

Give the gift of financial peace of mind

Let's face it: Mom and Dad can do without a bouquet of flowers or necktie

By Marc Hogan

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Let's face it: Mom and Dad can do without a bouquet of flowers or necktie. For the upcoming Mother's Day and Father's Day holidays, give them a gift of financial peace of mind by making sure their finances are in order.

Parents of any age have a host of complex financial needs, from retirement accounts to estate planning. The Sundays honoring moms (May 14) and dads (June 18) should be spent relaxing, but try setting aside some of the other 363 days of the year to make sure these needs are all met. "Most parents want the gift of time, so planning the time to help them is the real value and what they'll appreciate most," says Patricia Konetzny, a financial planner in Maynard, Mass.

It's a two-way street. Being financially secure also happens to be one of the best gifts parents can bestow upon their children, financial planners say. "If we give them everything they want but become a burden in the future, we haven't really given them anything," says Linda Leitz, owner of Colorado Springs-based Pinnacle Financial Concepts and author of *The Ultimate Parenting Map to Money Smart Kids*.

This week's *Five for the Money* looks at what parents should have in place to simplify their financial lives for themselves and their loved ones. And yes, you can still send flowers.

1. Prepare for the worst

While never a pleasant subject, wills are a must-have for all adults. Find an attorney to put together a will, trust, and power-of-attorney documents for your loved ones. Without a will, assets will be passed according to state law, rather than according to your parents' wishes.

If your parents already have wills, be sure they know where they're located. Also ask them when they last had their will reviewed. If it's been more than three to five years or a major change has occurred in their financial situation, it's time for a check-up, says Susan Elser, a fee-only financial planner in Indianapolis.

In addition to the typical estate documents, help your parents create a letter of intent. This should use simple, everyday language to make it easier to carry out their wishes in case the formal documents are unclear. "Sometimes an individual's desires are muddled in the legalese," says Adam Leavitt, president of Red Rock Financial Advisory in Tulsa, Okla.

2. Name names

What's in a name? Quite a lot, it turns out. It's a good idea to double-check who is designated a beneficiary on retirement accounts and insurance contracts. "Qualified retirement account beneficiary designations cannot be overridden by a will, so if the owner forgot to change the name of the beneficiary to the desired person, then the funds will go to an unintended beneficiary," says Don Martin, owner and founder of Los Altos (Calif.)-based Mayflower Capital.

Such a review is particularly important for parents who divorced and remarried, Martin says. And if someone who was widowed forgets to update beneficiary designations, then their previously deceased spouse's estate would inherit the retirement account. That adds an extra layer of taxes, fees, and hassles.

Trouble can occur even when parents are both still alive and have remained married. Parents who

name a trust for a child as a beneficiary in their wills must also change the beneficiary forms for their retirement accounts and life insurance policies. "Otherwise, upon their deaths, the trust won't get funded," says Elaine Scoggins, president of Tampa-based Scoggins Financial.

3. Collect their records

Many people can barely keep their own files straight, so imagine the challenge of sifting through someone else's during a time of crisis. "Frankly, the administrative specifics after death are more time-consuming and emotionally draining than the 'official' topics," says Mary Clair Allvine, a financial planner with Chicago-based Brownson, Rehms & Foxworth and author of *The Family CFO*.

Ask your parents to provide a list of their investment, bank, and insurance accounts, along with contact information and account numbers. Also find out where they keep important documents and assets. Dave Ragan, a financial planner at Denton (Tex.)-based Grunden Financial Advisory, recommends every family have an "I Love You Book." This binder or notebook would include all bank accounts, credit cards, liabilities, assets, doctors, and other information.

What about parents' safe deposit boxes? Parents should "consider giving an adult son or daughter a second key and access privileges to the box," says Mathew Gelfand, president of Bethesda (Md.)-based MDG Financial Advisors. He cautions that this may require a visit to the bank. Moreover, many financial planners suggest moving securities out of safe deposit boxes and into brokerage accounts.

The Internet era has brought with it a proliferation of passwords. These, too, should be kept in a safe place where children can find them if necessary. "Since many people have a variety of online accounts, access to passwords may become critical in a time of emergency," says Penny Marlin, president of Delray (Fla.)-based Marlin Financial.

4. Ensure they've got the right insurance

Insurance needs differ from person to person, but it's worth a moment to check whether your parents have the policies they need. Parents who qualify should sign up for the new prescription drug benefit plan (see *BW Online*, 05/05/06, "[New Medicaid Complications](#)"). Some planners also recommend picking up supplemental health-care insurance.

Long-term care insurance (LTC) may be right for many parents. "Parents over 60 should certainly consider themselves candidates for good LTC coverage," says Wexford (Pa.) financial planner Robert Choiniere. He suggests children think about funding the LTC, because it can help prevent the erosion of the estate they will presumably inherit.

As for homeowner's insurance, make sure the properties your parents think are covered actually are. Mark Gleason, a financial planner with Burbank (Calif.)-based Wescap Management Group, recalls a recent case of fire on a property with two dwellings. "It turned out the insurance only covered the one dwelling that didn't have the fire," he says. Planners also recommend owning an umbrella policy, which offers extra liability insurance in case of auto accidents or lawsuits.

Then there's life insurance. Older parents who don't need their policies should either give them to their children or sell them to a third party, Gleason says. Both options are typically better than simply surrendering the policy and cashing it in, which has the lowest expected value.

5. Check their retirement accounts

After talking about wills and beneficiaries, asking your parents about IRAs and such should be a snap. Parents over age 70½ need to be making their required distributions from IRAs and pension plans. If they're still working, they should fully fund their 401(k) plans up to the level of the employer match. Many planners also recommend Roth IRAs for those who qualify.

Just as with insurance, investment needs will vary. "The main question is, do they need income

from their investments to live on?" asks Argyle (N.Y.)-based financial planner Marjorie Randles. If so, they need to invest in income-producing securities. She uses iShares exchange-traded funds, like the iShares Dividend Index Fund, which has a relatively low 0.4% expense ratio.

Still, even older parents should be sure their portfolios are not too conservative. As with any investor, their assets should be diversified across a number of different asset classes. "They may still live a very long time, and growth above the inflation rate should be a part of the portfolio objectives," says Gleason.

Many planners also suggest keeping a cash account for emergency expenses. It should contain at least three months of living expenses, they say. Depending on the economic environment, it might take too long to sell off real estate or other assets, so ready cash can help pay off debts, taxes, or other unexpected costs.

Talking with parents about important financial matters can be easy to put off. Still, you'll be glad you did — and they will, too.

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