Sandwich Generation in a PICKLE

By Jacqueline Fearer

Remember the Waltons, the Clampetts, and the Cartwrights? Andy, Opie, and Aunt Bea? These multigenerational, if fictional, families had something in common: they lived together, for better or worse, under one roof. Today, owing to the demographics of an aging society, many families are again finding it necessary to forsake modern mobility and move closer together. As their lives become more intertwined, many of the financial and social responsibilities of these new living arrangements fall on the family members in mid-life – the so-called "sandwich generation."

Many of the 77 million children of the baby boom generation born between 1946 and 1964 – the largest age group in the U.S. population today – delayed having children of their own until later in life. Now their offspring are (or may soon be) attending costly colleges at the same time that their aging parents may need financial and emotional support. These financial burdens are mounting just as baby boomers are starting to dream about their own retirement.

Add to this an increased life expectancy – living to age 76 or beyond is now the norm in the U.S. – and baby boomers often find themselves pulled in conflicting directions as they care for aging parents, pay for their children's education, and try to save for their own life after work.

Feeling Squeezed

In July 2001, the American Association of Retired Persons (AARP) released "In the Middle," a study of the 25 million members of the sandwich generation who are caught between and responsible for aging grandparents, parents, adult children who have returned home (or never left to begin with), stepchildren, college-bound teenagers, and their own young children.

AARP says 44% of Americans aged 45-55 have living parents as well as children under age 21 and that 22% financially support their parents (and possibly other older relatives) by contributing to housing, home care, medical, pharmaceutical, travel, and clothing costs. In addition, 25 million unmarried adults aged 19 to 39 live with their parents – and when they do leave, half of them return home within 30 months, often bringing a spouse or a child back with them.

With the myriad financial obligations and emotional complications that challenge them, it's no wonder that members of the sandwich generation face the prospect of delaying their own retirement. Experts say the goal is to strike a balance between maintaining a decent standard of living today and investing for tomorrow.

Balancing the Costs

"It's really about changing your mindset," says John Torvi, a financial consultant in Lincoln, R.I. "Much of the sandwich generation has prospered for so long, taking expensive vacations, buying second homes. For some, it's now time to have a conversation with their family about managing expenses more carefully and redirecting discretionary income in order to safeguard their future."

Having a family discussion about goals and spending can be a good way to begin, Torvi says. This discussion should involve everyone, including the children. "If they're part of the family, they're part of the solution," says Torvi. "And as difficult as it may be, you also need to discuss your parents' plans for the future so that everyone understands what their supporting roles may be."

Shauna Burton, 25, of Acton, Mass., was juggling school, work, and a new baby when her parents invited her to move back home. In addition to providing an apartment with a separate entrance, the Burtons, including Shauna's teenage sister, take turns babysitting. "It's a temporary situation to give my fiance and me the opportunity to save for our wedding and a home of our own," Burton, a hair stylist, says. "At first I worried about holding my family back from doing what they wanted to do, but their attitude is that we all pull together to help each other, so it's a team effort. Likewise, I will always be there for them."

Torvi says that you can't work miracles, but you can take action to begin saving more to meet your goals. Some strategies include:

- **Maximizing contributions** to your employer-sponsored savings plan
- **Setting up automatic payroll deposits** into accounts reserved for particular savings goals
- **Looking into the feasibility of long-term care insurance** for yourself and for your parents. Costs vary from state to state, but if you can afford the premiums now (averaging $250 to $6,000 annually), you may avoid hefty nursing home or assisted-living costs later. Today, nursing home care in the U. S. averages nearly $60,000 per year, according to Insurance.com.
- **Establishing a 529 college savings plan.** These plans are sponsored by individual states, and the assets in the plan are professionally managed by an independent investment firm or state government agency. A 529 plan can provide control, flexibility, and the possibility of earning a competitive rate of

return. And starting in 2002, distributions taken to meet qualified higher education expenses will be exempt from federal income tax*
- **Helping your children establish their own savings accounts** and letting them manage the money

Life-Changing Decisions
Bryan Stovall and his wife Kristen Chappell-Stovall were high school sweethearts in their hometown of Portsmouth, R.I. But when they married and began having children, they chose to live in Martha's Vineyard, Mass., where they happily raised their three children for more than a decade. But last summer, the Stovalls faced some family crises that couldn't be managed from an island seven miles off Cape Cod, so they picked up and moved back to Portsmouth.

When Stovall found out that his 63-year-old mother had cancer, he invited her to move in with his family. "Actually, the decision to move back was not difficult at all," says Stovall, who had suffered the loss of his father and two brothers within a short period. "You only have your children around for such a short time, and your parents were there for your entire life, so you make it work," says Stovall, 42, a contract/capital manager at Equity Residential Properties in Norwood, Mass. "That's what family is all about."

