SESSION #7:
FAMILY FINANCIAL PLANNING:
CARING FOR ADULT DEPENDENTS

JUNE 28, 2023
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http://business.louisiana.edu/financeispersonal
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FAMILY-FOCUSED FINANCIAL PLANNING

FAMILY FINANCIAL PLANNING: MAKING FINANCES WORK FOR THE WHOLE FAMILY
JUNE 23, 2023

FAMILY FINANCIAL PLANNING: CARING FOR ADULT DEPENDENTS
JUNE 28, 2023

BUILDING SAVINGS ACCOUNTS & EMERGENCY FUNDS
JULY 14, 2023

FINANCIAL PLANNING WHEN RETIREMENT IS GETTING CLOSE (5-7 YEARS OUT)
JULY 19, 2023 ***

FINANCIAL PLANNING FOR THE FUN STUFF: VACATIONS, HOME IMPROVEMENTS, NEW VEHICLES
JUNE 26, 2023

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FAMILY-FOCUSED FINANCIAL PLANNING
One Opening Moral

My bias:

Financial transparency is a good thing.
Communication is not just about the adult dependents, it’s about any younger children still at home whose lives will be disrupted.

- It’s also about any other siblings or relatives who may be involved in this transition.

- Where will the adult dependents live?
- Who is responsible for finances? Do you comingle finances and accounts?
- What are their social, medical, transportation & other needs?
- What is the timing...is there a plan or wish for specialized long-term care?
THE DIFFICULT CONVERSATIONS & TOPICS

• Do they have life insurance?

• Do they have a will? A living will? A durable power of attorney?

• Are there trusts or income streams that need to be managed?
  • Many elderly lose track of different income streams they are entitled to...and thus lose out on that income.

• Are they going to legally become a dependent – or can they stay independent (that is, do they have sufficient income that they do not qualify as a dependent)?
In general, the adult dependent is legally (for tax purposes) a “dependent” if:
- You provide more than 50% of their living support for the year; and,
- They have less than $4,400 in gross income for the year.
  (There are exceptions and fine print, but this is the starting point for reference.)

You generally cannot claim a married person as a dependent if that person files a joint return.

If you claim them as a dependent, you include their tax information on your return.

And, you may be eligible for deductions and credits:
- Earned Income Tax Credit
- Tax Credit for Other Dependents
- Child & Dependent Care Credit
- Deductions for Medical Expenses (above the line)
Gross Salary & Wages

Less: Medical Expenses

Less: Contributions to Retirement Accounts

Adjusted Gross Income

Less: Standard Deduction or Itemized Deduction

Taxable Income

\[ \text{Taxable Income} \times \text{Tax Rate} \]

Gross Taxes Owed

Less: Tax Credits

Taxes Owed
**TAXES**

- Gross Salary & Wages
  - Less: Medical Expenses
  - Less: Contributions to Retirement Accounts
  - Adjusted Gross Income
  - Less: Standard Deduction or Itemized Deduction
  - Taxable Income
    - \( \times \) Tax Rate
      - Gross Taxes Owed
        - Less: Tax Credits
        - Taxes Owed
• Who is responsible for finances? Do you comingle finances and accounts?
  • What is the role of other family members who may be involved?
  • It may be best to NOT comingle accounts...but for the adult dependent to give you either:
    • Power of attorney → Decision-making authority over all life decisions
    • Power of appointment → Decision-making authority over assets and finances

• Trusts are not just for the super-wealthy – they can be an effective way to transfer assets (a) during life, and/or (b) outside of a will.
  • Example: My elderly mom moves in with me. She has $100,000 in savings that she no longer is comfortable managing. She intends to live off the savings, then give me any leftovers when she dies.
    • She can put the $100,000 in an irrevocable trust, withdrawing a certain amount periodically.
    • A professional trust manager (banker or lawyer) will manage the assets, according to our wishes.
    • The moment mom dies, the remaining money legally becomes mine. No will, no probate, no court. Easy.
• How does this affect money available and financial planning for other family members (like, children)?

• At what point do you sell the adult dependent’s assets – house, car, anything else that will not be kept in the family via the will.

• At what point do you consider senior living facility or assisted care?
  • Monthly costs begin at around $3,000 and can be as much as $15,000 for standard care.
  • In general, health insurance DOES NOT cover assisted living.
  • Long-term care or disability insurance MAY cover assisted living...but only if you chose for it to include assisted living when the policy was acquired.
  • Medicare, Medicaid and the VA generally DO NOT cover room and board, but they may cover related medical expenses and needs.
  • In general, only the medical costs associated with assisted living are tax deductible.
INSURANCE

• The general rule for insurance still applies: you want to buy it before you need it.
  • But, of course, then you feel like you’re paying for something you don’t need yet.

