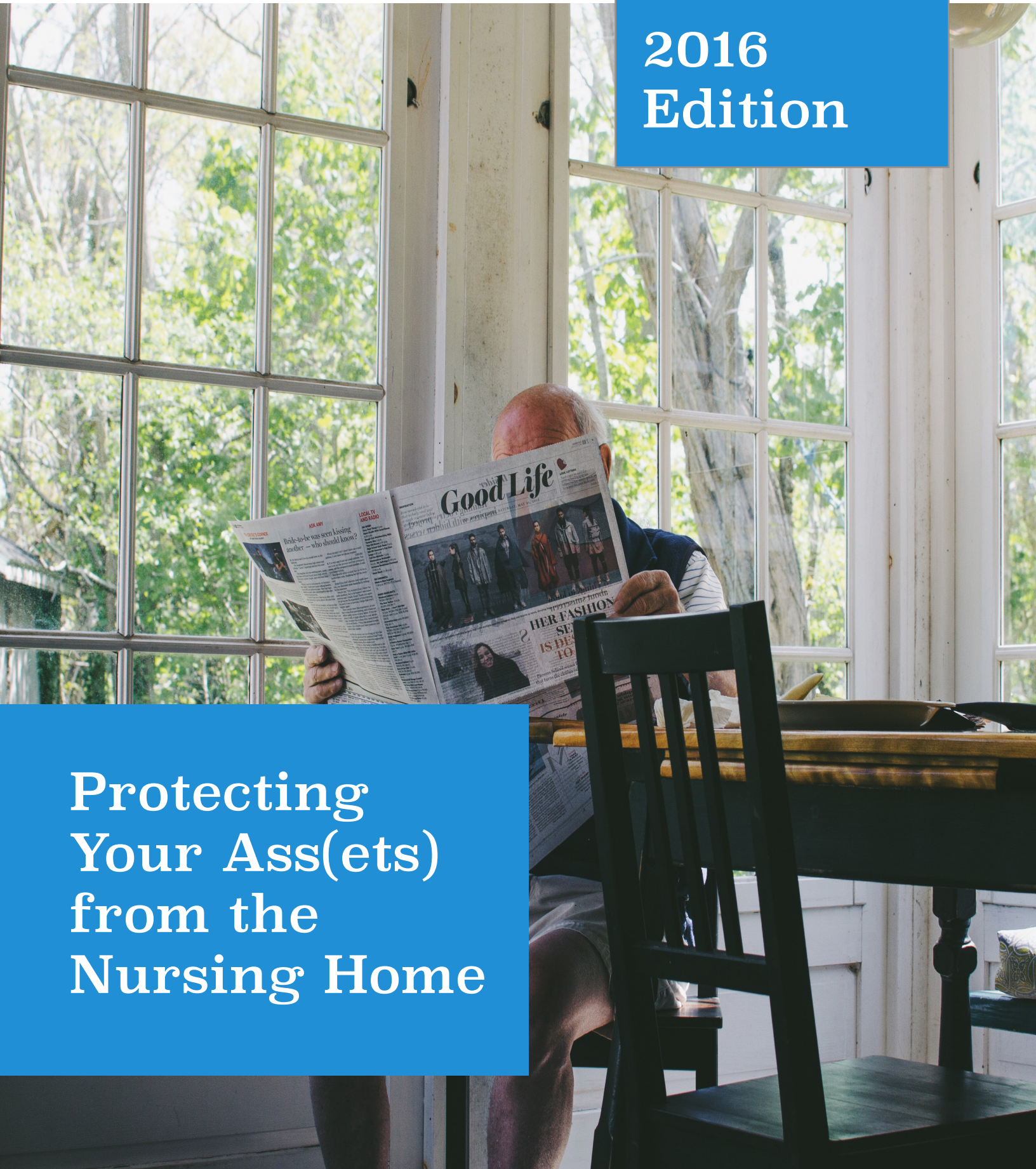




2016  
Edition

# Protecting Your Ass(ets) from the Nursing Home



# Protecting Your Ass(ets) from the Nursing Home

One common trend I have noticed recently from clients is the concern of long-term care and the impact that it will have on their financial plans or the complete disregard and lack of planning. The average daily cost of care for a private room in a nursing home is \$229, a semi-private costs \$205. That's over \$70,000 per year<sup>1</sup>!

***The average cost of a semi-private nursing home room can cost over \$70,000 per year<sup>1</sup>!***

So how likely are you to need Long Term Care? The U.S. Government resource on long-term care ([www.longtermcare.gov](http://www.longtermcare.gov)) estimates 68% of those turning age 65 will need some form of long-term care in their lifetime.

