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WHEN TROUBLE TRICKLES DOWN

As retirement-age parents see their savings collapse, the pain is spreading to their children and grandchildren. Here's how families are coping with the older generation's financial woes.

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FOR MARCY TANNENBAUM-Fox of Andover, Mass., the dominoes started to fall in October. That's when she learned from her sister that her 83-year-old mother's retirement savings had taken a 25 percent haircut in the market collapse. It didn't take long to deduce that Marcy, 54, would need to kick in more to pay for her mom's home health aide, to name just one element of the \$80,000 or so in annual expenses her mother requires. But with Marcy's own investment accounts ravaged as well, the only place to turn was the college fund for her 18-year-old son, Jeremy. She downgraded some of Jeremy's top choices—like well-respected but pricey Quinnipiac University—in favor of state schools, and she nixed the precollege trip to Europe. As a career-placement executive, Marcy was no stranger to the effects of the slowing economy, but she was stunned by the speed of the collapse this past fall and its effects on her family. Just a year ago, Marcy felt like her family was sitting on a comfortable financial cushion. Today, she says, "that cushion has deflated."

Last fall's Wall Street carnage was an obvious nightmare for virtually all investors at or near retirement age. But what's becoming increasingly clear is that when the rug is pulled out from under the older generation, the kids and grandkids absorb much of the pain. Consider that almost \$3 trillion has been vaporized from retirement accounts alone. In many families, the crash has also wiped out money that seniors had earmarked for down payments on their children's first houses or college tuition for their grandkids. Instead, across the country seniors and their financial planners report that their calculus is shifting as they struggle to stay afloat. "Now there's no mention of, 'How can we provide for our children?'" says Stephen Herbert, a planner who also teaches at the North Carolina Center for Creative Retirement in Asheville. And those children, in turn, are scrambling to make up for the help they can no longer count on from the older generation—or becoming caretakers for parents whom they had assumed would be financially independent.

For many families, it's a sharp reversal of fortune. Almost a decade ago, the Center on Wealth and Philanthropy estimated that the U.S. was on the verge of the largest intergenerational wealth transfer in history—\$41 trillion, with as much as half that money expected to be passed on while the benefactors are still alive. But the current financial crisis has caused much of that wealth to evaporate. As if the stock market trauma were not enough, home values nationwide are now more than 30 percent off their peak in 2005. That pain is particularly acute for seniors, for whom housing is often one of their largest single assets; many who once planned on funding their retirement with real estate gains find themselves stuck in homes they can't sell. A recent Boston College study estimates that as many as 30 percent of older households are less secure in retirement as a result of

Many parents and grandparents assumed they'd be able to help their kids and grandkids financially. But in the wake of the crash, all bets are off.

the housing bubble popping. For the adult children of those retirees, that loss of security could be the difference between Gramps resting comfortably in a retirement home with his peers and him moving into the spare bedroom down the hall.

The disappearance of so much of the older generation's money and security has left millions of American families struggling to figure out what comes next. In many cases, the answer comes down to individual priorities: five-figure family vacation or savings bonds for the rug rats? Just as often, solutions can be found through smart planning—though there won't be any easy, short-term fixes. SMARTMONEY spoke with dozens of families around the country to find out how the market turmoil is affecting them and what they are doing to right the ship.

BACK IN THE VICTORIAN era, it was widely accepted that children would support their elders financially during their final years. Those family roles got twisted around in the prosperity of the post-World War II era. Seniors, living longer and flush with pensions and flourishing retirement accounts, developed a heightened sense of independence, leaving their baby boomer-generation children free to plan their lives without the burden of supporting them, says Stephanie Coontz, director of public education for the Council on Contemporary Families. In fact, the older generation could even afford to be generous: Today, more than a third of older couples make cash gifts to their adult children, according to a Rand Corporation study. The giving accelerated in the recent boom: In 2003, 17 million Americans gave a total of \$120 billion to family and friends outside the household while they were still alive—nearly double the level from just six years earlier. If anything, many parents and grandparents have long assumed that they'll be able to lavish their kids (and increasingly, their grandkids) with financial support.

