

The expanding role of financial advisors

Helping clients deal with caregiving issues

The number of families in the U.S. that are dealing with health issues or have responsibilities for taking care of sick or aging relatives is staggering. For example:

- 15% of adults qualify as having a disability, as do 6% of children under age 18.¹
- Nearly 50% of all men and more than 33% of all women will have cancer during their lifetimes.²
- 54% of the population know someone with Alzheimer's or has the disease themselves.³
- 70 million baby boomers are beginning to care for loved ones while entering into their own retirement years.⁴
- More than 50% of the population is expected to have elder-care responsibilities within 10 years.⁵

¹New York Life, "Special Needs: Caring for Loved Ones under Unique Circumstances," March 2010.

²American Cancer Society, "Who Gets Cancer?" March 2010.

³Fidelity Investments, "Understanding Alzheimer's Disease: Best practices for serving an aging book of business," 2009.

⁴*Financial Advisor Magazine*, "Ask The Right Questions," Randy Bradley, January 2010.

⁵Ibid.

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Interviewees

Wealth Management RIA Firms

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Given this reality, it is likely that some of your clients have a child with a developmental disability, a family member with a serious illness, or elderly parents who require care. Guiding them on different options for asset growth and preservation, and involving other professionals who can assist with legal and tax issues, may help create a more secure financial environment for them and their loved ones. It may also help you solidify your relationship and potentially grow your business through an expanded offering and opportunities to work across generations.

This paper identifies some of the important issues to consider when working with clients facing these situations. It includes insights gained from interviews with executives at two wealth management firms, an attorney who supports families with disabled children, and an attorney who specializes in elder care.

The first section of the paper deals with families with special needs. Although typically thought of in reference to a child, special needs clients may be of any age and have a wide range of conditions, including multiple sclerosis, autism, and bipolar disorder, to name a few. One common thread that generally runs through all of these is the need for costly long-term care—even after the primary caregiver(s) is deceased.

We then turn to the issue of elder care, which can involve aging clients or younger clients with responsibilities for aging parents. In the latter case, many have simultaneous commitments to help their children move into adulthood while helping their elderly parents deal with later-life issues. Called the “sandwich generation,” these families typically need to plan differently for ongoing expenses as well as for their own future well-being.

STARTING THE CONVERSATION

If you already provide comprehensive financial planning and/or wealth management services, you likely learn about a number of these situations through regular client discussions. “Through our interview process, we uncover many of these issues, even if we aren’t asking about them directly,” says R. Jordan Smyth of Edgemoor Investment Advisors. “For example, if we look at a client’s monthly expense commitment, it will come out that they are taking care of a dependent.” This type of information may provide an opportunity to further explore the nature of the dependency and to start formulating potential planning options.

Mindy Ying of Pillar Pacific Capital Management agrees. “We have a roadmap for every new relationship, and through a detailed interview process begin to uncover the facts about the family.” She feels it is important to move slowly, however, and take time to build the relationship before suggesting too many planning ideas for caregiving situations as each case is very different and it needs to be customized.

“In the dozens of fact finders we’ve reviewed by leading firms, the vast majority don’t include inquiries about parents or other loved ones.”

– Financial Advisor Magazine,
“Ask The Right Questions,”
January 2010.

As mentioned in a previous Fidelity paper, Understanding Alzheimer’s Disease,³ some situations are more difficult than others and the approach to discussing them will vary with each client. “Some clients may exhibit early warning signs [of dementia] but may not be aware of them or understand the financial risks they pose,” the paper states. Raising the issue with your client may feel awkward but, as their advisor, it is important to emphasize your concern for their financial security and get discussions under way that can help them be better prepared.

There may also be opportunities to discuss issues such as elder care in more general terms, says Bill Fralin of The Estate Planning & Elder Law Firm. “What can really differentiate an advisor is asking questions about a client’s parents and who is going to care for them down the road,” he says. “You take the focus off the client and put it on their parents, who they are typically more comfortable talking about. If you help make improvements in that situation, you have a client for life.”