Clearly this is nothing to overlook for one's financial plan and can completely decimate retirement savings, leaving very little to one's heirs if not planned for properly. If you knew that your need for long-term care is 600 times more likely than a home fire, would that change your thoughts on planning? Throughout this whitepaper there will be many resources and things to consider for your specific planning needs.

## Who Is Going to Take Care of Mom and Dad?

***"68% of those turning age 65 will need some form of long-term care"***

Clearly this is not a light-hearted conversation to have with your parents, grandparents, or even adult children, but we want to make sure the best care available is received. Aging mothers are four times more likely to expect their daughter to care for them over a son if they become disabled or ill<sup>2</sup>. Mothers tend to be closer with a daughter than a son and prefer someone they are emotionally close with to provide the care needed. As of late, we do see male caregivers increasing but women in society are still carrying much of the weight.

With the change in long-term care needs, younger women today are considered the "sandwich generation" because they may be in a dual role taking care of their parents and their children. The added level of stress this can put on either a man or woman can be overwhelming at best, not even considering the financial burden. As a woman ages and her parents pass, this situation doesn't improve much. Women in America tend to marry older men and sometimes end up caring for an ill spouse which can use up all their retirement funds and savings, leaving very little for the wife after he passes unless they plan properly<sup>3</sup>. Since a woman's life expectancy is much longer than a man's it is estimated one out of two will need long-term care while only one out of three men are estimated to need this.

<sup>1</sup><http://longtermcare.gov/costs-how-to-pay/costs-of-care/>

<sup>2</sup>Quante, D. (n.d.). *Don't go broke in a nursing home!*

<sup>3</sup>2014 Current Population Survey (CPS)



According to a study by the National Association of Home Builders 50+ Housing Council, for those owning single family homes, 35.9% of households in the 55 to 64 age group reported difficulty in at least one of these activities:

- Difficulty dressing (9%)
- Vision or hearing difficulty (11%)
- Difficulty in going out (11.9%)
- Difficulty in remembering (12.7%)
- Difficulty in working (23.8%)
- Difficulty in walking, reaching, lifting, carrying, climbing stairs or getting around the home (27.1%)

Of those in the age 65 to 74 and 75+, 45% and 70% reported difficulty in some activity, respectively. Now you're likely thinking, "What's the best option for me?" or "How can I make sure I am or my family is taken care of during the elder years?" If only there were a special formula or an "If...Then tree" I could give you, but something like this isn't that simple, which is why working with the right financial planner and insurance agent is so important. For most, they want to live in their home as long as possible. Here are some tips on picking between the right Home Care Agency and some tips for when you have selected one.

## Start and STAY Organized!

### **Selection:**

Start and stay organized. Ask the Home Care Agency if they have a backup person on call in the event a caregiver cannot come because of illness or just as a no-show. Ask to see the checklist of duties for each day.

### **Medical vs. Non-Medical Home Care:**

There are two main types of home care providers, medical and non-medical. The difference is pretty straightforward. Non-medical providers will perform tasks such as light-duty cleaning, laundry, grocery shopping, getting prescriptions, some meal preparation, transportation to a doctor appointment, going to senior centers, or to adult day care.

The cost of home care varies on the amount of hours one will need per week or month. If you can calculate the estimated hours, this can give you a good starting place for planning. Looking at hourly rates for care ranging from \$10 to \$35 per hour with overnight shifts being even more, depending on your area and state, and don't forget to account for inflation of these rates when planning for needs in the future.

### **Adult Day Care:**

These are great options for those that want entertainment for their loved one but have to juggle work and care of their loved one. Adult day care has enriching activities, socialization opportunities with others, and learning opportunities to help

keep their mind engaged. Occasionally the day care facility will host trips to the library or music events. This option is seen as the middle ground between living at home and assisted living facilities.

*If you're having any issues, contact the agency to get the issue resolved. Remember, the squeaky wheel gets the grease! Stop by without warning for surprise visits to ensure your loved one is receiving the proper care all the time and not only when you're coming over.*

***You May Be Able To  
Get Tax Deductions  
And Other Benefits  
For Providing Care  
to Loved Ones***

## **Options and Possible Tax Benefits for Self-Providing Care to Loved Ones:**

Seniors are able to pay adult children or care providers the same as a home health agency through the use of a caregiver's contract, something typically drafted by an elder law attorney. Some long-term care insurance that seniors have can allow for family members to be the primary caregiver, and get reimbursed for providing the care. Not all policies have the capabilities to do this, but talk to the agent that you worked with and see if your policy allows for this option, so keep that in mind when looking for coverage if you so choose to go that route. Some states also provide some level of compensation for caregiving family members, so ask your financial planner and insurance agent if this may be available for you and how it fits into your situation. There may be limitations and requirements on what constitutes as being a qualified caregiver.