• Health insurance
  • Medicare and Medicaid may be sufficient, once the adults are eligible
  • The adult dependent may not be able to be included in the family’s health plan
  • If they are under 65 and not eligible for Medicaid, they may need to get their own health insurance via the private market...which could be very expensive.

• Property, casualty and liability insurance (cars & stuff)
  • In general, we can add adult dependents to our automobile policies relatively easily (for a cost)
  • In general, adult dependents living with us are covered under our homeowners’ policies
  • If they bring significant physical assets – jewelry, antiques – we may need to increase policy coverage amounts.
INSURANCE

• Life insurance
  • If you’re buying it for your elderly adult dependents, it’s going to be very expensive
  • If they receive it due to the loss of a spouse, the proceeds may or may not be taxable
    (they are generally only taxable if provided by an employer and over $50,000).

• Annuities – An alternative to life insurance
  • Example: My elderly mom moves in with me. She has $100,000 in savings. Instead of the trust we
    mentioned earlier, she can buy an annuity with this $100,000. The annuity – derived from “annual” – will
    pay her a portion of this, say $8,000, each year until she dies.
  • Annuities are popular because they provide regular, fixed income.
  • Basically, if she lives longer than expected, it can be a good deal. If she dies earlier than expected, it’s
    probably a lousy deal...except for the security of regular, fixed income.
    • Annuities CANNOT be inherited. Once mom dies, the proceeds are done.

• Survivorship or Second-to-Die insurance policies only pay out once both policyholders pass...while
  annuities stop paying when the second policyholder passes. Pay attention to this very key term.
INSURANCE

• Long-Term Care insurance
  • People over 70 file more than 95% of long-term care insurance claims (source: AARP)
  • Thus, the best time to acquire long-term care insurance is probably between 60-65.
  • Rates can be about $3,000 to $4,000 per year at this age
  • Basically....this will cover all long-term care costs that health insurance, Medicare and Medicaid do not cover...like the room & board costs of assisted living.
    • If your adult dependent is going to be living with you, this may not be necessary

• Disability Insurance – Not just for the elderly or the disabled
  • Disability insurance is really income insurance: if you are not able to work, disability insurance can provide income for a set period of time.
    • You choose the amount of coverage, you choose the length of coverage, you choose the waiting period
  • The point is...you probably DO NOT need to purchase disability insurance for your adult dependent (unless their income and ability to work is a big part of their life). Long-term care and health insurance will likely cover all of your adult dependent’s medical and living needs.
• What happens when our adult dependent is close to passing?
  • Do they have a Durable Power of Attorney (for making all life decisions)?
  • Do they have a Living Will (for making health care decisions)?
  • Do they have a Will?
  • Do they transition to an assisted living facility for the final days?
  • Do they move back home from an assisted living facility for the final days?

• Everybody needs to have a Will, as soon as possible.
  • The Will will designate who gets the deceased’s assets after passing
    (or, all of those assets that are not covered by a trust or do not have assigned beneficiaries).
  • However...
    • A Will can be contested (“…being of sound mind and body...”), and...
    • Executing the Will – going through probate – can take a long time and can be expensive (say, 10%)
  • If the deceased DOES NOT have a Will, the state will control the process and the family members will probably get most
    of the assets eventually, but it will take a long time and will be very expensive.
What happens when our adult dependent passes?
- The will or trust will assign legal transfer of property and assets.
- Any assets with identified beneficiaries (retirement, life insurance) will automatically transfer.

How are we going to pay for the funeral and other related services?
- Having enough life insurance can take care of this, so we do not have to rely on savings.
- A Certificate of Death might be required to make other decisions...and costs $25-50.

We have to manage their estate...and estates are not just for the super-wealthy.
- Somebody has to pay the deceased’s bills & debt and then takeover the house, vehicle & financial assets
- If the deceased is super-wealthy and the estate is over $13,000,000, then estate planning gets more complicated in order to minimize estate taxes...but that’s a good problem for another time.
Happiness

Short-Term Goals

Long-Term Goals

Family Needs

Financial Needs
A goal without a plan is just a dream.

The most difficult thing is the decision to act; the rest is mere tenacity.

You cannot escape the responsibility of tomorrow by avoiding it today.

Wealth is largely the result of habit.

It takes as much energy to plan as it does to wish.
Isn’t this a lot like what you do with your education planning?

1. **Set your goals.** What do you want to achieve in life? What financial goals will make this happen?
2. **Analyze your reality.** What is your situation? What is your income? What are your expenses? When can you achieve your goals?
3. **Create your plan.** Focus on the short-term – the next 3-6 months – and the long-term – the next 1, 2, 5 and 10 years.
4. **Execute your plan.** Work to decrease your expenses and to pay off debt. Work to increase your income and your savings.
5. **Track your progress.** How are you doing? Are you ahead of your goals? Are you behind your goals?
6. **Adjust your plan** to reflect your progress, your new reality and any new goals.
7. **Repeat. Revise. Enjoy.**
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