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*TAX*PLANNING

Financial strategies for aging parents are becoming more important than ever these days

Coping with care

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After the indulgences of the holiday season, many of us make promises to ourselves to get healthier, lose weight or quit smoking.

However, most people's list of resolutions doesn't include proper estate planning to minimize or eliminate unnecessary taxes for your parents. And some of us downplay the importance of making arrangements for when Mom and Dad can't take care of themselves.

If you are blessed with living parents, and want to ensure they are properly cared for in old age, there are a number of financial (and non-financial) issues that require your attention on an ongoing basis. After all, you may be forced to step in and take over their affairs one day.

Today, people with age-related illnesses can still enjoy unprecedented life spans thanks to medical advances. But there is a potential problem in living a long life: not enough money to subsist on.

The Money Talk

The best time for a conversation with your parents about finances and their wishes for the future is when the "sun is shining" i.e., while they are healthy and independent.

There's a real danger for adult children who know little about their parents' financial situation – and know even less about what type of care is affordable if a parent has an accident or becomes ill.

For instance, do you know where your parents keep important financial documents and information? Things like:

- Bank accounts
- Investment accounts (RRSPs, RRIFs, mutual funds)
- Insurance policies
- Contact information for accountants, lawyers, brokers, financial planners etc.
- Wills and other legal documents like powers of attorney
- Digital passwords and log-in info for online financial activities

To make this job easier, a free Estate Planning Toolkit is available on our website www.illnessprotection.com/estateplanningtoolkit.php.

You may be reluctant to ask questions like these to parents who are still actively involved in managing their own finances. After all, these questions could be perceived as "prying," so you'll need to establish the context for your queries.

For example, "Mom, we don't need to know what's in the will, just where it is" or "Dad, we don't need to know how much insurance you have, just where it's kept." The point is to know what documents to look for and where to find them in an emergency.

Being aware of a parent's financial situation also helps adult children ensure that dividends and interest are received, insurance policies are paid on time and pensions are administered appropriately. Parents growing older are usually less focused on these kinds of financial details.

The biggest concern for children who have not had this conversation with their aging

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parents is how best to initiate it. A practical and non-confrontational approach is best.

Consider using an example from your extended family where a child had to step in and arrange matters for a parent. “Remember when Aunty Rose had to go into a home and cousin Andrea had no idea where anything was?” You may want to consider using this approach to start the conversation.

Be prepared to suggest this discussion several times before your parents take up the offer; full disclosure may require taking a few small steps first.

Consider saying “If anything happens to you, the burden of managing your health care and your money will probably end up being mine (and my siblings). I want to be able to do what’s right for you and make you as comfortable as possible.”

Parents who are reluctant to talk to their children may be willing to speak with a professional trusted advisor. Perhaps have an accountant, lawyer, certified financial planner or estate practitioner take part in the conversation.

The important thing is getting all the details and options on the table now in order to avoid months – or possibly years – of problems.

Be cautious along the way and assume that you may find unexpected holes and patches like unpaid bills, unexecuted wills and powers of attorney, or unfiled tax returns.

Wills and powers of attorney

If your parents haven't already done so, strongly encourage them to execute an updated will and powers of attorney. Just beginning this discussion means facing difficult issues.

There is a very real danger in not having these documents completed. Parents who are suddenly incapacitated without executed powers of attorney lose their ability to name trusted representatives to control their affairs.

There is often a time lag before an attorney is appointed by the public trustee, during which no one has control/authority over things like bill and mortgage payments or filing tax returns, to name just a few examples. Children sharing joint ownership of a home with an elderly parent won't be able to make changes until someone is appointed to represent the parent’s interest.

Respecting wishes

If it becomes necessary to take over the administration of your parents finances, be sure to respect their rights and wishes. Give parents as much control as possible by keeping their money separate from yours and involve them as much as possible.

Adult children also must be counseled to not judge the choices their parents make. An elderly mother who refuses to change her asset mix because she perceives it to be disloyal to your Dad’s memory isn't being difficult. She'll need clear explanations and lots of patience before she'll come around.

Also, adult children may have very different goals, time horizons and investment risk profiles from that of their parents. No matter how successful adult children have been, they do not have the right to force their money management styles on their parents.

Maintaining cash flow

Cash flow will become an issue for adult children when their parents can no longer handle routine transactions themselves. Watch for warning signs like past due notices, unopened mail and a general lack of awareness of what is going on financially.

Set up automatic debits for routine bill payments and eliminate the worry of unpaid bills and service disruptions. Automatic deposits for dividends, pensions, and other sources will ensure that money gets credited quickly to accounts.

Consider setting up joint accounts with your parents and add online or telephone banking. When a parent adds the adult child to a joint account at a bank where that child already has accounts, balances over the allowable $100,000 per person for joint accounts may not be covered by Canada Deposit Insurance Corporation (CDIC) insurance (see box on page five).

If CDIC limits are an issue, the adult child should bank at a financial institution that is different from the one that holds the parent’s accounts protecting their assets

Determine how long your parent’s assets will last based on current spending. This will help you prepare for the day you will assume financial responsibility. Get expert information on long-term care insurance, annuities and other financial products.

For elderly parents with a home as primary asset, it can be very frustrating to be house-rich and cash-flow poor. The reverse mortgage business is booming, but better alternatives are often available to provide funds needed for healthcare, home modifications and added cash flow.

For parents who can no longer live independently, choices will have to be made. Will they come to live with their children? Will they seek in-home help? Will they choose a nursing home? Every choice carries financial and emotional consequences that need to be discussed.

Also, be aware of the financial scams targeting the elderly. Often lonely and seeking companionship, seniors are easy marks for telemarketers and other crooks. If your parent falls prey, don't be too critical, report it to the authorities and calmly explain that the friendly stranger might be suspicious.

Credits and deductions

Depending on the health of your parents, you may face considerable medical expenses. Investigate the benefits of a Health Spending Account to deduct health care costs.

Check with their doctor before making purchases as many items can be deducted if prescribed by a medical practitioner. Remind parents to keep their receipts for everything; if they should ever need to prove a claim, they'll have the paperwork to back it up.

Medical expenses covered by a medical plan may not be included in the medical expense claim, but the health insurance premiums will qualify as an expense. Children (or their parents, as the case may be) should also file for all the allowable credits and deductions available. These include:

✓ equivalent-to-spouse credit
✓ attendant care costs, for a single child who supports a parent
✓ disability tax credit which can be transferred to the adult child if not used by the parent.

The baby boomers started turning 65 last year. Dealing with aging parents will become even more important as our society continues to age. It is only a matter of time before caring for the elderly includes our children taking care of us! So make retirement, insurance and estate planning part of this year's New Year's resolutions. ❐

CDIC – What's covered what's not

The Canadian Deposit Insurance Corporation (CDIC) insures most, but not all, savings. For more information on the CDIC, visit their website at *www.cdic.ca*.

Accounts and products insured by CDIC:

✓ savings accounts and chequing accounts
✓ GICs or other term deposits with an original term to maturity of five years or less
✓ money orders, certified cheques, travellers' cheques and bank drafts issued by CDIC members
✓ accounts that hold realty taxes on mortgaged properties

Accounts and products must be held in Canadian dollars at a CDIC member institution.

Accounts and products NOT insured by CDIC

✗ mutual funds and stocks
✗ GICs and other term deposits with a date to maturity of more than five years
✗ bonds
✗ treasury bills

Note that the CDIC does not insure any accounts or products in U.S. dollars or other foreign currency, or any accounts or products held in banks or other institutions that are not CDIC members.

Source: Canadian Deposit Insurance Corporation www.cdic.c