Middle Class Proposal #5

Unsticking the Sandwich Generation

While it's hard enough to raise children when one or both parents pursue a career, a growing number of families are caring not only for young children but for aging parents. These "sandwich generation" families are mostly on their own to manage the needs of aging parents who are in need of long-term care. Creating an elder care tax credit can help relieve some of the financial worries of caring for aging family members.

THE PROBLEM

The sandwich generation squeeze

An increasingly common challenge for today's families is the responsibility of caring for both young children and aging parents. These "sandwich generation" families now have few resources to rely on for relieving the pressure of these obligations.

The sandwich generation is growing.

The fastest growing age group in the U.S. population is people over 85.[1] When coupled with the trend toward marrying and having children later in life, the result is a dramatic increase in the number of households with multi-generational caregiving obligations. In 2001, the last year for which data are available, as many as 44 percent of adults aged 45 to 55 had aging parents or in-laws as well as children under 21.[2] Roughly 7 out of 10 adults between the ages of 41 and 59 have at least one living parent, up from 60 percent in 1989.[3]

Family and friends are the main source of help for seniors.

About two-thirds of the 5.5 million seniors over age 65 who receive long-term care rely exclusively on family, friends and other informal caregivers.[4] This help can include everything from shopping and cleaning to taking medication or getting to doctors' appointments. It also includes financial help. Two in ten Baby Boomers are supporting their parents financially, and slightly more than one in ten are providing financial help to a parent while also raising or supporting a child.[5]

Many families are shouldering a heavy financial burden in caring for aging parents.

Surveys find that caregivers spend an average of $5,530 out-of-pocket each year on expenses for aging relatives, including the cost of providing food and transportation and paying for medical expenses, prescriptions and co-pays.[6] In 2004, total out-of-pocket spending for long-term care was about $44 billion.[7]

Many families must make heavy financial sacrifices to meet these obligations. More than one-third of families report dipping into their savings, 23 percent say they've cut back on spending for their own health care, and 17 percent say they've had to take an additional job or increase their hours to care for aging relatives.[8] One in five say they switched from full-time to part-time work, and16 percent say they've even quit a job to meet caregiving obligations.[9]

THE SOLUTION

An elder care tax credit

Families should be entitled to use the Dependent Care Tax Credit for elder care expenses incurred on behalf of aging parents or in-laws.

Families would get substantially more help than under current law.

Current federal tax law provides no tax break for out-of-pocket caregiving expenses paid on behalf of an elderly relative who is not a "dependent" as defined by the tax code (i.e., a parent who is living outside the taxpayer's home). Moreover, the current Dependent Care Tax Credit applies only to day care expenses for a child under 13 or for expenses paid on behalf of a spouse or other dependent living in the taxpayer's home.

This proposal would allow families to receive the Dependent Care Tax Credit for qualified elder care expenses paid on behalf of an elderly relative who is not a dependent. Examples might include a parent who requires temporary personal care for an illness or needs ongoing help on a sporadic basis. Fewer than half of caregivers live with the person they're caring for, and 10 percent live more than an hour away.[10]

The proposed credit would be both generous to families and affordable for taxpayers.

Using the current structure of the Dependent Care Tax Credit, families with household incomes of $43,000 or more can receive a credit equal to 20 percent of up to $6,000 in qualified elder care expenses—or a maximum credit of $1,200 per year.

This proposal would cost an estimated $1.4 billion per year, $7.5 billion over five years and $17.2 billion over 10 years.[11]

THE ROLLOUT

Ideas for launching and publicizing the elder care tax credit

- **Hold a press conference** at a senior center or retirement community with a sandwich generation family (children, parents, and aging parents) who can share their experiences.

- **Release a short report** using readily available state and county data on the elderly. Show how much it costs to provide some common treatments for the elderly. Blow up a bill for medical care as a visual. Demonstrate the financial and personal toll of juggling work and caregiving obligations.
- **Hold a townhall or policy forum** for families to talk about their experiences and share ideas.

CRITIQUES & RESPONSES

The elder care tax credit

It's too expensive.

This proposal would be fully paid for. For every $1 in tax breaks that went to the middle-class, people making more than $1 million a year received $108.[12] Simply allowing President Bush's tax giveaways for millionaires to expire would raise $753 billion over the next ten years[13]—more than enough to pay for the $1.4 billion a year it would cost to help families provide their aging parents with the care they need.

It's unnecessary.

This proposal would make a significant difference for many of the estimated 34 million Americans who now provide care for an older family member.[14] And this number can only be expected to grow as the American population gets grayer. Many of the people caring for aging parents now spend thousands of dollars on out-of-pocket expenses—yet the only tax breaks currently available are for people whose parents or other relatives actually live with them and can qualify as a "dependent" under the tax code.

It will be abused.

This proposal uses a tried and true structure that minimizes the potential for abuse. Like the Dependent Care Tax Credit that it is modeled on, deductible expenses must be from a qualified caregiver, for example.

APPENDIX

Alternative structures for the elder care tax credit

This brief proposes expanding the Dependent Care Tax Credit to cover elder care costs because it is simple, relatively cost-effective and provides the most flexibility. Two alternative options for elder care tax relief are discussed below:

Alternative 1: Non-itemizer deduction for elder care expenses

This option would create an "above the line" deduction for a portion of elder care expenses incurred on behalf of an aging parent. To discourage over-utilization, deductible qualified expenses are those expenses in excess of $500 and up to a maximum of $2000 per year.