PLANNING FOR SPECIAL NEEDS CARE

Careful planning is critical to the financial security of clients who are dealing with family members who have special needs. Extra care is also required to avoid taking well-meaning steps that may, in fact, be harmful longer term. For example, an article in *Financial Planning Magazine*⁶ indicated that some parents believe it is best to disinherit a special needs child to protect any public benefits they may be receiving. Yet these benefits may only be for food and shelter at the subsistence level, and there is no assurance that such government programs will continue in the future. Others may plan to leave assets to the siblings of the special needs child, assuming they will provide the necessary care. But what if the healthy siblings turn out to be unreliable, or perhaps die first?

“Less than half of parents with special needs children have a plan in place to cover the long-term costs of care.”

– The Hartford Financial Services Group, “Most Parents of Children with Special Needs Lack a Plan to Cover a Lifetime of Care,” April 2009.

In addition, wealthier clients often feel they can afford to leave more than enough money to care for a special needs child, but living costs and the expense of medical care can quickly erode an estate. “There aren’t a lot of people who can afford housing and medical costs for a sustained period of time without full depletion of assets,” says Bill Fralin. Although wealthy clients may not consider tapping into government assistance programs, they should keep an open mind to avoid eliminating any chances of doing so later on.

“In my state, the costs of many residential programs for disabled beneficiaries can be paid by Medicaid, if they qualify — and the costs can amount to more than a hundred thousand dollars a year.”

*– Charles Abell, Esq.
Furey, Doolan & Abell*

Government benefits

Government benefits are generally paid to a disabled dependent based on family income. Once a child turns 18, these benefits are awarded based on the child’s own assets and income. The most important public benefit programs are Medicaid⁷ and Supplemental Security Income (SSI).

- **Medicaid** is a state-administered, federally reimbursed program that pays for needed medical care for eligible persons based on their disability, finances, and age.
- **SSI** is a federal program that provides income to qualified individuals up to a Federal Benefit Rate.

⁶*Financial Planning Magazine*, “A Special Plan,” Martin Shenkman, July 2009.

⁷Called “Medi-Cal” in California and “MassHealth” in Massachusetts.

A special needs person may be disqualified from receiving benefits if he or she personally has assets or income in excess of predetermined levels. This includes monies from gifts or inheritances that may reduce payments received, or cause a dependent to lose benefits for an extended period of time. In many states, the maximum asset level to qualify for benefits is as low as \$2,000. Effective estate planning is vital to meeting a dependent's lifetime needs. Estate planning attorneys often suggest that individuals consider establishing a will and possibly a Special Needs Trust (SNT), and outline plans for caregiver transition. These are discussed below.

Last will and testament

Clients with a special needs situation should consider having a current last will and testament in place that outlines how they want their estate to be distributed upon death, who will manage the assets, and who they select as guardian for their dependent. If parents die without a will, under most state laws assets will generally be distributed equally to the surviving children. This may jeopardize the disabled heir's opportunity to continue receiving government benefits.

Clients should also take steps to avoid "accidental" gifts being given to a disabled dependent, and discuss the implications with extended family members. In addition, they should ensure other assets, such as life insurance and retirement plans, don't name the disabled person as a beneficiary or allow him or her to be a default beneficiary in the event that no one else is specifically named.

Special needs trust (SNT)

An SNT may offer a means of protecting eligibility for government benefits while providing funding for the costs of ongoing care. If arranged properly, the assets in the trust do not actually belong to the special needs beneficiary but can be used to supplement benefits received from various government assistance programs. The assets are usually used to pay for rehabilitation, educational services, or medical services not covered by other sources, but they can also be used for such things as entertainment or vacations that can help enhance the disabled person's life.

"To me an SNT is a form of asset protection for the family. It can help care for the special needs beneficiary and preserve any government benefits."

*– Mindy Ying, President & CEO
Pillar Pacific Capital
Management*

SNTs are irrevocable trusts (i.e., generally cannot be revoked or amended) with the most common type being a third-party SNT—one where a client funds the trust for the benefit of the special needs child (or other relative) and then, upon the dependent's death, the remaining funds are disbursed to named beneficiaries. Drafting such documents is a specialty, and the attorney hired to do so should have a thorough understanding of the Medicaid rules.

According to an article in *Wealth Strategies Journal*, the wealthy sometimes mistakenly believe that an SNT is not for them—but even they should address this form of planning.⁸ As mentioned earlier, the cost of care can be tremendous over a long time period. In addition, "Parents (or other beneficiaries) cannot 'buy' the special child's admission into government programs that may list Medicaid eligibility as a requirement for enrollment," the article says. "Medicaid eligibility is the key, or gate, to access a host of vital benefits and programs. This planning is important regardless of financial ability."

