

Financial Security for the Caregiver



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As people live longer, older adults' need for care has grown exponentially. Caregiving can have a significant impact on the life and long-term financial security of the caregiver. Yet personal planning tends to focus on the financial implications for the recipient of care but not for the giver. Caregiving responsibilities, which fall disproportionately on women, can carry substantial hidden costs such as forgone wages, savings and benefits. This brief explores some of the key issues that arise for caregivers, particularly women, and steps they can take in an effort to protect their financial security.

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THE CHALLENGES FOR WOMEN

Many men and women have aging parents or other relatives requiring care. Women are more likely than men to assume the responsibility. Sixty-one percent of caregivers are female, and their numbers are surprisingly large: 47.9 million people, or 19.2% of the U.S. adult population, provide care to an adult.¹ Care often extends over a lengthy period, during which the recipient's needs can increase.

If financial resources are available, it may be possible to supplement or substitute paid assistance for informal care or at least to provide respite care to ease the caregiver's burden. The challenge of caregiving becomes acute when the recipient lacks financial resources.

WHAT TO EXPECT

Since many of us may become caregivers in the future, it makes sense to weigh potential financial and non-financial considerations alike.

Cost to caregivers: Financial costs to the caregiver include those directly associated with care as well as less obvious indirect costs. These include forgone wages, lost savings, and reduced benefits from Social Security, pensions and other retirement savings. Lost wages extend into the future owing to interrupted careers. Six in 10 caregivers report having to make a workplace accommodation as a result of caregiving.

¹ AARP Public Policy Institute and National Alliance for Caregiving, "Caregiving in the U.S.," May 2020. Though child care is also a form of caregiving, this brief focuses on caregiving for older adults.



A woman caregiver
who leaves the
workforce loses
an average of
\$324,000
in wages and
benefits

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Source: *The Journey of Caregiving: Honor, Responsibility and Financial Complexity*, a Merrill Caregiving Study conducted in partnership with Age Wave, November 2017.

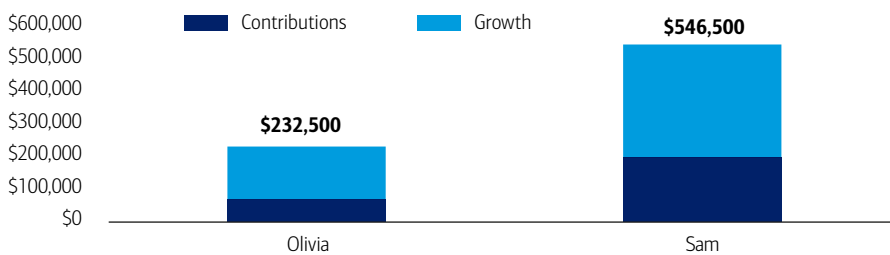
such as cutting back on working hours or taking a leave of absence. For women, the average lifetime cost of dropping out of the workforce or reducing hours worked in order to provide care is an estimated \$324,000.²

Case study: Exit the workforce, with lower wages upon re-entry—Both Sam and Olivia start contributing to retirement at age 25. The table below shows their annual retirement contributions from 25 to when they both retire. Sam consistently contributes toward retirement and progressively increases his annual contributions. Olivia initially contributes \$3,000 but then takes time off to care for her elderly parents, from age 31 to 35 and again from 45 to 50. When Olivia returns to the workforce, her income has diminished significantly, leaving her unable to contribute as much to her retirement account as before. Sam’s total accumulated retirement assets are \$546,500, while Olivia’s is \$232,500. The difference between the two is substantial: \$314,000.

Table 1: Annual retirement contributions of Olivia and Sam

Age	25-30	31-35	36-44	45-50	51-65
Olivia	\$3,000	\$0	\$2,500	\$0	\$2,000
Sam	\$3,000	\$4,000	\$4,500	\$5,000	\$6,000

Exhibit 1: Retirement assets of Olivia vs. Sam



Note: Assumes a hypothetical annual rate of return of 5%. The total cost to the caregiver also includes lost wages and reduced benefits from Social Security, which are not shown here.

Source: Calculations by the Chief Investment Office.

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Duration of care: Some situations require care for a limited period of time, while others require lifelong support. For example, assistance following surgery is often short-term. After a stroke or major accident, care may last much longer. People with limited mobility may need care indefinitely or until they acquire assistive devices. Others, grappling with degenerative diseases such as Parkinson’s or Alzheimer’s, may face mounting needs for care. The average duration of caregiving is 4.5 years. Twenty-seven percent of those requiring care receive it for one to four years; another 29% require five years or more.³

Experience of caregivers: An Associated Press/National Opinion Research Corporation (AP/NORC) study provides insights about how people feel about providing care. Eighty-three percent report the experience as positive and 77% say caregiving strengthened their relationships. But 51% indicate it caused stress in the family.⁴

² Source: *The Journey of Caregiving: Honor, Responsibility and Financial Complexity*, a Merrill Caregiving Study conducted in partnership with Age Wave, November 2017.

³ AARP Public Policy Institute and National Alliance for Caregiving, “Caregiving in the U.S.,” May 2020.

