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WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

A WISER Guide

Financial Steps for Caregivers:

What You Need to Know About Money and Retirement

This booklet was prepared under a grant from the Administration on Aging.

What Caregivers Need to Know About Money and Retirement

Purpose

The information in this booklet is designed to help you identify financial decisions you may face as a caregiver. These decisions can affect both your short and long-term financial security, including your own retirement.

Nearly one out of every four U.S. households — or 22 million households — provide care to a relative or friend aged 50 or older.*

- In addition, 40% of caregivers are also raising children and 64% work full or part-time.
- On average, caregivers spend four and a half years providing care, and spend about 12 hours each week providing it.**

The Costs of Caregiving

Caregiving often results in financial consequences for the caregiver. Some of the consequences are obvious:

- a decision to work part-time,
- to decline a promotion requiring longer hours or
- to pass up a training opportunity requiring travel.

But there are more subtle consequences as well. These include:

- lost opportunities for compounded returns on 401(k) matching contributions,
- a reduction in savings and investments, or
- an inability to finance home improvements that could increase the resale value of a residence.

One study found that, on average, caregivers lose $659,130 over a lifetime in reduced salary and retirement benefits.***

*…on average, caregivers lose $659,130 over a lifetime …****

* American Society on Aging
** National Alliance for Caregiving
*** National Center on Women & Aging

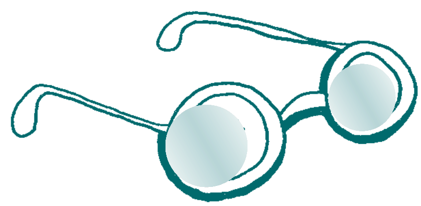
Step 1: Budgeting Basics

If you are a caregiver to a child, spouse or a disabled adult, having a household budget is a must. A budget will enable you to live in a way that protects you from financial crisis.

If you are a caregiver to parents or another adult outside of your household, you may find yourself paying expenses, both small and large, for that person without adding it all up or considering the long-term consequences. Small expenses add up quickly and could be preventing you from saving enough for your own retirement.

Follow the steps on these pages to help your family or another family member create a budget for living expenses. If there is a shortfall, examine all the expenses individually and think about ways to reduce expenses. Or, consider asking other family members to contribute to the monthly budget of the family member you are caring for. In your own household budget, be sure to include a regular monthly amount to save toward your own retirement.

The first step toward creating your household budget is to keep track of spending.



- Buy a small notebook and take it with you everywhere that you go for a couple of months. Write down everything that you spend money on.
- After a few weeks, start putting your expenses into categories, like food, transportation, and clothing. Look at how you spend your money. You may be surprised, for example, that you spend so much on food when you are not eating at home. Make a list of bills you have to pay on a regular basis, like car insurance, rent or mortgage payments, dental checkups and even gifts that you buy every year.
- Add up your total income — all of the money you receive in salary, other payments and benefits and any earnings on investments each year. Divide your annual income by 12 to calculate your monthly income.
- Subtract all of your regular monthly bills and the other monthly expenses that you found by keeping track of your spending in your little notebook. This will tell you what money you have left over for emergencies, like car repairs. Try to set some money aside for emergencies, so those situations won't completely throw off your budget.
- Finally, if you are the caregiver, look for ways to start saving some money for retirement. Make a plan to start investing, even a small amount, so that your money can start to grow.

If you are a caregiver to an older adult who can not make ends meet, here are some additional tips:

Health care expenses

- One major expense area for older adults is health care, particularly prescription drug costs. Research governmental benefit plans that might provide help, or private and state prescription drug discount plans to reduce drug costs. The National Council on Aging sponsors this interactive website to help older individuals determine what kinds of benefits they might be eligible for, plus where and how to apply. See "Benefits Check-up" on the web page of the National Council on the Aging (www.ncoa.org). This program can identify sources of help for an older person who is struggling to make ends meet.

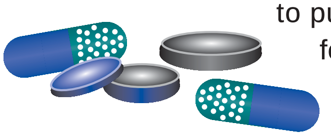
- Medicare recipients are eligible to purchase a private prescription drug discount card approved by the Medicare program. Investigate whether there is a card that will provide your loved one with needed financial help. Consult the website of the Centers for Medicare and Medicaid Services at www.medicare.gov or call 1-800-MEDICARE. In 2006, Medicare will add a prescription drug benefit that will provide assistance with drug costs for seniors.

