TAKE CARE!™

Self-Care for the Family Caregiver

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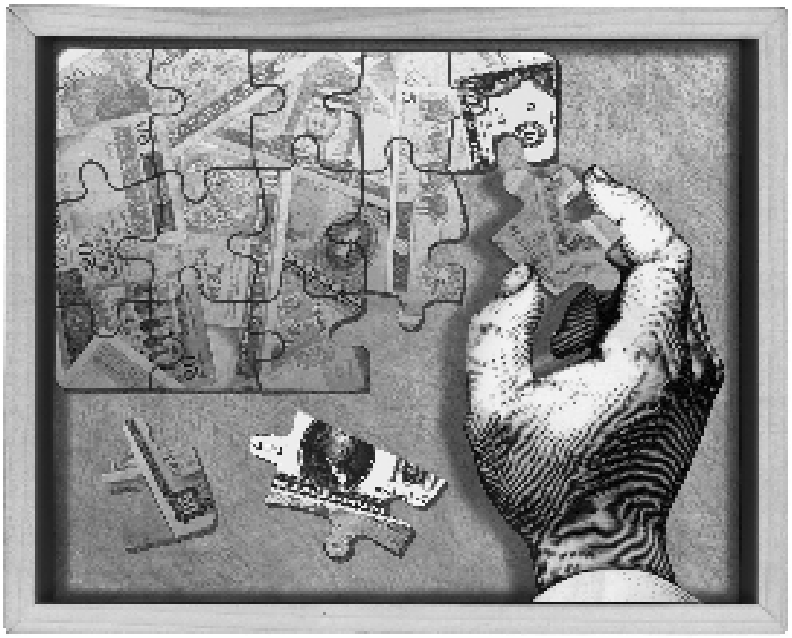

Financial Management: A Guide For Family Caregivers

Paula McCarron

Have you ever calculated the cost of caring? Certainly as a family caregiver, your service to your loved one is beyond measure in terms of the love, depth of care, and concern you offer. If you were to take a look at some of the "real" dollar costs of caring, however, here's what you would learn:

- In 2000, the typical working family caregiver lost approximately $109 per day in wages and health benefits due to the need to provide full-time care at home.[1]
- The value of "free care" provided by family caregivers is estimated to be $257 billion a year. That is twice the amount actually spent on home care and nursing home services by the government or private insurance combined.[2]
- Insurance experts estimate that about one-third of all long-term care services are paid for by individuals out of their own savings or investments.[3]
- The national average wage for a health aide is $18 an hour[4] and the average cost of a one-month stay in an assisted living home is $2,524.[5]

Confronted with facts like these, it's clear that being a family caregiver without a financial plan is risky business — for both you and your loved one.

Whether you are providing care for a child, spouse or parent, you are your care recipient's most important asset. That's why it's necessary that a financial plan be put in place in case you can no longer continue providing care, either temporarily or permanently.

With that in mind, every family caregiver should consider two crucial questions:

1. How can you ensure that your loved one's needs are met if you become disabled or ill, or you die?
2. What kinds of financial protections and insurance can you put into place now to protect yourself and your loved one down the road?

Know Your Options

"It's important to know your options, whether or not you choose to use them," says Jay Bell, vice president of education with the National Endowment for Financial Education. To know your options, you first need to know your assets. Assets typically include: earnings, pension funds, Social Security benefits, property such as homes or land, insurance, retirement funds, etc.

Mark Darrell, C.F.P., of Darrell Financial, a financial planning firm

(Continued on page 6)

INSIDE

Continued from page 1

based in Baltimore, Maryland, agrees. The process of financial planning, Darrell explains, involves a review of one's assets, discussion of options, creation of a plan for the future, and education on the kinds and amounts of insurance that may be needed to ensure that future. "Eighty percent of families are living paycheck to paycheck," says Darrell. "They tell me they can't afford to go on vacation much less spend money on insurance. But even if they can't do everything, they can often do something. And it's better to have something in the event you need it than to end up with nothing."

When it comes to replacing the long-term care services you provide your loved one (or planning on how to cover your own needs in the future), Darrell notes there are four basic avenues to pursue:

1. Use your savings.
2. Convert an asset into cash.
3. Obtain assistance from family.
4. Make use of insurance.

Choosing a Financial Planner

Most certified financial planners offer a free initial consultation. "That way the planner can learn a bit more about your situation and you can determine if you feel comfortable with the planner," says Mark Darrell. Use that time to ask about fees, types of services provided, and what kinds of reports you will receive. Know if you are paying for services based on hourly rates or if there are any additional costs or fees. No matter what kind of financial planner you choose to hire, it's critical to check on his or her background. Asking friends or attorneys for referrals can be one way to find a good financial planner. Ask about credentials, education and experience to be sure you are hiring a planner who understands your particular needs.

