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## Financial Planning for Grandparents Raising Grandchildren

Are you raising a grandchild? Careful financial planning can help you manage what often can be a financially challenging time for grandparents.

Grandparents raising grandchildren is on the rise. According to figures compiled by American Association of Retired Persons (AARP)'s Grandparents Information Center, 6.3 percent of the nation's children under the age of 18 live in a grandparent-headed household, an increase of 30 percent from 1990 to 2000.

The causes for this situation are many, including parents in prison, drug-addicted parents, divorced parents, death, neglect, abuse, joblessness, and illness. Grandparents usually assume the responsibility for their grandchildren out of love. But that doesn't negate the financial burden that typically falls on the grandparents. Beyond the additional expenses associated with raising a child, grandparents may have to quit jobs to care for grandchildren or come out of retirement to earn additional money.

Here are several financial tips from Certified Financial Planner practitioners to minimize the financial impact.



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### Plan ahead.

You may not have the luxury of time, or you may not feel you have a choice in the matter. But if it's possible, know exactly what you're getting into financially before you take on the responsibility. What are your financial options? Will the parent or parents be contributing support? Is the grandchild a problem child who might create liability issues for the grandparent?

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### Learn your legal options.

If care of your grandchild will be long term or permanent, you'll want to look at your legal options. The legal relationship to your grandchild will affect a host of financial concerns, including your ability to obtain financial assistance from government agencies or certain services such as medical care for your grandchild.

Options include foster care, adoption, and legal guardianship. Each has its pros and cons, with laws varying from state to state. For example, adoption may cause you to lose financial assistance from one program but gain it from another. Talk to your financial planner and an attorney before making any permanent decisions.

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## Arrange for health insurance.

Finding health care for a grandchild can be challenging. If the grandparents are still working, their employer likely won't cover the grandchild unless the grandchild is officially a dependent on the grandparents' tax return-and even then some employers won't provide coverage. A grandchild can't be covered under Medicare, either.

If care is going to be short term, an individual short-term medical policy can be affordable. More permanent individual coverage will likely be much more expensive, so you may need to consider government programs for low-income households such as Medicaid or special state children's health insurance programs (CHIPs or similar names). With few exceptions, most states don't consider a grandparent's income when determining income eligibility for these programs, so a grandchild usually qualifies.

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## Where do you live?

This is often another major challenge that especially needs to be thought about before the grandparents commit. Retirement centers, for example, may not allow children. Or the grandparents may live in an apartment or home that's too small to comfortably house children. Building an addition to a home can be very expensive.



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## Don't sacrifice your retirement.

Most financial planners recommend that parents not sacrifice saving for their retirement in order to save for their children's college education. A child can always work and get financial aid to get through school. The same advice applies to grandparents who are still working. Those nearing retirement need to keep saving because financial aid isn't available for retirement.

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## Take advantage of tax breaks.

Most grandparents raising dependent grandchildren under the age of 17 can take the \$1,000 child tax credit per child, unless the grandparents have high income. Working low-income grandparents may qualify for the federal earned income tax credit, and some states offer a similar tax credit. If you pay for childcare, don't forget the childcare tax credit.

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## Consider outside help.

See if local agencies for the aged provide help to grandparents who are caregivers. Low-income grandparents may qualify for the state-run Temporary Assistance to Needy Families (TANF) program.

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## Revamp your will and other financial documents.

You may want to revise your will and name your grandchildren as beneficiaries on insurance policies, retirement accounts, and other financial assets, particularly if you become permanently responsible for them and you don't want assets going to their parents. Consider the appropriateness of trusts, such as special needs trusts or a living trust.

*Source: The Financial Planning Association. (June 2005). Financial planning for grandparents raising grandchildren. Retrieved October 31, 2005 from Financial Planning Perspectives (FPP): [http://wiseupwomen.tamu.edu/dwn\\_pdf/FPP\\_June2005.pdf](http://wiseupwomen.tamu.edu/dwn_pdf/FPP_June2005.pdf).*

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