- Private insurers offer "medigap" plans for medical costs not covered by Medicare. Investigate whether a medigap insurance plan makes sense for your family member. Call your state insurance commissioner for a list of medigap policies sold in your state. Also, states offer insurance counseling for older persons through programs called Senior Health Insurance Counseling Programs or "SHIP" programs. You can find a list of SHIP programs at www.Medicare.gov/ContactsRelated/Ships.asp or call 1-800-MEDICARE and ask for a referral to an insurance counseling service.

- Seniors with very low incomes might be eligible for Medicaid coverage along with Medicare. Although benefits vary by state, "dually eligible" individuals often receive drug coverage through Medicaid. Some eligible recipients can also have their Medicare premiums, deductibles and co-payments paid by Medicaid. Every year millions of eligible low-income seniors do not sign up for this benefit provided through state Medicaid agencies. Call your state agency responsible for administering Medicaid and ask about the eligibility rules.

- Advise your family member to consider investigating whether there is a good quality HMO or managed care plan in their area that accepts Medicare patients. Frequently these plans include benefits that seniors in the traditional Medicare plan pay out of pocket for, such as eyeglasses, dental benefits or drug costs.

- Some pharmaceutical companies will offer free drugs to low-income seniors with no means to purchase the drugs. Check this website, www.needymeds.com, for a complete description of the available programs.



Budget Worksheet

Fixed Expenses	Planned	Actual
Rent or mortgage payment		
Child care		
Debt repayment		
Allowance for self		
Allowance for others		
Car payment		
Other		
Other		
Savings for retirement		
Total Fixed Expenses		

Flexible Expenses	Planned	Actual
Food at home		
Personal care		
Telephone		
Clothing		
Medicine		
Gasoline/Bus		
Laundry/Dry cleaning		
Household supplies/Home care		
Food away from home		
Other		
Other		
Total Flexible Expenses		
+ Total Fixed Expenses		
= Total Expenses		

Reverse Mortgages

If the family member you are caring for owns a home, they might want to consider a reverse mortgage. A reverse mortgage is a way for homeowners age 62 and over to borrow against the equity of their homes. It is a mortgage that pays the homeowner a loan as a line of credit, a lump sum, or a series of monthly payments. It is important to know that the homeowner does not need to repay a reverse mortgage as long as he/she lives in the home. The loan is repaid when the owner sells the home or dies. The estate can repay the reverse mortgage with proceeds from the sale of the home or from another source of funds.

For more information, order AARP's booklet *Home Made Money: A Consumer's Guide to Reverse Mortgages* by calling 800-209-8085 or visit AARP's website at aarp.org/revmort. See also the Summer 2003 issue of WISER's newsletter, *WISERWoman*, for information on reverse mortgages: www.wiserwomen.org/articles_publications.html

Immediate Annuities

Many older people worry about whether they will outlive their savings and not have sufficient resources at the end of their lives. Family caregivers often worry about this too — and whether they will be able to supplement the income of a family member who exhausts his or her savings. There's no magic answer, but for many people, looking into purchasing an immediate annuity makes sense.

An annuity can be purchased from an insurance company for a lump sum and can guarantee a regular monthly payment for the rest of the purchaser's life — no matter how long they live. (The downside is that funds used to buy an annuity are generally not available to pass on to heirs.)

Consult a financial advisor about the risks and benefits of an annuity before buying one, but if the family member you care for has savings, consider an annuity as a way of insuring a guaranteed income to supplement Social Security for the remainder of his or her lifetime.

Step 2: Leaving a Job or Working Part-Time

If you are thinking about leaving your job or reducing your hours to part-time, you should check into what will happen to your benefits as a result. If you leave or reduce your hours without understanding the rules, you might just lose out on benefits and retirement income.