Start Saving Today

Family caregivers assume that nothing is going to happen to them; unfortunately, that isn't always true. If something does happen, you need to be prepared. Funding a replacement for YOU could be an expensive proposition. The most important step you can take now is to create a savings plan that you can draw from quickly in the event of an emergency. But don't stop there. Start saving today to ensure that you have adequate income for your retirement. To build retirement savings, you might consider setting up an IRA or contributing to a 401(k) plan through your employer. Many employers will match employee contributions to a 401(k) plan, either dollar-for-dollar or with some percentage of each dollar saved. Both IRAs and 401(k) plans allow you to build for the future while enjoying some tax savings now. No matter how much or how little you have to contribute, the key is to begin to save something today. IRAs and 401 (k) plans can be tapped in an emergency, although this may not be the best option because of possible tax consequences. As noted above, it is better to have more liquid savings available.

Converting Assets Into Cash

The quickest way to convert assets into cash is to sell something that is relatively liquid: stock or mutual funds, for example. Less liquid financial assets include CDs, IRAs, 401(k) plans, or other retirement accounts. Before you sell any financial asset, it's important to look at the big picture. There may be penalties for early withdrawals, or taxes to pay, all of which means you could actually lose money. So look before you leap and understand all of the ramifications of your decision.

The biggest asset most of us have is our home; there are a number of ways to convert some of its value into cash. Home equity loans let you write checks whenever you want based on a pre-approved line of credit that is tied to the amount of equity you have accrued in your home. Once established, a home equity loan makes the money readily available. This is a loan, however, and the money must be repaid, with interest.

A relatively new way to convert your home's equity into cash is the reverse mortgage. It provides tax-free income to eligible individuals 62 years of age or older and allows homeowners to stay in their homes as long as they like, without adding new mortgage payments.

"The reverse mortgage is aptly named because the payment stream is 'reversed.' Instead of making monthly payments to a lender, as with a regular mortgage, a lender makes payments to you," says Peter Bell, executive director of the National Reverse Mortgage Lenders Association. Reverse mortgages are complicated; anyone who is considering one must first meet with an approved counselor to ensure they understand all of the ramifications of this type of mortgage. The counselor's job is to educate you about reverse mortgages, to inform you of other options available, and to assist you in determining which particular reverse mortgage product best fits your needs.

Protect Your Income in the Event of Disability

If you are in the workforce, disability insurance is one level of protection that can keep income flowing if you are unable to work due to illness, injury or disability. While there is no disability insurance that will cover 100 percent of your income, you may be able to secure enough coverage to replace 60 percent to 80 percent of your income.

Disability insurance is often offered by employers at very minimal

(Continued on page 10)

RESOURCES

Publications:

■ **The Complete Eldercare Planner** by Joy Loverde (Three Rivers Press; 2nd edition, 2000).

■ **Personal Finance for Dummies, 4th Edition** by Eric Tyson, M.B.A. (Wiley Publishing, Inc., 2003).

■ **With Open Arms: Embracing a Bright Financial Future for You and Your Child**
A 72-page financial guide for adults caring for children with disabilities or other special needs. The booklet is available as a free download from *www.easterseals.com* or for purchase ($5) by phoning 800/221-6827.

National Association of Insurance Commissioners (NAIC)
Phone: 816/783-8300
Web site: *www.naic.org*
NAIC will help you locate your state's insurance commissioner's office. NAIC also offers consumer guides on the purchase of life insurance, long-term care insurance, and other types of insurance. Check out the NAIC publication "A Shopper's Guide to Long-Term Care Insurance."

National Endowment for Financial Education
Web site: www.nefe.org
Many informative and "reader-friendly" articles are available on this Web site.

Check out the "financial health" of the insurance company you choose:

■ A.M. Best Company
Web site: *www.ambest.com*

■ Weiss Ratings
Web site: *www.weissratings.com*

Financial Management

Continued from page 6

cost, and can also be purchased privately. It may be available as a rider on an existing life insurance plan or through a group or professional association. You can also purchase an individual plan from an insurance broker or get competitive quotes by shopping for rates online. No matter what you choose to do, be sure to check with your state's insurance commissioner's office to find out if the agent and company are licensed to operate in your state.

Some people may think they will qualify for disability benefits under Social Security; however, Social Security disability is very limited, as it does not allow for "partial" or "temporary" disability. In addition to restrictive eligibility criteria, it can take up to five months to qualify for benefits and up to two years to process claims.

When purchasing disability insurance, be sure to ask these questions:

■ What is the company's definition of disability?
■ Who makes the determination of disability?
■ When do benefits begin?
■ What percentage of income would be replaced and for how long?
■ Does the plan factor for inflation?
■ Does the plan cover only illness or accident, or both?
■ Can the policy be renewed? Is there a clause addressing non-cancellation?

Disability insurance premiums vary greatly depending on your occupation, age, income, elimination periods, etc. As with any insurance product, it is best to shop around.

