NEWS

PERSONAL FINANCE

The disappearing inheritance

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ORDANO and LINI S. KADABA
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PHILADELPHIA -- Remember those headlines of the 1990s that suggested baby boomers would reap a megawindfall of trillions of dollars -- one of the largest intergenerational transfers of wealth in history?

As many are learning, it's not quite panning out that way.

A recent AARP study based on 2004 federal data has found that nearly 81 percent of boomers -- the oldest of whom are turning 60 this year -- have yet to receive an inheritance, and less than 15 percent expect to ever get one, down from more than 27 percent in 1989.

"People are seeing that people are living longer," said John Gist, associate director of AARP's Public Policy Institute and co-author of the report "In Their Dreams: What Will Boomers Inherit?" "They're likely to use up a lot of their resources for their retirement."

One of the biggest drains on savings is health care, especially with average life expectancy at about 78 years.

Marylou and Roland Cunningham, who are in their 70s, found that out.

They had hoped to leave at least a small inheritance to their three adult children. Some bonds and, of course, their home of 42 years.

But about a year ago, Roland, a retired photo engraver, needed to go into a nursing home. Marylou had to spend down their modest assets so he would qualify for Medicaid. The bonds went. Now, Marylou hopes to hold on to their brick Cape Cod for her children.

"To them, it's part of me and my husband," she said. "It's possible I can't keep the house, and I'll have to go into an apartment or assisted-living. There goes my legacy to my children."

Longevity, with resulting long-term care and health costs, is at the root of diminishing inheritances, but there are numerous other factors:

- Fewer traditional pensions to fund longer lives.

- Reverse mortgages that allow the house asset to be "spent" before death.

- An inheritance pie that must be split among an average of 3.3 boomer children and the grandchildren -- not to mention charities and alma maters.

- Active older adults choosing to use their money to enjoy retirement.

For many of those reasons, "I find that my clients are thinking about themselves first," said Peter Mullen, a financial consultant who specializes in intergenerational planning.

"People need to really just put away every dime they can," he said, "for as long as they can."

Even Paul Schervish, who co-authored the oft-quoted research predicting the huge wealth transfer, says most Americans shouldn't count on a mega-inheritance to bail them out in retirement.

About 40 percent will go to estate taxes, fees and charity, said Schervish, director of Boston College's Center on Wealth and Philanthropy.

After that, mostly the children of the rich will benefit, with the wealthiest 7 percent of estates spinning off half the money to heirs.

The remaining 93 percent of heirs will divvy up the rest. "They're not going to fund their retirement on that," Schervish said.

Through frugal spending and wise investments, Terri Ivers, 75, a retired purchasing manager, enjoys a comfortable retirement. She also has long-term-care insurance.

"I don't feel I owe them an inheritance," Ivers said of her children, who already have benefited from her generosity. "What I did feel I owed them was a sincere effort to not be a burden on them. That was my goal, and I achieved it."

Yet, many more seniors are not so financially well-prepared, and their desire to leave a legacy is strong.

"For many clients who are senior citizens, one of their main goals is to leave a 'badge of honor,' " said Jerold Rothkoff, an elder and disability law attorney. "They have to be pushed or encouraged to spend money on themselves."

Rothkoff said leaving a legacy will become even harder for those who will need long-term care under new tightened Medicaid eligibility rules.

Medical spending is "going to be the dominant theme of the next quarter-century," said Mark Zandi, chief economist for Moody's Economy.com. "It's going to pervade everything, including the size of inheritances."

Linda Lane, a financial planner with First Financial Group/MassMutual, counsels offspring of seniors to chip in and buy long-term-care insurance for their parents "because which one is going to quit their career or their family on a daily basis to care for Mom or Dad?"

Dene Liott, 79, of Pottstown, Pa., worries that she will leave the world penniless. Her own mother's inheritance was whittled down to just her home.

Why does a legacy matter? "It's a tribute," Liott said. "You want to leave something of yourself so that they have that memory."

When Virginia Gunn, 84, of Kennett Square, Pa., came into an inheritance, her first thought was not of herself but of gifts for her seven grandchildren.

"I actually said to her, 'No! You might need that,' " said her middle child, Susan Pevar, 56, a librarian from Kennett Square.

As it turned out, she did.

Last year, health problems led Gunn to move into a retirement home. Investment income from her inheritance helps cover expenses.

"You know what? We are living longer," Gunn said. "My dear sister, who is now 90, when she had her 90th birthday, said, 'I don't believe it.'

"We want to plan so the money holds out," she said. "If you run out of money, that's it."

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