10 questions to ask your parents. (about their financial situation and funeral wishes)

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10 QUESTIONS TO ASK YOUR PARENTS

Many people with parents approaching or beyond retirement age are understandably reluctant to broach matters of money and mortality with them. Too often such sensitive discussions get put off until crisis strikes, in the form of death or serious illness. By then it can be too late to take steps that would have ensured the financial security of a widowed parent or of parents with high medical bills. Even without a crisis, your parents may need some help in managing their affairs as they age. By asking the difficult questions now, you may be able to protect not only your parents' financial well-being but also the estate that eventually may pass to you, your spouse and children--a goal that few loving parents would fault.

Raising these subjects, however, requires delicacy. One way to initiate the conversation is to talk about your own financial situation and what you would want your parents to do should you meet an untimely death. This is a discussion you ought to have in any case. The questions that follow are as crucial for you to answer as for your folks.

1 Do you have assets or liabilities that I don't know about?

Older people are especially tight-lipped about the details of their financial lives. Still, you need an understanding of your parents' affairs in the event you'll be called on to manage them. Some assets, like the house, are obvious; others can be easily overlooked. For example, you may be aware of Dad's pension but not of the lump-sum settlement that is part of his death benefits. There might be bank accounts in other states--or even other countries. Every year unclaimed real estate is sold for back taxes. Says San Francisco financial planner Lawrence A. Krause: "Billions of dollars are lost to survivors because assets remain hidden.'

People of your parents' generation are less likely to carry a lot of debt--much less hidden debt. Even so, your folks may have borrowed from a family member, and there may be no record of the loan.

Ask your parents to make a list of their assets and liabilities, noting in the case of assets how they are held--in joint tenancy, tenancy in common or in one person's name alone. Even if your parents steadfastly refuse to discuss their finances, they can make this list and keep it in a sealed envelope or a locked box at home. Make sure than you know where it is and have access to it when you need it.

2 Are you getting enough income now and have you considered ways you could get more?

Your parents should work out a cash-flow statement telling them how much money is coming in and whether it is enough to meet their retirement needs. If your folks need financial help, there are ways you can give them money and provide tax benefits for yourself. To date, one of the most popular has been the Clifford trust, which allows you to transfer assets to your parents for 10 years and a day. Any income the trust earns is taxed at their presumably lower rate. Be warned, though, that Cliffords are on the hit list of Administration tax reformers.

Your parents may need assistance of another sort. They may have been left behind in the rapidly changing financial world. They may be unaware, for example, that they can swap their passbook savings accounts and World War II-vintage savings bonds for money-market funds paying about 8%. Nor may your parents realize that their home, perhaps the largest asset they have, can now be a source of income for them even while they live in it. Ways to unlock this equity include so-called reverse mortgages, sale-leasebacks, Grannie Maes, charity life agreements and home equity credit lines. Banks, brokerage houses and financial planners can provide information on these relatively new methods. Says Denver financial planner Eileen Sharkey: "Owning a house free and clear is a goal your parents are likely to have had for years. Still, it is reassuring for them to know that in an emergency they can write a check against it.'

3 Are you properly insured?

If your parents are 65 or older, they qualify for Medicare. But they also need supplementary health insurance, so-called medigap or wraparound policies that pay deductibles and the percentage of doctor and hospital bills uncovered by Medicare. "Buy the best medigap policy you can afford from a reputable company,' advises Nancy Chasen, author of Policy Wise, a guide to insurance for older consumers (American Association of Retired Persons, $5.95). Blue Cross/Blue Shield offers some of the most comprehensive plans at costs that range from $200 to $800 a year.

You should discourage queasy parents from piling on one policy after another; they cannot be reimbursed more than once for the same bill. Similarly, they should avoid insurance that covers an individual illness, such as cancer, since this is the most limited type of protection, and Medicare usually pays for the treatment of these conditions.

Your parents may need to reconsider other kinds of insurance as well. If the spouse is provided for and there are no estate tax bills anticipated, the couple may be better off cashing in life insurance policies and putting the money in other investments. Your folks may need more homeowners insurance, though inflation and appreciation may have made their coverage inadequate. A few companies offer senior citizens discounts on this insurance; more of them give reductions for auto coverage.