That was certainly the plan for Vaughn Marston, 64, of Olympia, Wash. The mortgage broker had long aspired to cover the college costs of his oldest granddaughter, Sofia D'Aniello. Since she's an honor student, he even accounted for the possibility that he'd have to foot the bill for an Ivy League education. That was especially welcome news to Marston's daughter Juli, Sofia's mother, who was already planning to go back to nursing school. But over the past year, Marston's business has struggled—his income dropped by some 80 percent—and he now needs to focus on paying his own bills. The end result: Grandpa can no longer cover whatever costs Sofia doesn't earn through merit scholarships. "The real backup plan is, she may have to go to community college for a couple of years," Marston says. Juli doubts it'll come to that but suspects that her father's offer to help with her own nursing-school costs is off the table. "He's got a lot less bravado when it comes to money," Juli says.

Adjustments like these are taking a psychological toll. This summer Chuck and Jackie Itzkovitz built a second home in Apalachicola, Fla., down the street from one of their sons, Danny, and his kids. Now in their early 70s, they've long been a financial backstop for the family: Last year they loaned Danny about \$10,000 so he could move his seafood restaurant to a new location, and they've consistently socked away \$50 or \$100 each month into college savings accounts for the grandkids. With Danny and his wife working long hours at the



restaurant, Chuck and Jackie hoped to be a source of face-to-face emotional support as well. Turns out, their financial situation might not let them be either for much longer.

Between Chuck's pension, Social Security, a small portfolio of income-producing stocks and some General Motors bonds, the Itzkovitzes were used to drawing about \$5,000 per month. That's now down to about \$3,500. The couple had to pare the Hanukkah budget to the bone, and they're afraid they won't be able to afford the Apalachicola home. Now Jackie is having trouble sleeping, and Chuck, a retired social worker, has started asking around about teaching jobs back in their hometown of Asheville, N.C., in case he has to go back to work.

Meanwhile, the economic slump sliced restaurant revenue by almost half, meaning Danny can't pay back his folks quite yet. And he knows there's no more safety net if things get even worse. "I'd be afraid to ask. They always said I could ask if I needed help, but now that money's not there," he says. Danny, 44, recently gave some shifts at the restaurant to his wife, Marisa, a money-saving move that he can afford only because his parents can shoulder babysitting duty. If Chuck and Jackie have to spend more time in Asheville, Marisa could be back at home and Danny would have to add another employee—making the restaurant's margins shrink further. All of a sudden, their goal of sending the kids to a private school seems almost out of reach. "It's kinda scary," Danny says.

Of course, many adult children are less worried about getting help from their parents than they are about the possibility that Mom and Dad won't be able to pay their own bills later in life. The tab for that phase of life continues to mushroom: The latest MetLife survey shows that the average private room in an assisted-living facility now costs almost \$70,000 per year. Further, many seniors are now unable to fund their retirements by selling their homes. But those problems pale beside the damage that the current crisis has done to seniors' portfolios. While it's true that most investors shift assets into more-conservative investments as they get older, few leave the stock market entirely. Richard Johnson, a researcher with the Urban Institute, reports that the average person in his 70s still has 25 percent of his assets in stocks. And even seniors who were mostly "in bonds" would have taken big losses recently if that money was in bond funds, some of which fell by 20 percent or more in 2008. All of this helps explain why the average retirement account balance has slipped by 32 percent since the 2007 market peak. That's enough to make the difference between security and anxiety for some seniors—leaving them in need of family help.

EACH AUGUST, **ROBERT BENN** of Fredricksburg, Va., takes his family to the Outer Banks off the North Carolina coast. The men sail catamarans and fish offshore for mahimahi, while the women sunbathe and stroll into town for shopping. In the evening they congregate for sunsets on the beach. This year, for the first time in 40 years, the Benns stayed home.

Robert, a 62-year-old former real estate broker, is a prototypical member of the sandwich generation—with the added wrinkle that he is an early retiree himself. His 91-year-old mother exhausted her savings last year when she finally decamped to a retirement home, which left Robert and his wife, Linda, to make up the \$2,500 or so not covered by Mom's Social Security each month. The timing was abysmal: Most of Robert's wealth is in real estate, some of which has plummeted as much as 40 percent in value. Meanwhile, Linda, who works as a deputy treasurer with the county, lost 20 percent of her retirement savings in the market plunge. "All of these problems have flowed downhill," Robert says.