The Stovalls used the equity in their Martha's Vineyard house to purchase their new home, but held back some of the proceeds to help them through the transition period. "We really have to prioritize our expenses now since Kristen had to quit her job when we moved. Now we purchase only what we absolutely need and save for the larger expenses like back-to-school clothing or birthday presents," says Stovall.

Fortunately, Stovall's mother is financially prepared to pay her own expenses. "When my father passed away, all of their assets transferred to my mother," he says. "She wants to contribute to our children's education fund, but I will still have to work for a very long time to put three kids through college simultaneously and also meet my retirement goals."

Anticipating those tuition bills in four years, Chappell-Stovall says they try to sock away as much as possible and they discuss the importance of saving for college with their children, Kurt, 14, Paige, 12, and Gwyneth, 10. "Our kids understand they'll need to help finance their tuition by working after school and in the summer," she says.

To help meet their retirement goals, Stovall participates in his company's 401(k) plan and keeps an eye out for career opportunities to increase his income. "We opted to live on Martha's Vineyard for our children's sake rather than in a metropolitan area where our earnings potential may have been greater," he says "That set us back because I was not investing or contributing enough to my retirement plans. But sometimes you have to make decisions based on your family's quality of life."

Kristen Chappell-Stovall says her children are involved in some of the family's financial decisions these days, including coming up with ways to economize. "They think of inexpensive things we can do together for family fun, prioritize their wish lists, and labor a little more over spending their own savings." But she says her family's new way of life is about sharing – not sacrifice. "I wish my mother-in-law was not sick, but ironically, this time is very precious to all of us. Aunts, uncles, cousins, parents, and grandparents are together now more often for the little things in life, not just special occasions. It has been bittersweet."

Making It Work

Ten years ago, **Jody Rorick's** parents moved in with her and unwittingly redirected her career. A certified public accountant in Monmouth County, N. J., Rorick found herself immersed in her parents' financial and medical paperwork while raising two daughters, ages 1 and 4 at the time.

"I couldn't imagine how I would have managed all of their mail, bills, bank deposits, and taxes if they had been living in another state," says Rorick, who subsequently started a business in daily money management, specializing in personal financial services for the elderly.

After Rorick's father died in 1996, his pension income was discontinued. But Rorick says that her mother's needs are few and that her living with them has not added serious financial strain to the household. "The amount she contributes to the expense of running the household is less than what she would pay if she lived by herself," she says. "And we have a good long-term care insurance policy, so I have the comfort of knowing that, if needed, she could have care in our own home, I would be able to continue my business, and her assets would not be depleted."

Today, at 82, her mother is healthy and, when necessary, can help Rorick's two daughters, who are now 14 and 11. As for college, Rorick says that her daughters may be limited to state colleges and will apply for scholarships. "They are excellent students and I think that studying hard is a way they can share the responsibilities for their future if it helps qualify them for loans and scholarships."

Planning can make the difference

One of the keys to a secure financial future is to establish sensible spending and saving habits. Families who find themselves falling short of their goals may need to take immediate steps to address their fiscal responsibilities.

"It starts with a realistic assessment of where you stand today relative to what your goals are," says Stephen Mitchell, senior vice president of Fidelity Personal Investments. Having a plan, he says, is like having a road map. "Once you name your goals and determine what it will cost to get there, you can better understand your own level of flexibility in achieving them."

Mitchell says that developing such a road map means adopting a new way of thinking, accepting trade-offs, and changing certain behaviors. In particular, you may need to:

- **Shift your priorities**. You may need to consider delaying your retirement. "Staying in the workforce a few extra years is one of the most powerful levers we have against life's uncertainties," says Mitchell. "In the meantime, you can take care of shorter-term goals and give yourself a chance to grow your savings and investments."
- **Change your expectations.** For instance, think about sending your kids to public colleges instead of private schools or giving them responsibility for contributing part of their tuition.
- **Curb your spending.** Track your expenses to determine where your money is going. Then you can pare down your current lifestyle by becoming a better consumer. "The earlier you do this the better," Mitchell says.
- **Pay yourself first.** Think of your savings as a monthly bill and keep making the payments year after year as you would for a car or a mortgage.
- **Revisit your plan periodically.** "It's better to plan conservatively and find you're in a stronger position down the road than to not plan at all or be overly optimistic and find yourself in a weaker position," says Mitchell.

You can save more and maintain a decent standard of living, Mitchell says, if you're willing to put a plan into place and stick to it. "Having a plan and consciously weighing these trade-offs can be empowering, and in the end you will likely have a greater chance of achieving your goals."

Jacqueline Fearer is a freelance writer and frequent contributor to Focus magazine.

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*The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 will expire on December 31, 2010. Unless the law is extended by Congress, the Federal tax treatment of 529 Plans will revert to its status prior to January 2002.

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