indeed, at a minimum, you need a will to make sure the assets you leave behind go to the people you want to have them. You may consider talking with an estate-planning attorney about setting up trusts as well, particularly if the assets you leave may be subject to estate taxes. (For now, the first $2 million you leave is exempt from estate taxes, and that limit is scheduled to rise to $3.5 million in 2009; then disappear in 2010, only to be reinstated at $1 million in 2011.)

But leaving a legacy isn't just about having the right estate-planning documents, and it doesn't have to involve an outright transfer of cash or assets. Last year, for example, to celebrate their 50th wedding anniversary, Dave and Ruth Frederickson rented a house on the island of Oahu and paid for their children, spouses and grandkids--18 in all--to join them for a week of swimming, snorkeling and hanging out. The tab topped $20,000, but the Fredericksons consider it a gift to their family. "We still hope to pass along an inheritance," says Ruth. "But how often do you get a chance to spend this kind of time with your family? I'd rather spend the money now when we can enjoy it than leave it all for later."

There are other benefits to giving away some of your money while you're still around. In addition to shifting money out of your taxable estate, you have more control over how the money is used. Contribute 10 grand to a grandchild's college savings account and you know your largesse is funding an education that can pay dividends down the road. Leave a $10,000 cash gift in your will and, well, it could end up funding a rowdy road trip.

HOW TO START THE CONVERSATION It's fine to ask your parents whether they've written their will. But a deeper discussion about the older generation's financial legacy is one they should probably take charge of.

So if you are the parents, talk to each other before you talk to your adult kids. Ask yourselves: Would you prefer to leave money to your family in your will or help out now, when you can watch them put the money to good use? Can you afford to do both or will your own finances suffer?

Once you know how you'd like to proceed, talk about your plans with your children. If you'd like to gift some money now, ask them what would help them most. Maybe you thought you'd help your grandson buy his first car, but it turns out his parents could really use a hand with his tuition payments. And let everyone know the contents of your will, especially if anything will surprise them. You don't want to be the inadvertent cause of rifts in the family after you're gone.

In the end, these discussions about how the wealth accumulated by one generation can benefit the whole family may be even more important than the most rigorous budget or the smartest investing strategy. So whether it's over the kitchen table or at a family get-together like the one the Fredericksons had, take the initiative. Let the family conversation begin.

THREE-SPEED RETIREMENT

Your spending in retirement will vary, depending largely on your age and health. Here's how to plan for the three distinct stages of retirement.

GETTING ONLINE HELP

Whether you want to figure out if you're on track with your own retirement savings, or you're looking for tools to help your parents manage their nest egg, these websites can help

TO MANAGE YOUR BUDGET

"Fidelity's Budgeting Worksheet (fidelity.com)

Part of the Retirement Income Planner tool, this worksheet lets you track spending for 49 budget items; you can even assume different inflation rates for different items. (Available to Fidelity customers only.)

"Analyze Now's Post-Retirement Budget (analyzenow.com)

Click on Free Programs for this download, which lists 35 separate expenses, with room to add six more.

TO SEE IF YOU'RE SAVING ENOUGH

"Vanguard's How Much Should I Save for Retirement? (vanguard.com)

Available in the Planning & Education area, this calculator tells you whether you'll have enough for retirement based on the amount you've already saved, your savings rate and how your money is invested.

"CNNMoney.com's Retirement Planner (cnnmoney.com)

Go to the Calculators section for this tool, which assesses your odds of achieving your retirement goal based on how well you're saving and investing.

TO DECIDE HOW TO TAP ASSETS

"T. Rowe Price's Retirement Income Calculator (troweprice.com)

This calculator in the Planning & Tools section helps you figure out how much you can safely withdraw from your nest egg.

"Financial Freedom's Reverse Mortgage Calculator (financialfreedom.com)

Shows how much income a reverse mortgage might provide based on your age and the amount of equity in your home

ALSO IN THIS SECTION

80 KEEPING THE BAD GUYS AWAY What to do when con artists target Mom and Dad.

86 WHEN PARENTS NEED A HAND These strategies will preserve your savings--and their dignity.

WHAT TO SPEND FIRST

The longer you let tax-sheltered assets compound, the more your stash will grow and the longer it will last. So you should usually tap taxable accounts first. Want to leave tax-free assets to your heirs? Then leave the Roth till last.

1

START WITH...

Taxable Assets

CDs, mutual funds, stocks and bonds held in regular accounts

2

THEN MOVE ON TO...

Tax-Deferred Assets

Money in 401(k)s, traditional IRAs, IRA rollovers and other company savings plans

3

AND FINALLY GO TO...

Tax-Free Assets

Money in Roth IRAs and Roth 401(k)s

In a study of 3,250 affluent families, only a third managed to transfer the family fortune and grow it into the next generation. The stumbling block: poor communication.

Can We Talk

To properly set the stage for family discussions about money, everyone should come prepared

WHAT PARENTS NEED TO GATHER...

"Wills, powers of attorney and other estate-plan documents

"List of assets, such as investments, home and investment properties, along with their value, plus a list of outstanding debts

"Account numbers for bank, brokerage and mutual fund accounts

"Deeds for the family house and other real estate

"Social Security and Medicare cards (make photocopies)

"Recent statements for any loans--mortgages, auto and personal loans and credit cards

"Insurance policies--life, health, home, auto, long-term care

"Contact information (name, address, phone number) for doctors, financial advisers and anyone else who might need to be contacted in an emergency

"Forms listing current beneficiary designations for savings, investments, IRA, 401(k) and 403(b) accounts and company pensions

WHAT KIDS NEED TO ASK...

"Do you have a will? Has it been updated since 2000?

"Do you have enough money to last you through retirement, between your Social Security benefits, your pensions and your savings?

"Do you have a budget? Have you or has someone else calculated how much you can safely withdraw from your savings so your money lasts the rest of your life?

"How are your retirement savings divvied up between stocks, bonds and mutual funds?

"Where do you keep important financial information such as your will, bank and brokerage statements and tax returns?

"Do you have a financial adviser? How did you meet this person, how long have you worked together and how is this person paid?

"Have you made financial arrangements in the event you can no longer live independently? Have you considered long-term care insurance or moving into an assisted-living facility or continuing-care community?

"Whom would you like to have make financial and medical decisions for you if you can no longer make them yourself? ■

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