⁸*Wealth Strategies Journal*, "Introduction to Special Needs Planning and Special Needs Trusts," Regina Spielberg and Martin Shenkman, July 2009.

Naming a trustee

Parents often look to siblings or close relatives when choosing a trustee, but that may not be the best alternative. “You need to make sure the person you name has the qualifications to be a trustee and fully understands the time commitment required,” says Charles Abell, of Furey, Doolan & Abell. “Since there are also rules about how the money can be spent from the trust to avoid Medicaid disqualification, it is vitally important to think about who the trustee should be.”

Trustees may also be financial or nonprofit institutions. With nonprofits, pooled trusts can be managed for a number of different beneficiaries, with all funds kept separate from one another. In these cases, the nonprofit trustee may have special knowledge about the relevant disability, as well as access to different advocacy services. When the beneficiary dies, however, all or a portion of the remaining assets typically go to help others with special needs issues.

“While the legal documents that create the structure are important, it is just as important to consider succession planning.”

*– Charles Abell, Esq.
Furey, Doolan & Abell*

Preparing for the transition

Parents have usually been the caregivers of a disabled dependent and they are the ones most familiar with the daily requirements. As such, they should consider what will happen down the road. “They need to determine who will succeed them in caring for their child, both financially and in other areas of his or her life,” Charles Abell says, “and start to bring them into the picture sooner rather than later. Passing knowledge on to those who will take over is a critical part of the planning process.”

A letter of intent, although not legally binding, can help provide direction for the person or persons who will take over. This letter may detail medical history and daily needs, as well as the other specific wishes of the parents, such as housing choices. With sound financial and transition strategies in place, you can help your clients feel more confident that their dependent will continue to receive good care over their lifetime.

“This is where advisors can be of immense help. Otherwise, when a crisis happens, it’s a disaster, and the stress is ten times what it should be.”

*– Bill Fralin, President, CELA
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PLANNING FOR ELDER CARE

With the huge size of the baby boomer population and life expectancies on the rise,⁹ there is an increasing need to adequately prepare for longer-term health concerns. In addition, those in the sandwich generation are faced with a range of new issues, such as evaluating the cost of care facilities for their parents, and learning how to plan for daily living and health expenses. Both groups may turn to you for guidance.

High cost of care

A recent study by Fidelity Investments¹⁰ indicated that a couple retiring this year will need a quarter of a million dollars, on average, to cover medical expenses in retirement—not including dental or long-term care costs. At some point, the elderly may need homecare, adult daycare, assisted living, or 24-hour care in a nursing home.

⁹Todaysseniorsnetwork.com, “We’re Living Longer But Exercising Less Says U.S. Government,” April 2010.

¹⁰Fidelity Investments, “Fidelity Investments Estimates Couples Retiring in 2010 Will Need \$250,000 to Pay Medical Expenses in Retirement,” March 2010.

According to a 2009 survey by MetLife¹¹ on national average rates during that year, the annual rate for a private room in a nursing home was \$79,935, the annual assisted living base rate was \$37,572, and the hourly rate for home health aides was \$21.

While costs will naturally vary by region and facility type, assets can quickly be depleted if a client or family member requires around-the-clock care for an extended period of time.

Careful planning can help protect a client's estate. This may include purchasing long term care, insurance, establishing different types of trusts, and/or tapping into programs such as Medicaid or those offered by the Veterans Administration, where applicable. Below we briefly discuss Medicaid.

Medicaid

"With Medicaid, there is both a health care test and an asset test," says Bill Fralin. "So if you're 100 years old and you're not sick, they aren't going to pay, and if you have assets and income over predetermined levels, they won't pay either." To address this, clients who meet the health care test sometimes consider transferring property and wealth to family members to qualify. They should be fully aware of the legal and financial implications of doing so, however, as strict laws govern this area and transfers may delay eligibility.

