Sunday Sun-Times

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DYNAMITE Weather, Pages 2A, 23A SUNDAY, SEPTEMBER 7, 2003

Seniors increasingly spending wealth, not bequeathing it

BY STEVE FRIESS

LAS VEGAS — The e-mail from Daisy Granger's parents came as an unpleasant — even jarring — surprise to her and her three brothers. "We just want you all to know," their 66-year-old father wrote, "that you should not expect an inheritance after we pass. We might leave something, but it's more likely we will spend it to maintain our lives as we wish for the next 20 or 25 years."

Granger's father may have been more direct than most parents about it, but in one way or another, thousands of would-be heirs are getting a similar message: Don't plan on getting an inheritance. With expected life spans stretching longer and longer and the cost of health care skyrocketing, the idea of parents leaving largess behind is becoming secondary to their using it to live as comfortably as possible.

At the same time, many older Americans today have a different ethos about passing on money than their ancestors had. Some believe it's better for their children to make it on their own, and others want to use whatever little funds they have left.

The result is a potentially dramatic drop-off in the transference of wealth in many families that may affect successive generations' planning about everything from paying off long-standing debts to how long they will stay in the work force.

Soaring health care costs are one reason many elderly parents are telling their children not to expect an inheritance. -AP

"Baby boomers are going to get hit with a series of bad economic shocks and bad reality checks, one of which is relatively low inheritances," says Laurence Kotlikoff, a Boston University economist who is an expert on bequest trends.

In many cases, parents give money to their children before they pass on. Such gifts can take subtle forms, such as financing a grandchild's private schooling.

But new statistics from a forthcoming report by the American Association of Retired Persons indicate that 14.9 percent of baby boomers in a 2001 survey expected an inheritance from their parents, down from 26.9 percent in 1989. Among "post-boomers" (those born after 1964), the figures are even more startling; only 5.8 percent expect a bequest, down from 10.8 percent.

Add in the recent stock market plummet, which may not be reflected in those figures, and experts suspect this major change in the transfer of generational wealth is only becoming more dramatic.

Estimates have varied widely over the last decade as to how much wealth the pre-boomers would leave to their offspring, with some economists — at the height of the market bubble — predicting a staggering $136 trillion would be passed down in the next 50 years. A more moderate, though still substantial, $41 trillion is seen as a better guess now, especially due to care expenses, according to American Demographics magazine.

"People are planning to make their money go further because they might need it," says John Gist, AARP's public policy director. "Also, people put their money in the market, and now that the market has fallen, they're less optimistic about being able to either give or receive an inheritance."

As many as 46 percent of senior citizens over age 65 will live in nursing homes for some amount of time in the next 20 years, AARP says, costing as much as $100,000 a year. In many cases, children have to sell the family home they hoped to inherit to pay health bills.

"More people are aware of this, but not nearly enough are doing enough about it," says attorney Houston with a live-in housekeeper.

But in the e-mail, her father explained for the first time that his business and his investments had faltered badly amid the stumbling economy. He and their mother had decided to pay off mounting debts and work with a financial planner to determine how to make his assets last.

"He's given us plenty," Granger says. "If they want to live it up for now, I have no problem with this. But I think we all just assumed that money would be there. I certainly haven't been putting as much into my 401(k) as I might otherwise have done."

Tom Handler of the Chicago firm of Handler, Thayer, and Duggan, L.L.C. "Not only are they not going to get an inheritance, but there's a good chance that they'll support parents themselves."

Still, even in situations where that seems unlikely because of careful planning and solid long-term health insurance policies, the situation has created bruised feelings in some cases.

Granger, of Dallas, says she and her brothers felt blindsided by their altered expectations, although she understands the situation. Her folks had provided well for them, raising them in a large home in suburban

Another mistake is relying on life insurance to provide a posthumous present when assets can't. It's true that the longer life spans — the average life expectancy now is a record 77.2 years — have prompted life insurance companies to start writing term policies for people up to age 80.

There's one other reason inheritance expectations have been dashed: The dwindling number of parents who feel that leaving money behind is a priority. This generation of seniors doesn't place great importance on leaving a bequest.

Experts say that today's seniors will leave as much or less than their own predecessors did in the 1950s, 1960s and 1970s — and that whatever is left will be shared among more baby boomer siblings, making for smaller individual gifts.

Many seniors figure money ought to be earned, not inherited. Handler tells the tale of billionaire Don Reynolds, who died in 1989. He left $1 million to each of his children, a mere fraction of what he put into the Don Reynolds Foundation.

Says Handler, "He felt that to give his children any more would be doing a disservice to them. The idea is to teach them to fish, not to give them the fish."

Claire Brody, 71, of St. Paul, Minn., puts it somewhat differently: "I gave birth to them, I dried their tears for years, and I played with their children. Now I'm going to see the world with my husband. Our turn. Lucky us."

Christian Science Monitor