The Benns cut back, not just on family vacations but also on Robert's plans to trade in his 1999 Explorer and its 200,000 miles. Even sacrificing those creature comforts wasn't enough. Following a series of family meetings, they opted to borrow \$20,000 from *Elderlife Financial Services*, a Washington, D.C., firm specializing in financing for strapped seniors. The loan terms are better than a bank could offer, and the family hopes to pay it down when the real estate market rebounds and Robert can unload one of his properties. Still, Robert and Linda's eldest daughter, Robin Enfinger, who lives around the corner, is now kicking in \$500 per month to help make up for the shortfall.

Helping Your Family, Trimming the Tax Bill

Assisting a relative who's in financial trouble can be even more painful if your largesse hurts you at tax time. We looked at a few tax-efficient ways of assisting your family financially. **-B.R.**

■ **THE OUTRIGHT GIFT:** The tax code allows each person to give up to \$13,000 tax free to another person in 2009, meaning a married couple can "gift" up to \$26,000. Anything above that (or above a \$1 million lifetime limit) is subject to the hefty 45 percent gift tax. But there's one sizable loophole: Gifts that go toward education or medical expenses—for example, payments toward a grandson's tuition or a grandmother's nursing care—are not taxable. Such payments have to be made directly to the school or medical provider: If you just reimburse your relative, you may have some explaining to do to the revenuers.


■ **THE FAMILY LOAN:** With credit remaining tight for everything, whether it's buying a home or starting a business, family-to-family lending is increasingly attractive, says David Bloom, a wealth adviser at JPMorgan Private Wealth Management. And the IRS allows relatives to lend to one another at below-market rates, as long as those rates are higher than the so-called Applicable Federal Rate. (That rate is reset monthly; of late it's been just over 2 percent for most short-term loans.) Watch that rate closely: If your loan's interest rate is lower, the IRS might consider it a gift and subject it to gift-tax rules.

■ **ADD DAD AS A DEPENDENT:** Adult children who are pretty much supporting their tapped-out parents can at least get a tax break for their pains. If the parent's annual taxable income (not including Social Security) is less than \$3,500 and the adult child pays for more than half the parent's living expenses, the child can claim the parent as a dependent. If several siblings combine to pay for more than half, only one can claim the exemption.

For Robin, a 39-year-old stay-at-home mom managing three boys, the events of the past year have been sobering. “It forced us to take a harder look at what we are doing in our own lives,” she says. Her husband, James, makes a comfortable living in information technology, and Robin says they’ve been able to absorb the monthly hit. But no longer are they planning just for their own retirement and college savings for the kids. Now they want to add a buffer in case their parents need more assistance down the road. And they are considering long-term care insurance so their boys won’t have to assume a financial burden on their behalf when they reach their own retirement years. “We realize it’s important not to leave anything to chance,” she says. The Enfingers recently made plans to meet with a financial adviser.

In Massachusetts, Marcy Tannenbaum-Fox and her family are similarly recalibrating their long-term planning. In the family den, where Jeremy plays his guitar and other musical instruments, he also strategizes over his dozen or so college choices. On two whiteboards

and a poster tacked to the wall, he charts application deadlines, interview dates and—for the more expensive schools—dollar signs. Marcy says she has not cut any schools from Jeremy’s list solely because of the price of tuition but acknowledges that cost is now a primary factor. “It’s not going to be smooth sailing like we expected,” she says. Among the decisions on tap: whether to request financial aid. The family feels like they may now need it, but college-admissions consultants have told them it could hurt their chances of admission at schools that aren’t “need-blind.”

In any case, Marcy says she and her husband, Harold Fox, are resigned to working at least two or three years longer before retirement than they’d planned. Jeremy’s college expenses aren’t the only issue; Marcy’s mother’s long-term-care policy runs out in two years, which could leave Marcy and Harold on the hook for another \$55,000 a year. Despite a lifetime of saving, the Foxes are now evaluating just about all their life’s projects, from dinner plans to family vacations. “We’re doing the math on everything,” she says. 

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