Clients should also be aware that Medicaid does not cover independent living or assisted living, and it only pays for skilled nursing care at a nursing care facility, or at someone's home if there is a community-based waiver. In addition, clients may not get the place they want. "Some facilities—particularly newer, nicer ones—try to limit their Medicaid numbers," according to a recent article in the *Wall Street Journal*.¹² "So the government-paid bed you get could be far from family in a facility you dislike."

Proactive planning

"Most people plan for further education, their career, and retirement," says Bill Fralin, "but few plan for that gap between retirement and end of life." He feels the most important thing people can do to preserve their independence for as long as possible is to proactively plan for this eventuality.

"My main advice to advisors dealing with elderly clients or the sandwich generation is to help them proactively plan to get things in order."

— Bill Fralin, President, CELA
The Estate Planning & Elder
Law Firm

According to a recent study in the *New England Journal of Medicine*,¹³ more than one in four elderly people will eventually need someone to make end-of-life decisions about their medical care. "The results illustrate the value of people making their wishes known in a living will and designating someone to make treatment decisions for them," the researchers say.

Proactive planning for end-of-life issues often includes:

- **Creating estate documents**—Clients should consider putting estate and incapacity documents in place as soon as possible. This may include a Power of Attorney that provides full control over the finances of the elderly or sick person in case he or she is not able to make decisions on their own. It may also include Advance Directives that provide directions from the client about how to handle his or her health care.
- **Assembling personal records**—Clients should also consider pulling together all the information they will need in the event they or their parents become incapacitated or die. This should include

¹¹metlife.com/mmi/research/09-market-survey.html#findings, The 2009 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs," 2009.

¹²The *Wall Street Journal*, "Inoculating Estates From Health Costs," Kelly Greene, April 3, 2010.

¹³Fox News, "1 in 4 elderly need care decisions made for them," March 31, 2010, <http://www.foxnews.com/us/2010/03/31/elderly-need-care-decisions/>.

financial information like the location of bank and brokerage accounts, legal documents like wills/trusts, and health care proxies, insurance policies, funeral and burial plans, etc.

“I’ve met separately with the wife of a client with Alzheimer’s to ensure we have all the documents in place to enable her to make decisions regarding finances and long-term care.”

*– R. Jordan Smyth, Managing Director
Edgemoor Investment Advisors, Inc.*

- **Discussing housing options**—It is also advisable for all family members to openly discuss the wishes of the elderly person and evaluate different housing options based on services offered, reputation, etc.

The National Center on Women and Aging estimates that those who stop working to care for aging parents take a loss of some \$659,130 in wages, retirement funding, and other benefits. If the parent lives in another city, the caregiver’s out-of-pocket expenditures can swell by nearly \$9,000 a year.¹⁴ By engaging clients early on in discussions regarding aging issues, you may help them be better positioned to handle these major life events.

LEVERAGING EXTERNAL EXPERTISE

Given the range of issues that need to be addressed with caregiving, and some of the complexities, you may want to consider expanding your network of professionals that have expertise in these areas. “If a client already has an attorney, we tend to work with that attorney unless they don’t have the necessary level of expertise in this particular field,” says R. Jordan Smyth. “Some attorneys have a specialty in working with families with disabled children, for example, and others focus on elder law, which has its own set of special issues.” It is important that clients receive advice from well-qualified professionals that understand the intricacies of different entitlement programs and can serve as an advocate for their clients.

¹⁴Financial Planning Magazine, “A Case for Meddling,” April 2008

“63% of advisors lack any training in the specific needs of elderly clients.”

*– Investment Advisor Magazine,
The Right Match,
March 1, 2008.*

You may also choose to expand your contacts to include long-term health care professionals, and caregiver and hospice organizations. In addition, the Alzheimer’s Association, American Cancer Society, and similar groups can provide information and support to your clients with specific problems. If you are interested in adding a specialty to your other credentials, you may also consider becoming a Certified Senior Advisor (www.csa.us) and/or a Registered Financial Gerontologist (www.aifg.org).

SUMMARY

If you deal with families with special needs, elderly clients, or the sandwich generation, investment and retirement planning may take on a very different dimension. Proactively working with clients to help them better prepare for the financial demands these circumstances often present may help them create a more secure financial future—for themselves and their dependants. It may also help reinforce your position as their trusted advisor and broaden your reach across different generations within a family.

To learn more about resources available from Fidelity, please consult your Fidelity Relationship Manager.



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