Pivotal decisions you make now can have a tremendous impact on your financial future. Be sure to exhaust your other options before leaving a job or reducing your hours. A good place to start is Eldercare Locator, sponsored by the federal Administration on Aging, which puts individuals in touch with local caregiving services and resources. (Call 800-677-1116 or see www.eldercare.gov)

Barbara B. knew she was going to leave her job, but she was determined to stay just long enough (to the exact hour) to meet the five-year vesting requirement for the company's traditional, defined benefit pension plan. It was too much money to walk away from, if she could manage to stay long enough. And, because she talked about it, the whole office became aware of the five-year vesting requirement.

You know the upside of leaving to provide care for a family member, but it is also important to understand and plan for the financial and retirement implications. Staying home, you will lose compensation and benefits; you may also lose job skills and contacts. For some, there may also be a loss of tenure and its benefits, such as promotional opportunities, job security or more vacation days. If you are leaving behind a pension plan, you will lose years of service toward vesting or increased benefits and/or account contributions that build up while you work.

If you decide to quit or reduce your hours, consider the effect on your retirement benefits:

- If you are in a traditional pension plan, you usually become vested in five years. Generally, the longer you stay the more valuable the benefit will be.
- In a defined contribution pension plan, there is a similar requirement — you must stay a certain number of years, often between three and six years.
- If an employer provides retiree health insurance, it will usually be only for retirees who worked for the employer for their full career and receive a monthly defined benefit pension over the remainder of their lives.

If you are going to another job without health insurance coverage, you can elect to continue coverage under your previous employer's group policy, but you will pay all of the premiums. You have 60 days to decide if you want to elect this coverage under a federal law referred to as COBRA.

Things to Consider

- If you are thinking about leaving a job with a traditional pension plan, your employer can tell you what you will receive as a monthly pension benefit when you reach retirement age.

- If possible, wait until you are vested in the defined benefit pension or in your employer's contributions to your 401(k) or other defined contribution plan before you leave.

- If you are switching from full time to part time, be sure to work enough hours to maintain your benefits. The longer you work at a job, the more you may have to lose in the way of retirement, seniority, and other benefits.

In a defined contribution plan, such as a 401k plan, when you change jobs, you will have some choices. You may be able to leave your retirement savings in the same account or roll it over into an Individual Retirement Account (IRA). You should resist the urge to take the money out and spend it. Invest it so that it continues to grow until you retire. Also you'll avoid the IRS penalty for taking it out early.

Eldercare Locator, sponsored by the federal Administration on Aging, puts individuals in touch with local caregiving services and resources. (Call 800-677-1116 or see www.eldercare.gov)

Sit down with your spouse and budget your expenses. See budget worksheet on page 3. Include a contribution to an IRA for yourself as one of the expenses. If possible, pay off credit card and loan debts before you quit.

Do some worst-case planning and consider what might happen if your spouse should become disabled or die. Find out what health, disability and life insurance coverage you have, and what it would cost if you decided to buy additional coverage on your own.

You should consider putting money into an Individual Retirement Account (IRA). You can contribute $3,000 a year to an IRA, or $3,500 if you are 50 or older. These amounts will be increasing over the next few years and, of course, you can always put in less.

If you start your own business or do some consulting while at home, you could also start a small business pension plan, like a SEP, a Simplified Employee Pension. A SEP is easy to set up and will let you contribute more than an IRA. A qualified financial advisor, like your banker, can help you decide whether, and how, to start a SEP.

Step 3: Talk to your family about the financial impact of being a caregiver.

Family Financial Planning

- Talk to your siblings and other family members about the various costs involved in your providing care to a family member.

- Consider setting up an Individual Retirement Account (IRA) to replace retirement savings lost from your employer. Contact WISER for more information on various types of IRAs.

- Consider asking your family to pay you as an independent contractor for the care you are providing. If you are paid, you can set up a small-employer type pension plan like a Simplified Employee Pension (SEP), explained in WISER's Fact Sheet on Small Employer Pension Plans, at www.wiserwomen.org on the "Pensions" page.

- If you are caring for someone who is a widow or widower, review the information in WISER's Special Report on Widowhood, at www.wiserwomen.org on the "Divorce and Widowhood" page.

- Consider the possibility of purchasing long-term care insurance for yourself, which can give you more choices when you face healthcare decisions in your own retirement. See WISER's fact sheet on Long-Term Care Insurance at www.wiserwomen.org on the "HealthCare" page.