There are certain tax deductions and benefits that can be utilized if a family member is able to claim an aging parent as a dependent, so be sure to talk to your CPA or tax professional about possible deductions. These things can get complicated, so working with a quality tax professional and elder law attorney can help immensely.

### **Assisted-Living and Nursing Homes**

This is becoming very popular among the elderly as it provides a safe place to live, eat, and be entertained, which is why this makes sense to be the middle ground between independent living and nursing-home care. These are more expensive than previously mentioned alternatives, but might be more affordable with the right long-term care insurance, private funds, or possibly even Medicaid in some state assisted living facilities (pending they are setup to work in this manner). One of the main perks of these facilities is 24-hour care by licensed staff, often a Registered Nurse or Licensed Practical Nurse. With this extra care, the cost per day is around \$206 (\$6180 per month) and can easily be more depending on the location and level of care.

### **Mandatory Estate Recovery**

In August of 1993, federal law mandated that the state must seek recovery of Medicaid expenditures from the estate of the deceased individual who was 55 or older when he/she received assistance. So if a person on Medicaid, the state is responsible to collect the amount they spent on that person's care from their remaining estate. This includes personal property, home, and other assets that are subject to the state's

probate laws. Now you're probably thinking, "how does this impact my spouse or heirs of my estate?" Luckily the government usually allows the spouse to live in the home until his or her death before they seek recovery, they usually just place a Medicaid lien on the property. Typically you have to "spend down" your assets in order to be eligible for Medicaid. Due to the way Medicaid is designed, your monthly income is limited and if you make too much or accumulate too much, you lose your benefit.

Assets that must be spent down include:

- Cash
- Checking/Savings accounts
- Certificate of Deposits (CDs)
- Savings bonds
- IRA/Retirement accounts
- Vacation homes
- Investment properties
- Investment accounts (i.e. brokerage)
- Mutual funds/stocks/ETFs/other securities
- Additional vehicles above and beyond the primary
- Certain real estate or personal property that is not currently being used by owner

### Transferring Assets:

You're probably thinking, "If I give away all my assets before I die, then Medicaid won't get anything when I die and my heirs will still get my property!" If only that were possible... Sadly, when you apply for Medicaid, the government requires a **look-back to the last 5 years to see any gifts or transfer of assets made**, which includes transfers to a trust. If you have made any transfers in the previous 60 months (5 years) before applying, you likely will be considered ineligible for the amounts transferred. This is why planning with plenty of time to go is so vital in protecting your assets from the nursing home.

## Long-term Care Insurance

Long-term care insurance is a great tool for certain individuals to pay for in-home care, nursing-home care, assisted living, and even adult day care. Like other insurance products, you likely can't become insured if you have been diagnosed with certain conditions like Alzheimer's disease, Parkinson's disease, Multiple Sclerosis, Lou Gehrig's disease, stroke that led to or pre-existing permanent physical impairment, or cancer. However, if you have survived some conditions like cancer for a certain period of time, you likely can qualify for coverage. During the underwriting process, when the company checks your medical records and family health history, they want to know what type of a "risk" you are to them or if you had lied or left-out information on your application at all.

In order to use your long-term care benefits, the insured must not be able to perform at least 2 of the 6 tasks below, called "activities of daily living." Most begin to consider long-term care after it is already too late. At this point, the insurance is either incredibly expensive or coverage is not available. Thinking about long-term

*I'll Just Give  
Everything Away  
Before I Die So  
Medicaid Can't Take  
Everything I Have!*

*The Wrong Choice  
Could Be Irrevocable  
and Lead to You  
Accomplishing None  
Of Your Goals*

care insurance early is paramount and vital to one's financial plan.

### **Activities of Daily Living:**

1. Bathing
2. Continence
3. Dressing
4. Eating
5. Toileting
6. Transferring (moving from a bed to a chair)

Before deciding if this is the right option for you, talk to a licensed financial and insurance professional, ideally multiple, to determine if this is best for you and your specific financial needs.

## **Private Payment Options**

### **Annuities:**

In 2006, President Bush signed into law The Pension Protection of 2006. This act allows one to exchange annuities without a long-term care ("LTC") rider for one with a LTC rider via a transfer under Section 1035 of the Internal Revenue Code. Over simplifying these riders, if you can not complete the Activities of Daily Living mentioned before, these multiply your guaranteed lifetime income. The best part of the 1035 exchange, it's tax free when done properly!