4 Do you know the eligibility requirements for government aid?

Nursing-home costs are not covered by Medicare or private insurance. These ruinous expenses can quickly exhaust a couple's assets and leave the healthier spouse in peril. Two government programs in particular are designed to supplement income and cover the medical costs of the needy--Supplemental Security Income (SSI) and Medicaid.

To qualify for these programs, a married couple cannot own more than $2,400 in real and personal property, although the family home, auto and a specified amount of life insurance are exempt. If there is any evidence, however, that during the two years prior to applying for aid your parents divested themselves intentionally of excess assets, they could be disqualified. As your parents age, it may thus be advisable to help them gradually transfer ownership or convert to exempt property so they could get government assistance if they were to need it.

5 Do both of you know how to handle money?

Often in marriages one person manages the finances. If that spouse dies first, the other may be at a loss to take over the task unless he or she is properly prepared. While both are alive, the partner unaccustomed to managing financial matters should take over the bill paying and checkbook balancing one month a year. Also, both need to know where important papers are located.

It may be useful for couples with sizable holdings to establish a trust. A trust would provide professional management of your parents' assets and minimize probate and legal fees when they die. Because access to principal is limited, it can protect the surviving spouse from relatives who need a loan or friends with investment advice or even from crooks and gold diggers. Trusts can be expensive to set up, however, and there are annual maintenance fees. For a trust to be practical, your folks need an estate worth more than $400,000.

6 Have you each appointed someone to take care of your affairs if you're incapacitated?

Senility, illness or accident can leave one or both of your parents unable to manage. If no provisions have been made, the court will appoint a guardian or conservator--even if one partner is still competent. These legal proceedings can be time consuming and costly. Moreover, the appointed person may not be the one either parent would have chosen.

Each parent needs a durable power-of-attorney agreement. This is an inexpensive way to make sure people your folks trust wind up managing their affairs when they cannot. Your parents should name each other and a successor, probably one of the children. Your parents can make the powers as broad or narrow as they like. The appointed individual can manage, for example, all their finances or simply have check-writing privileges. Attorney fees for drawing up the documents might amount to $150 or $200.

7 How do you feel about lifeprolonging measures?

Medical science increasingly has the ability to extend life, often at reduced levels of competence and consciousness. Life-prolonging measures can quickly exhaust an estate and postpone a death that may be desired by the individual. Ending an artifically sustained life is a wrenching decision for relatives, so it is best to know what your parents prefer. The durable power-of-attorney agreement is perhaps the best way they can ensure that no extraordinary steps will be taken to keep them alive. They must explicitly give the appointed person charge over their health care and should outline their wishes in a letter. A copy of this agreement ought to be given to the doctor.

8 Have you any preferences with respect to your funerals?

Funerals are expensive, typically $3,500 but as much as $15,000. Your parents should get what they want, not what you find suitable. Thomas C. Nelson, author of the funeral planning guide It's Your Choice (American Association of Retired Persons, $4.95), suggests children focus the discussion on practical considerations. Says he: "Most people are quite comfortable to approach it as a consumer purchase.' You'll need to know whether your parents prefer burial or cremation; some desires such as organ donations must be arranged in advance of death. Once you've had the conversation, encourage your parents to outline their plans in a letter accompanying their will.

9 Are your wills up to date?

If your parents' wills are older than the 1981 tax law, or if your folks moved to another state since their wills were written, these important documents probably should be reviewed. A lawyer can make sure the wills take into account such changes in estate tax law as the increased marital deduction. Laws covering wills vary from state to state; in some places, for example, the executor must reside there. In addition, such events as a family divorce or the birth of a grandchild may suggest changes. Any special bequests-- family heirlooms, for example--should be handled in a separate letter that gets updated along with the will.

10 Where are the key papers?

The best place is in your folks' attorney's office. They and the executor should have copies as well.

Financial planners suggest parents keep all key papers in triplicate with one copy in the safe-deposit box, one in a fire-proof box at their home and another at one of their children's homes.