Under current law, elder care (long-term care) expenses are not deductible unless (1) they are incurred by a taxpayer or a "dependent;" (2) the taxpayer itemizes; and (3) such expenses are part of qualified medical expenses that in the aggregate exceed 7.5% of adjusted gross income (AGI). As a consequence, very few taxpayers take the medical expenses deduction (5% of taxpayers in 2000).[15]

This proposal would make two significant changes in current law. First, it would give non-itemizers tax relief for elder care expenses. Only one-third of all taxpayers itemize. Second, it would allow caregivers whose parents are not "dependents" as strictly defined by the tax code to qualify for relief.[16]

Alternative 2: Allowing reimbursement of elder care expenses from employer-sponsored Flexible Spending Accounts

This option would allow families to use pre-tax dollars contributed to an employer-sponsored Flexible Spending Account (FSA) for elder care expenses incurred on behalf of a non-dependent parent. Under current law, medical and dependent care expenses are reimbursable from an FSA only if they are incurred on behalf of a parent who qualifies as a "dependent" under current tax law.[17]

Under this proposal, expenses can be made reimbursable from either a medical FSA, which would cover strictly medical expenses such as co-pays, nursing care or home health services, or from a dependent care FSA, which would cover non-medical costs such as adult day care and non-medical personal care services. Total contributions to dependent care FSAs are capped at $5,000 per household per year. Limits on medical expenses FSAs are set by the employer offering the benefit.

Endnotes

[1] U.S. Census Bureau, Statistical Abstract of the United States: 2002, table 13.

[2] Belden, Russonello and Stewart and Research/Strategy/Management, "In the Middle: A Report on Multicultural Boomers Coping with Aging and Family Issues," AARP, July 2001.

[3] Pew Research Center, "Baby Boomers: From the Age of Aquarius to the Age of Responsibility," December 8, 2005.

[4] Colello, Kirsten J., "Family Caregiving to the Older Population: Background, Federal Programs, and Issues for Congress," August 7, 2007.

[5] Pew Research Center, "Baby Boomers: From the Age of Aquarius to the Age of Responsibility," December 8, 2005.

[6] National Alliance for Caregiving, "Evercare Study of Family Caregivers – What They Spend, What they Sacrifice," November 2007.

[7] Congressional Budget Office, Financing Long-Term Care for the Elderly, April 2004. http://www.cbo.gov/ftpdocs/54xx/doc5400/04-26-LongTermCare.pdf

[8] National Alliance for Caregiving, "Evercare Study of Family Caregivers – What They Spend, What they Sacrifice," November 2007.

[9] MetLife Mature Market Institute, "The MetLife Juggling Act Study: Balancing Caregiving with Work and the Costs Involved," November 1999.

[10] National Alliance for Caregiving, "Evercare Study of Family Caregivers – What They Spend, What they Sacrifice," November 2007, available at http://www.caregiving.org/data/Evercare_NAC_CaregiverCostStudyFINAL20111907.pdf

[11] Third Way Estimate. We assume that the average cost per adult child for medical expenses (not total out-of-pocket expenses) incurred on behalf of an elderly parent is about $630 a year. This figure is based on data from the biannual Health and Retirement Survey, conducted by the National Institutes on Aging and the University of Michigan, which finds that 1.3 million adult children incurred a total of $820 million in medical expenses on behalf of an elderly parent in 2004. See http://hrsonline.isr.umich.edu/

This figure, however, underestimates what adult children actually spend (see the National Alliance for Caregiving cited abve). This survey relies on reporting from seniors, and recipients of gifts and income transfers tend to underestimate the amount they receive (while donors tend to do the opposite). This figure also includes only medical expenses, and not expenses for other supportive services. We also do not take into account the likelihood that a tax incentive for paid care will induce more adult children to incur expenses on behalf of a parent (i.e., by substituting unpaid care for paid care). Because we do not have a reliable way of estimating this potential increased demand, our estimate can only take into account the costs that are currently being incurred.

[12]Greg Leiserson and Jeffrey Rohaly, "The Distribution of the 2001-2006 Tax Cuts: Updated Projections, November 2006,"Tax Policy Center, Urban Institute and Brookings Institution. See Table 3 in the Appendix. According to this table, the average millionaire will receive a tax cut of $130,423 in 2008, while the average person making $50,000-$75,000 will receive just $1,203 in tax relief. This translates into a ratio of 108 to 1.

[13] Third Way calculation based on Tables 3, 4, 5, and 6 of Greg Leiserson and Jeffrey Rohaly, "The Distribution of the 2001-2006 Tax Cuts: Updated Projections, November 2006,"Tax Policy Center, Urban Institute and Brookings Institution, available at http://www.taxpolicycenter.org/publications/url.cfm?ID=411378.

[14] National Alliance for Caregiving, "Evercare Study of Family Caregivers – What They Spend, What they Sacrifice," November 2007.

[15] Brookings-Urban Tax Policy Center, Table: "Tax Returns Claiming Deductible Medical and Dental Expenses, 1980-2000."

[16] The model for this proposal is the charitable deduction for non-itemizers, which was first proposed in HR 7, the Community Solutions Act, in the 107th Congress. This proposal would have allowed the 86 million taxpayers who do not itemize to deduct charitable contributions "above the line."

[17] IRS Publication 502, Medical and Dental Expenses, available at http://www.irs.gov/pub/irs-pdf/p502.pdf