FINANCIAL POST

Here's what to do when you take over a parent's finances

Here are some of the key areas to address in anticipation of or in response to taking over a parent's finances

There is a good chance you will be called upon someday to assist with a parent's finances. *Illustration by Chloe Cushman/National Post files*

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to the 2016 census from Statistics Canada, 17 per cent of Canada's population is **over the age of 65. Our senior population will continue to grow, and this will place more responsibility on children to provide various types of support for aging parents.**

A 2017 CIBC poll found that 90 per cent of those with parents over the age of 65 feel it is important to have a conversation about how they would like their finances managed should they find themselves unable to do so on their own. However, most children and parents — 62 per cent — have not discussed how to manage their affairs.

Even those who do know what Mom and Dad want may not be very well-versed financially themselves. Surveys frequently show that Canadians have poor financial literacy skills, including those who are confident about their knowledge. I have observed this firsthand with very intelligent, successful people who have sat in my office over the years who are very good at whatever it is they do for a living, but do not understand personal finance.

While this summary will hardly be exhaustive, I am going to touch on some of the key areas to address in anticipation of or in response to taking over a parent's finances. Let us assume that there is either an outright requirement for you take over their affairs due to health problems or that there is an explicit request made by them to you to do so.

CASH FLOW

Take a close look at your parent's income and expenses to make sure you know how they are funding their lifestyle and whether it is sustainable. If your involvement in their financial affairs is due to a physical or mental impairment that could result in higher medical or care costs, it is important to get a sense of what those future costs could be and how best to fund them.

You should talk about whether care in the home or care in a facility is preferable. If a home will not be sold, it may impact how you draw down on their investments, borrow against their home or provide support yourself.

Personal care workers can cost $20 to $35 per hour and registered nurses can cost $30 to $100. There is typically a minimum number of hours required per visit. Full-time care can cost $2,000 to $10,000 per month — or more.

If there are insufficient financial resources to fund future expenses, it is important to come up with a game plan early. The plan may be for family members to help pay for care costs or for a parent to move in with you or a sibling. And if the best alternative is for a parent to eventually move into a government subsidized long-term care facility, it is important to note that wait lists can be long and priority is given to those who need the help the most.

TAX

Make sure your parent's tax returns are up to date. Some seniors are prone to **owing money on their tax filing since neither investment income nor minimum withdrawals from a Registered Retirement Income Fund (RRIF) are required to have tax withheld at source. Some seniors may also be entitled to government benefits that are based on their annual tax filing and will not be paid if a tax return is not filed.**

You can have your parent sign a form T1013 to authorize you as their tax representative with the Canada Revenue Agency (CRA).

If your parent has a severe and prolonged physical or mental impairment, they may qualify for the Disability Tax Credit, which could save them up to $2,659 in tax for 2017 depending on their income and their province of residence.

There are other tax deductions and credits related to medical expenses, caregivers or modifications to a home that you should investigate as well.

INVESTMENTS

A parent will be able to authorize your involvement with their bank or investment adviser, whether you all take part in discussions, they give you trading authority or you formally take over accounts as power of attorney for property.

The first thing you should do with your parent's investments is take inventory of what they have in the first place. Statements are a good starting point, but check out past tax returns to see if they had tax slips from companies that are not included in their investment statements.

It is not uncommon, for example, for someone to own shares of a company that are held with a custodian, or shares of an insurance company they received because they owned a life insurance policy when the Canadian insurers demutualized in the 1990s. They may not get an investment statement in this case — possibly just a T5 slip each February. T5 and T3 slips will help you match up investment income to investment accounts.

Once you have everything summarized on one page, you can take stock of whether they have enough money to fund their future expenses, whether on your own or with the help of a professional. You can also get a sense of what they are invested in and whether they have a suitable overall asset allocation.

My experience has been that older investors are more prone to having their savings stashed in high-fee mutual funds that were the only investment game in town in the 1980s and 1990s. The available alternatives have significantly evolved over the past 20 years. You should be considering whether your parents are paying a reasonable fee for their investments and whether their asset allocation is appropriate.

If you find yourself solely responsible for their investments or you have the green light from a parent to consider alternatives, avoid the tendency to do things the way they have always been done. A different investment strategy or a different investment company may be well worth pursuing.

Be mindful of tax considerations from selling investments and most importantly, treat the money like it belongs to your parent. Some children have a tendency of treating what could someday be their inheritance like it belongs to them before it really does.

ESTATE PLANNING

Make sure your parent's will and powers of attorney are up-to-date. I encountered a situation recently where a power of attorney for an incapacitated senior was signed incorrectly, so up-to-date not only includes accurate, but also, valid.

If a parent is still of sound mind, they can change their beneficiary designations, so make sure account and insurance beneficiary designations are all accurate as well. In some cases, naming their estate may be fine, but in others, it may be advantageous for a parent to name individuals as beneficiaries.

Joint partner and alter ego trusts can be effective tools for seniors with large estates in provinces with high probate fees, besides providing additional benefits.

Beware the common, often misguided advice to place assets into joint ownership between your parents, you and your siblings. There can be tax, estate and family law consequences that arise from this practice.

INSURANCE

Determine life insurance polices that are in-force and confirm any required ongoing premiums.

Review health and long-term care insurance policies to see which medical expenses are covered now or may be covered in the future.

SUMMARY

There is a good chance you will be called upon someday to assist with a parent's **finances. It may be a role you play for many years or it may more short-lived.**

A parent's money belongs to them until they give it away or until they die. **Respect this fact and respect if they choose not to talk to you about their finances. I think it is important for children to try to talk to their senior parents about money, even if it is short, sweet and high-level. You do not necessarily need to know all the details.**

And for parents out there who think they are going to manage their financial affairs well into their 90s, it is certainly possible, and I hope that is the case for you. But also consider the possibility that a time will come when you least expect it and your family will be managing your financial affairs. They may really want to talk to you about it, but not know where to start. You could always be the one to start the conversation.

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