THE Wealth REPORT

SANDWICH GENERATION: STUCK IN THE MIDDLE WITH YOU

Overview

More than 40 million Americans serve as the primary caregiver for their aging parents, and this phenomenon isn't just a moment in time; it's a growing trend. The number of family caregivers is expected to continue growing as more baby boomers transition into retirement years. Projections show that by 2040, more than 80 million Americans will be age 65 or older.[2]

The Sandwich Generation, which mostly consists of older Generation Xers and younger baby boomers, experiences both emotional stress and financial challenges as over-wrought caregivers. Their time and attention are divided; their finances strewn across checks, cash and credit card charges. All the while, they are trying to save and plan for their own retirement.

According to a Pew Research Center report, 47% of Americans between the ages of 40 and 59 have children young enough to live at home and parents old enough to need caregiving aid. Economists have dubbed this group the "Sandwich Generation" — stuck in the middle between two highly dependent demographics.[1]

Older Parents

On average, seniors begin relying on their adult children at age 75, or when poor health becomes a factor.[3] There's also a growing trend of elderly parents moving in with their adult children, which comes with expenses similar to having adult children living at home.

A study by MetLife Research found family caregivers spend an average of $12,000 a year of their own money tending to parents.[4] It's often just easier to pay for things like copays at the doctor's office, prescription drugs, groceries and picking up food for dinner.

Younger Children

The younger end of the Sandwich Generation's responsibilities may include school-age children, young adults, boomerang children who move back home — sometimes with their own children in tow — and even the occasional financial assistance for a younger adult sibling. This means parents could juggle braces and ballet lessons with child care and adult daycare expenses.

Despite recent gains in the economy, financial independence among young adults is increasingly delayed — so just because your children graduate with college degrees doesn't mean they're out of your hair. Many millennials, who got off to a slow career start due to the recession, are burdened with student loan payments and choose to live at home to meet expenses.

Last year, 15% of 25- to 37-year-olds lived with their parents. That's 6% more than Generation X members who lived at home at that age and almost twice that of baby boomers.[5]

Planning Tips

- It's a good idea to become familiar with senior parent finances earlier rather than later, even if they resist help. Hold a family meeting with them while they are still vibrant and healthy. Ask them to tell you about their finances because it will help you develop your own financial plan for retirement. Discuss things like geographic location, housing and caregiving preferences should one or both of them become incapacitated. If you have siblings, everyone should be a part of this planning process.

- Ask your parents to include you (and/or other siblings) on their bank accounts so you'll be able to pay their bills online for them. Ask them to appoint a durable power of attorney and meet with an estate planning attorney to complete the requisite paperwork.

- Find out if your parents have purchased long-term care insurance or any other type of policy that can offset the cost of elderly care, whether at home (yours or theirs) or in an elderly community. Their existing assets, including annuities and life insurance, may offer withdrawal options that are triggered by medical conditions that require long-term care. Keep in mind, policy withdrawals may reduce available cash values and death benefits. If your parents don't have many assets, look into what resources may be available through Medicaid.

- If your parents have substantial assets, you may want to hire a professional advisor to handle their financial affairs if they don't already have one. This can help alleviate the awkwardness of getting involved in their investments and household bills.

- Learn about their savings and investments as well as other sources of income. Ask to meet with their financial advisor so you have an advocate you can rely on should the burden of their care fall on you.

- Speak with your own financial advisor about the potential expenses you may incur with regard to both your parents and children as you prepare for your own retirement.

- If you must withdraw from investments, due to the potential for tax penalties, tax-deferred retirement accounts should be your last resort.

- Learn what investment and savings plans are available to help you save for children's college. While you don't want to sacrifice your own retirement (or that of your dependent parents) to pay tuition, any amounts you can save will help lessen the burden of your children paying student loans as young adults. If you contribute to a 529 college-savings plan, earnings grow tax-free.

- Keep in mind you may be able to claim your parents as dependents if you pay for more than half of their daily care.

- Instead of raiding retirement funds to pay dependent expenses, cut back on expenses such as expensive vacations, home renovations or paying off your mortgage early.

- With two generations relying on your income, it's important to have adequate life insurance coverage. Note that even a full-time unpaid caregiver should have life insurance since these services will require a paid provider should something happen to him or her.

"Many people find that setting clear limits in advance is the key to an arrangement that allows you to take pleasure and pride in helping your loved ones without becoming completely overwhelmed."[6]

Final Thoughts

The demands to serve as family caregivers can take a high toll physically and financially on the Sandwich Generation. That's why it's important, early on, to develop a conservative plan for retirement savings and financial security. Even if you can't put away a lot of money due to multiple priorities, it is important to invest a little over a long period of time to take advantage of compound interest.

Don't fall into the trap of thinking you have to make financial decisions all by yourself. Work with a financial advisor to develop your own financial plan. Most of all, remember that time with family is precious. Whether it's the last few years with your children at home or the final years of a parent's life, the better prepared you are to juggle these responsibilities, the more you'll be able to enjoy being surrounded by family.

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[1] Jessica Levy. Statesman Journal. April 22, 2019. "Managing responsibilities as part of the sandwich generation." https://www.statesmanjournal.com/story/sponsor-story/virgil-t-golden/2019/04/22/managing-responsibilities-part-sandwich-generation/3518999002/. Accessed May 20, 2019.
[2] Administration on Aging, Administration for Community Living, U.S. Department of Human Services. April 2018. "2018 Profile of Older Americans." P. 3. https://acl.gov/sites/default/files/Aging%20and%20Disability%20in%20America/2018OlderAmericansProfile.pdf. Accessed June 21, 2019.
[3] Fidelity Investments. March 26, 2019. "How to take care of aging parents and yourself." https://www.fidelity.com/viewpoints/personal-finance/caring-for-aging-parents. Accessed May 20, 2019.
[4] Ibid.
[5] Caitie Burkes. Greater Baton Rouge Business Report. May 9, 2019. "Supporting both children and parents the sandwich generation keeps working." https://www.businessreport.com/business/sandwich-generation-retirement-baton-rouge. Accessed May 20, 2019.
[6] Jessica Levy. Statesman Journal. April 22, 2019. "Managing responsibilities as part of the sandwich generation." https://www.statesmanjournal.com/story/sponsor-story/virgil-t-golden/2019/04/22/managing-responsibilities-part-sandwich-generation/3518999002/. Accessed May 20, 2019.

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