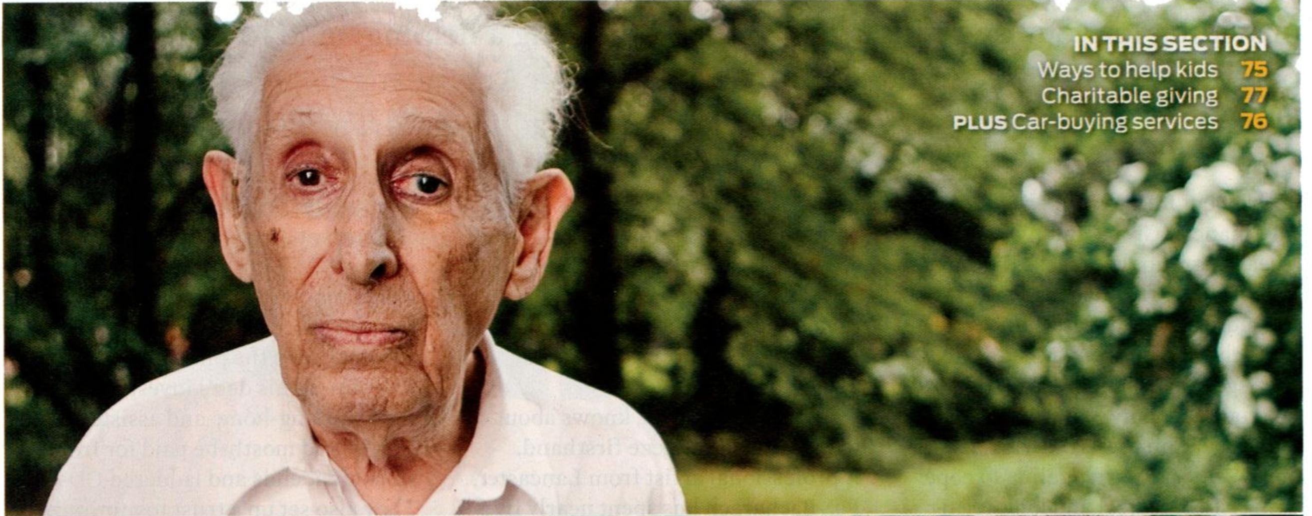

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CAUGHT IN THE MIDDLE

TODAY'S SANDWICH GENERATION IS SQUEEZED BETWEEN GROWN KIDS WHO CAN'T FIND WORK AND ELDERLY PARENTS WHO NEED CARE. »

BY KIMBERLY LANKFORD

PHOTOGRAPHS BY GINA LEVAY

IT'S HARD ENOUGH TO PAY YOUR BILLS AND SAVE FOR RETIREMENT, ESPECIALLY DURING an economic downturn. But it's even tougher when you have to juggle responsibilities, providing for your own financial needs and lending a helping hand to your elderly parents or grown children—or both. Nearly half of Americans 55 and older say they expect to provide support for aging relatives and adult children, according to the Retirement Re-Set study by SunAmerica Financial Group and Age Wave, a research group that tracks the financial and cultural impact of the graying of America. "Family assistance has become the new retirement wild card," says Age Wave founder Ken Dychtwald.

A sour economy has exacerbated the squeeze on the "sandwich generation." Seniors are struggling to cope with rising medical and long-term-care expenses just as their investment portfolios and home values are shrinking, and their middle-age children sometimes need to pitch in. Those same children, who breathed a sigh of relief when the college tuition bills for their own offspring finally ended, may also be fielding requests for help from the kids—or even a boomerang brood on their doorstep.

It's hard to say no, and most people don't. But that decision may have long-term implications. Even if you don't have to raid your retirement accounts, cutting back on your retirement-plan contributions to help family members translates into a smaller nest egg.

Or maybe it's your *time,* rather than your money, that's in demand. Although it might seem more cost-effective to take time off from work to care for a relative rather than to pay someone else to do it, the long-term cost can be high. The average worker who takes time off to provide care for an aging parent sacrifices more than $300,000 in lost wages and benefits over a lifetime, says Sandra Timmermann, a gerontologist and director of the MetLife Mature Market Institute.

"You lose the accumulation of the money you could earn; you lose your 401(k) match; you lose your benefits and health insurance; and you may not be able to find a job again when you want to get back into the workforce," she says. (See the box on page 74 for other ways to cope with care-giving obligations and costs.)

CALL IN THE PROS

Roger Bacharach, 65, knows about the sandwich squeeze firsthand. A professional artist from Lancaster, Pa., Bacharach has spent nearly five decades balancing his love of art with the financial realities of raising a family. "My father always encouraged me to have a dependable source of income," says Bacharach, who supplemented his painting sales with art-related jobs, such as medical illustrator, art teacher, and gallery and art-supply-store owner. He and his wife, Trudie, an emergency-room doctor, faithfully squirreled away money to pay for college for their two children and to fund their own retirement. But just as they were getting ready to relax and enjoy retirement, life took an unexpected turn.

