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When It's Time to Manage Dad's Money

Being a Fiduciary is a Big Job, and It's Easy to Screw It Up

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One of the toughest things about taking care of an elderly relative is becoming a financial caregiver. Many adult children take on the role so gradually that they don't realize they have done so.

Financial caregivers—formally called "fiduciaries"—are expected to act in another person's best interest, manage his finances carefully, keep them separate from their own and maintain good records.

It's a big job, and it is easy to mess it up accidentally when it lands in your lap—especially when you are juggling a loved one's health-care challenges and other basic needs.

"The caregiver has many tough decisions to make," says Sally Hurme, Health and Family Project adviser at AARP, the advocacy group for older Americans. "If you add the layer of managing money, it gets even more complicated."

Even worse things can happen. Nightmarish stories abound of trusting families defrauded of an inheritance by paid caregivers.

Financial exploitation costs older adults an estimated $2.9 billion a year in the U.S., often due to fraud or outright theft by paid caregivers or family members, or through investment fraud, according to giant MetLife.

The federal Consumer Financial Protection Bureau sees such a critical need for protecting older adults' finances from mistakes and fraud that the agency published four guides last month under the title "Managing Someone Else's Money."

The CFPB guides spell out the duties for people in four specific fiduciary roles: people named agents under a power of attorney to make decisions about a family member's money and property; those appointed by a court as guardian or conservator to manage money or property for someone who can no longer do it on his own; trustees in charge of living trusts; and those appointed by a government agency to manage Social Security or veterans' benefits.

"These lay fiduciaries take on this task with the best of intentions," says Nora Eisenhower, assistant director of the CFPB's Office for Older Americans. "But they may be in over their heads."

More than 22 million people who are at least 60 years old have appointed loved ones as "agents" through powers of attorney, and about four million adults with Social Security income have what are

called "representative payees," 85% of whom are family members, according to federal government estimates.

The CFPB tapped the American Bar Association for help in figuring out where fiduciaries can get tripped up and offering guidance on how to handle sticky financial situations involving elder care.

Here are some highlights:

Understand the power. It is important to follow the directions in the power-of-attorney document, "even if you have the best intentions in doing something different," the bureau's guide says.

You also need to understand how the document says you will know when the power becomes effective—and to involve your loved one as much as possible in decisions about his or her money and property.

In addition, you should avoid conflicts of interest by refusing to lend your loved one's money to yourself or others. You also can't pay yourself for the time you spend acting as agent, unless the power of attorney or state law allows it—and then you need to document carefully how much time you spend and what you do.

"They have to recognize that it's not their money, and that the money has to be used for the individual's care," says AARP's Ms. Hurme. "They must avoid the temptation that any of the money can be used for their personal benefit."

Take extra care with a loved one's money and property. In many cases, you will have to manage it more carefully than your own. Keep a detailed list of what your loved one owns and owes, protect the property with insurance, make sure any investments are handled wisely, pay bills and taxes on time and cancel insurance policies that are no longer needed.

Don't mix and mingle. To avoid confusion and conflicts with other family members, it is important to keep your loved one's money and property in separate accounts from your own, the CFPB says. That includes keeping property titled in your relative's name and avoiding joint accounts.

Write it down. Good recordkeeping is key, especially since state law or the power of attorney itself could call for someone else to check your records. Unless the power of attorney says you can't share the records, consider letting another family member or friend oversee what you are doing.

To that end, keep a detailed list of what you receive and spend on behalf of your loved one. Keep all of your receipts. Avoid paying in cash when you can so you have more documentation of how you spent the money. And if you can be paid for acting as agent, write down as you go what work you did, how much time it took, when you did it and why, the bureau says.

Watch for signs of exploitation. The government-backed Eldercare Locator website (or 800-677-1116) urges families to spend time over the holidays to learn about financial exploitation and ways to avoid it.

Signs to watch out for include unexplained credit-card activity, account withdrawals that trigger penalties, recent changes in the titling of financial documents that weren't authorized or an older adult's feeling uneasy about someone seeking control of their assets.

With help from the National Center on Elder Abuse, the website put together a free consumer guide, "Protect Your Pocketbook: Tips to Avoid Financial Exploitation," available at eldercare.gov (click on "Brochures").