Step 4: Are You Saving Enough for a Secure Retirement?

Like many Americans, you may be wondering how much money you will need when you are ready to retire and if you are saving enough to meet your goals.

First, you need to know how much you can expect from Social Security, pensions, annuities or other retirement vehicles. Make a list of all of your sources of retirement income, and estimate what the monthly benefit will be. Include Social Security, pensions from private or government employment, and IRA and 401(k) retirement savings.

The Social Security Administration sends every adult over the age of 25 a statement with their projected Social Security benefits. Contact the plan administrator of any pension plan you have participated in to determine how much your benefit will be. Look at your total IRA and 401(k) savings and estimate how much monthly income you can withdraw from savings. Ask yourself three important questions: Can you count on getting the income for life? Will the income keep up with inflation? Can some or all continue to your surviving spouse?

The second step is to calculate your net worth. Estimate the total value of your assets, including cash, home equity, automobiles, other personal property, the value of insurance policies and so on. Then, subtract the total of your liabilities, including mortgages, credit card and loan balances, home equity loans and other debts from your total assets. The result is your net worth. Remember, not all of your assets will be available for retirement income unless you sell them or use your home equity as a source of retirement funds.

Calculate how much income you will need in retirement. Most experts recommend planning for at least 80% of your current pre-tax income in order to maintain your current living standard. WISER recommends planning for 100 percent to cover rapidly increasing heath care costs and inflation.

Next, calculate the gap between income from Social Security, retirement plans and assets and your retirement income goal. The gap represents the amount you will need to save between now and retirement in order to meet your overall goals. How much you need to save each year to fill the gap is a complicated calculation. WISER's website (www.wiserwomen.org) has an online calculator that can be used to calculate how much you will need to save each year in order to build the nest egg you need.

Struggling to save for retirement? Sometimes, the best first step is to pay off your credit card and loan debts. Once you pay off the debts, put the money in a retirement account.

If you are working, be sure to participate fully in your workplace retirement plans. If your employer will match your contributions to your 401(k) — that's free money. Don't pass it up.

Finally, learn to live beneath your means. That's how people build wealth.

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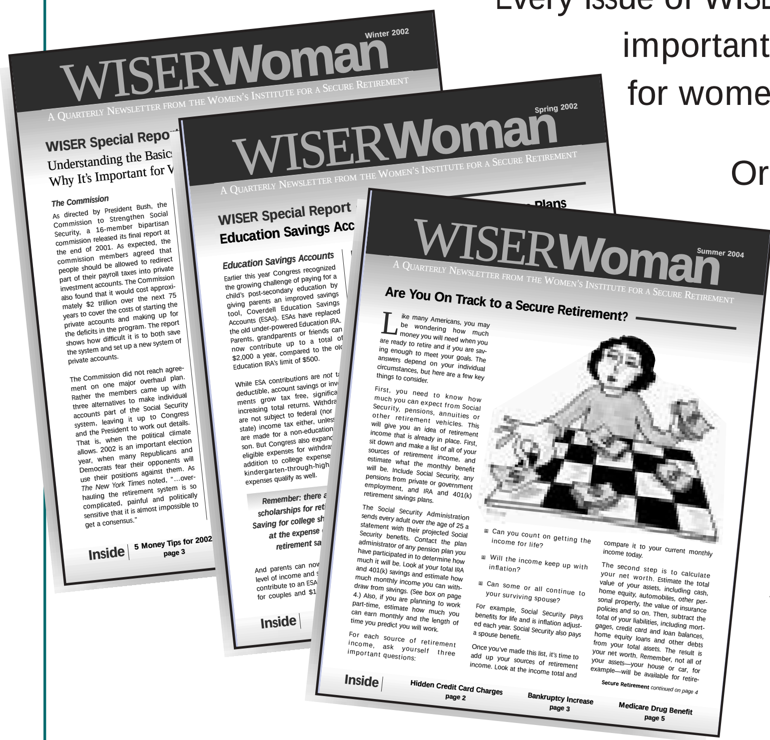

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WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

WISER's mission is to improve the long-term financial security of all women through education and advocacy. WISER supports women's opportunities to secure pensions and adequate retirement income through research, workshops and partnerships.

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