Roger's parents, Lewis and Mary Rae, had been living in Arizona for more than 30 years. But after Roger's mother began showing signs of Alzheimer's in her early nineties, Roger talked to his parents about moving to Pennsylvania to be closer to him and his brother. By the time his parents relocated three years later, his mother had suffered a stroke. She went to a nursing home for care; his father moved to an assisted-living facility nearby. The elder Bacharachs had saved enough money to pay their long-term-care expenses for a while, but at more than $12,000 per month, their money wouldn't last forever.

Roger and his father assembled a team of financial experts, including an accountant, an estate planner, a bank manager and Roger's longtime financial planner. "We got together a good team to help prepare for whatever was coming down the pike," says Roger. They set up his dad's investments so their nursing-home and assisted-living bills would mostly be paid for from stock dividends and laddered CDs. They also set up a trust to minimize estate taxes.

Meanwhile, Roger and his father worked together to see where they could cut costs. They scrutinized the itemized nursing-home bills for errors, and they reduced costs by more than $1,000 per month by purchasing some of his mother's personal supplies on their own rather than paying the facility's marked-up prices. Lewis, a former pawnbroker who could add five columns of figures in his head without a calculator, enjoyed the accounting efforts, which kept his mind nimble and saved him money. Mary Rae died at age 100 in early 2011, but Roger and his father, now 97, still go over his finances with a fine-toothed comb. Seeing how much his parents spent on their combined nursing-home and assisted-living bills prompted Roger and Trudie to buy long-term-care insurance for themselves.

Rick Rodgers, the Bacharachs' financial planner, says that when he meets with new clients, one of the first things he brings up is whether they think they'll eventually have to help their parents financially. "We're siphoning off funds that would be used for our retirement to take care of our parents," he says. "It's a trade-off." And working around that trade-off is a key piece of his clients' financial plans.

ROGER BACHARACH (CENTER) HELPED HIS SON, JOEL, AND HIS FATHER, LEWIS, THROUGH TOUGH TIMES.

CREATE AN ACTION PLAN

Lisa Green, a financial-services coordinator in Boca Raton, Fla., counts herself among the sandwich generation infantry. Her professional experience came in handy as Lisa and her four adult sisters prepared for financial challenges when their mother needed care.

Delores Green, now 78, survived a bout of throat cancer several years ago but needed care at home following hospitalization for a knee injury and subsequent infection. After her daughters took turns providing care in her home in Delray, Fla., for several months, Delores and her daughters decided that it was time to sell the house. Delores planned to move into a continuing-care community, where she could live in her own condo but would have medical care available if she needed it. Preparing the family home for sale after 40 years was hard enough, with Lisa's sisters flying in from all over the country and using their vacation time to clean out the house. But the timing couldn't have been worse. It was September 2008, during the darkest days of the Great Recession. Delores's portfolio shrank, and home values in Florida hit the skids at exactly the time Delores needed a lump sum to buy into the retirement community.

Lisa's financial-planning expertise helped the family manage this worst-case scenario. She analyzed the situation, as she does with clients, and let her sisters know exactly where they stood and the timeline for when they might have to pitch in and provide financial assistance.

She helped figure out where to find the lump sum for the retirement community and created a spreadsheet dividing her mother's expenses into three categories: the carrying costs on her house, the monthly expenses for the retirement community and her personal expenses. "Then we could see how long the assets could last," she says. "We knew that she had staying power for 18 to 24 months. But if we didn't sell the house by then, we'd all have to start kicking in cash." Lisa told her sisters that they should be prepared to contribute $500 per month each to their mom's expenses if the house didn't sell after two years.

Fortunately, they found a renter the following year who covered the house's carrying costs, and they were able to sell it before the sisters had to contribute any money. Meanwhile, Delores's portfolio turned around, too. But Lisa continues to monitor her mother's investments and expenses so that she and her siblings will have plenty of notice if they need to help in the future.

Helping Your Parents

DISCUSS LONG-TERM-CARE INSURANCE. Your parents must be healthy enough to qualify. Some adult children pay their parents' premiums to help protect their own savings. And consider buying insurance for yourself to protect your assets and those of your children.

INVESTIGATE ADULT DAY CARE. Instead of quitting your job to provide care for your parents, consider enrolling them in an adult day-care program while you work, recommends gerontologist Sandra Timmermann. The average adult day-care program costs $67 per day, compared with $21 per hour for a home health aide ($168 for an eight-hour day) or $229 a day for a private room in a nursing home, according to the MetLife Mature Market Institute.

TAKE ADVANTAGE OF TAX BREAKS. If your parents live with you more than half the year and you pay for them to attend an adult day-care program—or pay for someone to care for them at home so you can work—you may be able to pay for those expenses with tax-free money. You may be able to contribute up to $5,000 per year to your employer's dependent-care flexible spending account or claim the dependent-care credit on your tax return, which is worth 20% of the cost of care, up to $3,000 for one dependent or $6,000 for two.

ASK ABOUT CARE-GIVING BENEFITS AT WORK. Some large employers offer elder-care service locators or other care-giving support as an employee benefit. And you can find out if your parents are eligible for federal, state and other benefits through www.benefitscheckup.org.