Don't Overlook the Importance of Life Insurance

If you don't already have a life insurance policy in place, consider the following questions:

■ If you die, who is going to fill your shoes as a family caregiver so that your loved one continues to receive the care that he or she needs?
■ Where will the money come from to provide the services that you have been providing for "free"?

For many family caregivers, a life insurance policy can offer peace of mind that their loved ones' needs, as well as their own future care needs, will be met.

"There's no rule of thumb about what kind of policy to buy or in what amounts," says Darrell. "You've got to consider every situation independently on its own terms. That's why I suggest that people seek the help of a broker who can represent many companies and many plans instead of an agent who works only for one company."

Just like agents who represent only one company, brokers are paid through a built-in fee whenever an insurance plan is sold. Unlike agents, brokers do not represent any one company and, therefore, can show you a variety of plans from several companies. To find a broker, contact your state's insurance commissioner's office or get referrals from trusted family members or friends.

How can life insurance help you meet your long-term care needs? First, family caregivers can purchase life insurance to ensure an adequate income for their care recipients or to help cover the costs of obtaining long-term care services if the family caregiver should die. Second, there are ways for care recipients to make use of their own life insurance policies to fund their long-term care costs. A care recipient may be eligible to make a tax-free cash withdrawal to fund long-term care expenses under some policies. Any remaining funds are paid to heirs when the policyholder dies.

Another option is to obtain a viatical settlement. This is more commonly used for an individual who has a limited life expectancy. Here's how it works: Mary names the viatical company as the sole beneficiary of her life insurance policy and, in return, she receives an immediate cash payout of up to 85 percent of the policy's face value. When Mary dies, the viatical company will receive the policy's death benefit.

"Before anyone opts for any of these kinds of settlements, it's important to know the possible penalties involved and the tax consequences," says Darrell. "That's why every decision must be made with the view of the whole financial picture." In fact, according to Darrell, any time you move money around or cash out an investment, it's important to look at the whole picture. "Otherwise," he says, "you might actually end up losing money."

Consider Buying Long-Term Care Insurance

Whereas disability insurance can replace some of your income if you are laid up for a time, long-term care insurance can cover the costs of your own care needs. Long-term care insurance is not for everyone, though. "It's really designed for people who have the desire and need to protect assets," says Keith Eig, of Greenberg, Wexler and Eig, an insurance consulting business in Maryland. Family caregivers may want to consider this type of insurance as a way to maintain control over how and where care is received in the future. Because of the variations in benefits and types of coverage, however, long-term care insurance is both complicated and expensive, notes Eig. "You want to be sure to choose a company that is making you a promise it can live up to," says Eig. "That means you need to shop carefully."

Some long-term care policies will provide a set level of reimbursement for each day, whether or not you actually spend the money on needed services; other plans will provide reimbursement for actual dollars spent. Some plans offer fixed periods of benefit duration while others offer lifetime coverage.

Long-term care insurance typically covers services such as home health aides, adult day services, assisted living homes, and nursing home care. However, some policies may cover only services provided by a registered nurse or a certified home health aide while others may allow for the hire of a family member or friend. In some situations, the insurance company will arrange for a care manager who will pre-approve all services. Under other policies, an individual may receive a fixed "payout" — for example, \$200 a day — that may be used in any way that the individual chooses. It's important to know the maximum benefit limit of the policy as well as the duration of the coverage period.

The Bottom Line

Ensuring a financially healthy future for you and your loved one will take research, analysis, and the willingness to make some difficult decisions. It's not necessary to do everything today; but it is necessary to begin to take the steps that will help you and your loved one be better prepared for whatever the future holds. As a family caregiver, you know better than anyone that the next health crisis is not a matter of "if," but "when." Laying the groundwork today will help you ensure that your financial needs — and those of your loved one — are met tomorrow. ■

Paula McCarron is a freelance health writer living in Massachusetts. She has been involved in nursing home, hospice, and home-based care for more than 20 years.

References:

1. B.R. Stucki and J. Mulvey. "Can Aging Baby Boomers Avoid the Nursing Home? Long-Term Care Insurance for 'Aging in Place.'" American Council of Life Insurers, March 2000.

2. Peter S. Arno, "Economic Value of Informal Caregiving," presented at the American Association of Geriatric Psychiatry, February 24, 2002.

3. Testimony of Buck Stinson, president of Long-Term Care Division, Government Relations, Genworth Financial, Before the Subcommittee on Health of the House Committee on Ways and Means, April 19, 2005.

4. MetLife Mature Market Institute, 2004 MetLife Market Survey of Nursing Home and Home Care Costs, September 27, 2004, Press Release, *www.metlife.com*.

5. MetLife Mature Market Institute, 2004 MetLife Market Survey of Assisted Living Costs, October 25, 2004, Press Release, *www.metlife.com*.