⁴ Associated Press-NORC Center for Public Affairs Research. “Long-Term Care in America: Expectations and Reality,” May 2014.

Impact on the caregiver's health: Caregivers often have higher health care costs than the population at large, and their chances of becoming disabled increase as well.⁵ Making matters worse, absent regular employment, the caregiver may be ineligible to purchase disability insurance.

Scope of impact: Caregiving affects the majority of adult Americans at some point in their lives. A May 2014 survey by AP/NORC revealed that 60% of Americans over age 40 have had first-hand experience with either providing or receiving long-term care. Twenty-two percent of workers aged 45 to 64 are caring for a parent, and 20% of all female workers are doing so.

WHAT TO DO

Financial support for the caregiver: If one forgoes employment income to provide care, financial security needs to take other forms. The primary earner in the household should consider carrying adequate life and disability insurance and designate the caregiver as beneficiary. The caregiver may also need life and disability insurance. Disability insurance can be difficult to obtain later in life or for someone without a steady employment history.

Consider purchasing long-term care insurance if you are in your 50s or early 60s so that, if needed, you can access a broad range of supportive services and living arrangements.

Make sure to review and update relevant documents: an advance medical directive, a durable power of attorney and a health care proxy. Ensure you understand your role in making financial and health decisions of the person receiving care.

Financial support for care: If the recipient of care has long-term-care insurance or adequate assets, then hiring outside help may be an option. These financial resources may lessen the need for the caregiver to give up a job or reduce working hours. However, long-term-care insurance often does not start paying benefits until the level of care required becomes very intensive. When the person receiving care fails to qualify for insurance benefits, the care can be quite costly.

Choices: The person needing care and his or her family must decide among caregiving options. Who will provide the care and at what level of support? How will the caregiver adjust his or her professional responsibilities to accommodate these changes? Choices may include continuing to work, using short-term leave or vacation, taking a long-term leave, or scaling down hours. Naturally, each of these choices has financial implications.

Case study: Whether to reduce hours to part-time work—Jane is weighing her options as to whether to continue to work full-time or reduce her hours to take care of her elderly parents. Working part time would mean no longer making the same level of contributions to her retirement plan as before. The table below shows her annual retirement contributions from age 25 to when she retires at 65 under both full and part time scenarios. If Jane continues to work full time, her total accumulated retirement assets at retirement becomes \$523,800. By contrast, if Jane chooses to reduce her hours to part-time her assets at retirement is \$273,600. The difference between the two is \$250,200.

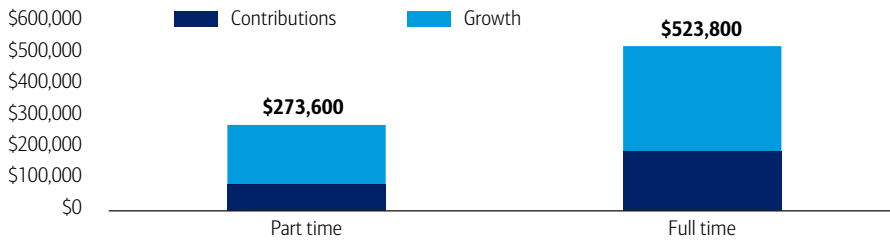
Table 2: Potential annual retirement contributions of Jane

Age	25-30	31-35	36-44	45-50	51-65
Part time	\$3,000	\$1,500	\$1,750	\$2,000	\$2,000
Full time	\$3,000	\$3,500	\$4,500	\$5,000	\$5,500

For illustrative purposes only.

⁵ Ankuda, C.K and Maust, D; Kabeto, M; McCammon, R and Langa, K, "Association Between Spousal Caregiver Well-Being and Care Recipient Healthcare Expenditures." Journal of the American Geriatrics Society, August 2017.

Exhibit 2: Retirement assets of Jane: Part time vs. Full time



Note: Assumes a hypothetical annual rate of return of 5%. The total cost to the caregiver also includes lost wages, reduced benefits from Social Security and potential retirement savings.

Source: Calculations by the Chief Investment Office.

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CONCLUSION

Becoming a caregiver can be a major life change. The financial, emotional and psychological implications of caregiving are substantial, but many people fail to plan ahead. Caregiving choices are complex, ranging from help from family members to community resources and private facilities. Caregiving responsibilities tend to fall disproportionately on women, which can present unique challenges to their financial security, including in retirement. Prompt, prudent planning can go a long way toward mitigating the stresses, financial and otherwise, associated with caring for loved ones. Planning ahead can help you prepare for your future needs and those of your loved ones with confidence.



TIPS FOR CAREGIVERS

- Develop a household budget and realistic plans for how you will handle reduced pay and benefits if you decide to reduce your hours or stop working.
- When you are working, be sure to contribute fully to your workplace retirement plan. Budget for a regular contribution to an Individual Retirement Account (IRA).
- Before quitting a job (or reducing hours), think about the long-term financial implications and explore alternative options.
- Inadequate resources can place an undue burden on the family caregiver. The caregiver should therefore not be afraid to ask other family members to contribute, financially or otherwise.

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