KIDS IN NEED

Helping your parents is only half of the story in the sandwich generation squeeze. Two of Lisa Green's sisters had kids attending college at the same time they were on notice that they might have to help with their mother's bills. Likewise, at the same time that Roger Bacharach was moving his parents from Arizona to Pennsylvania, his two children were in college.

The Bacharachs had saved for years to help cover some college costs without jeopardizing their own retirement. The kids each took out student loans, too. "I told them I'd pay for part of college, but I also wanted them to take out some loans so they had some skin in the game and could start building credit on their own," says Roger. "They're paying them back and managing their own finances."

After both children graduated and found good jobs—Joel as an environmental supervisor and Jordan as a teacher—it looked as if Roger and Trudie were finally finished with their kids' expenses. But then the recession hit, and both children lost their jobs.

At Roger's urging, both kids had opened savings accounts when they

were young and added to the accounts through the years. Those savings helped them after they were laid off, and Roger gave them both a chunk of cash to help them over the rough patch. But he told them that they had to manage the money.

Joel is using his money to help pay off debt and cover his expenses. Jordan, who found a teaching job in Philadelphia and is getting married, is using her savings and her parents' gift for a down payment on a house. Both of them met with Rick Rodgers, their parents' financial planner, to work on their own financial plans.

Rodgers recommends that clients help their children get into the savings habit by matching their retirement-plan contributions as soon as they're eligible. It teaches them about the importance of saving and helps them stretch the money even further (see the box below for more ways to help your kids).

Make a plan for helping your kids. The Merrill Lynch Affluent Insights Survey found that 82% of the affluent parents (defined as having investable assets of $250,000 or more) surveyed are either supporting their adult children or would if they were asked. And 55% say they would allow boomerang children to come back home, some even if they couldn't pay rent. But the support needs to have limits, says Mari Adam, a financial planner in Boca Raton, Fla. "It's becoming a big problem," she says. "It's interfering with the parents' ability to retire."

One of her clients is almost 70 years old and needs to retire soon, but she can't because she spends too much of her money on her kids, says Adam. Sometimes the kids are in their twenties or thirties—and even their forties. A study by the National Endowment for Financial Education found that more than 25% of parents surveyed took on additional debt to help their children, and 7% had to delay their own retirement because of it.

Adam, who has two teenage children herself, recommends to clients that when their adult children need money, they determine whether it's a short-term emergency or a chronic situation. You can help the kids financially, but set clear boundaries. "It's very hard, and people feel guilty," she says, but you don't want to encourage them to sit around. "You want to encourage them to work or pay some rent."

She recommends that the parents help by giving a fixed amount of money that the children have to budget themselves, much like the Bacharachs did, rather than just paying off their debts or covering their expenses. You may let them live at home rent-free for a certain time period, but then charge them rent after that.

"You can put that money aside for them and give it to them when they move out," she says. They can then use the money for a security deposit on an apartment or to build an emergency fund. Or, if the children have earned income, the parents can use the rent money to contribute to a Roth IRA, which will give them a head start on their own future. ■

Helping Your Kids

MAKE A ONE-TIME GIFT. If you can spare the cash, give your adult children a lump sum for them to budget rather than just paying their expenses or paying off their debt, and make it clear that's all you are willing to give. Having a limited amount of money provides an incentive to stretch their funds by cutting nonessential expenses. You can give up to $13,000 per person, or you and your spouse can jointly give up to $26,000 in 2011 without having to file a federal gift-tax return or paying taxes on the gift.

OFFER PIECEMEAL ASSISTANCE. If you can't afford to fork over a chunk of cash, or prefer not to, you may want to help your kids pay a few critical bills, such as health insurance or car insurance premiums, so that you know they still have coverage.

SET HOME RULES. If your kids can no longer afford to pay their rent (and you can't either), discuss ground rules for moving back home, including how long they can stay and how they can contribute to the household in terms of rent and chores. Some parents let their kids stay at home for a given number of months, then charge rent after that, setting aside the money to build up an emergency fund or savings the kids can use for rent or other expenses when they do move out.

JOIN FORCES. If your child is under age 26 and loses his job, it may be cheaper to add him back to your health insurance policy than to pay for continued coverage on his former employer's plan through COBRA (the federal law that allows laid-off workers to buy insurance at group rates) or to buy a stand-alone health insurance policy. Raising the deductible on his car insurance policy could lower premiums, or adding him to your policy could produce even greater savings. And you may be able to consolidate your cell phone expenses into a single family plan.

CREATE A DOUBLE-DUTY EMERGENCY FUND. Matching your kids' contributions to a Roth IRA as soon as they start working can have several benefits: The money not only grows tax-free for retirement, but your kids can also withdraw the contributions at any time tax- and penalty-free if they need the money before then, providing a backup emergency fund. And depending on their income, they may qualify for the retirement savers' tax credit, which can lower their tax bill by up to $1,000 when they contribute to an IRA or employer retirement plan (as long as they are not your dependents or full-time students).