An especially powerful point with annuities in regards to LTC is that some annuities will provide an income multiplier if you can qualify for LTC. This generally means if you can't complete 2 activities of daily living, you may be able to get 2-3 times your initial income guarantee.

For example, let's say you own an annuity with a 5% lifetime payout. This means your \$100,000 deposit pays \$5,000 per year for life when you turn it on. Let's say this annuity has a chronic care multiplier of 2x. That means this same annuity will pay out \$10,000 per year instead of \$5,000 if and when you qualify for LTC. The numbers used are for illustrative purposes and may be different for your specific situation.

### **Life Insurance:**

Much like the annuities, life insurance has the ability to use LTC riders on policies and/or Section 101(g) accelerated benefits. (Some life policies even have accelerated death benefits that aren't even riders...more on that in a bit.) So if you have a permanent policy or term, you may be able to get a better suited product that could provide the LTC protection you're looking for.

How do accelerated benefits work with life insurance? First of all, all accelerated death benefits are regulated under Section 101(g) of the tax code. Under this code, if you (the insured) are unable to complete 2 "ADLs" (activities of daily living) you

***You May Be Able to  
Tap Into Your Life  
Insurance Death  
Benefit to Pay for  
Health Care Costs!***

may be able to “tap” into your death benefit while you are still alive! (Note, many of these companies don’t require you to be in a nursing facility, so if you meet the requirements, you can do anything with the money, including paying a relative to care for you.) This limit is placed by the government and is based on a daily amount, not a fixed percentage. If you “tap into” the death benefit, it decreases by the amount you withdraw. This may not be the best option for you, so talk with your insurance agent, financial advisor, and CPA before making this decision.

**Finding the right product can be difficult, especially when the person you’re working with is the one selling you something.** If you’re in the market to buy life insurance or an annuity and want an **unbiased, complimentary second look**, please ask us (*Contact info is at bottom*). How is this possible? Since we are licensed to discuss these products, but do not accept commission from any sale, no referral fees, no fee sharing, nothing. **As a fiduciary, we only want what is best for you, and we don’t believe a big commission check should get in the way of sound financial advice.**

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## Legal Considerations

It’s important to work with quality and qualified attorneys, estate planners, and your financial planner/advisor. Finding the best attorney to help with your will, trusts, durable powers of attorney, living will, healthcare proxy, etc. is easily overlooked by many, particularly the “DIY” (“Do It Yourself”) crowd. Using online tools to draft your will or create a trust can work, but it could easily overlook important details that are specific to your state or area. Overlooking important details could complicate the transfer of assets, paying of bills and final expenses, or cause avoidable stress on loved ones.

Consider the following when working with an attorney to determine what is needed for your situation:

**Power of Attorney (POA)** - Authorizes someone to act on your behalf, typically used for financial decisions and healthcare decisions. Talk to the attorney about having a separate documents to keep everything as clearcut as possible. Having these people or entities designated before something happens to you, be it an illness or permanent loss of mental capacity, makes the process easier on your loved ones because they do not have to go to court to have someone be appointed over your assets, which can be rather costly and time consuming.

**Living Wills (Advanced Directives)** - This pertains mostly to who is the decision maker for your health if you are to become mentally incapacitated. Often times this means dedicating a family member or physician to withhold or withdraw life-support in certain instances. When created and setup properly, these help make the difficult times a little bit easier and avoids the difficult and costly time spent with attorneys and judges to determine what to do next. The most common Living Will directive is called the “Five Wishes” document and it lets your family and physicians know:

### Five Wishes:

- What you want my loved ones to know
- How I want people to treat me
- How comfortable do I want to be
- The kind of medical treatment I want or don't want
- The person I want to make care decisions for me when I can't

**Trusts** - Simply put, trusts provide confidentiality and avoid probate which leads to your assets being transferred much faster than going through probate which is what happens if you only have a will. Trusts can be set up as either revocable or irrevocable, and are a separate taxable entity. Trusts used to be a tax haven for the wealthy, but that has since been changed.

Trust planning can become very complicated but can be an extremely useful in protecting your assets from a nursing home and an estate planning tool. There are many considerations with a trust that the internet may not be able to include or overlook altogether. For this exact reason you need to work with experts in this area, from your financial advisor to your elder law attorney and estate planner.

<b>Tax Brackets for 2016: Estate Income Tax and Trust Rates:</b>	
<b>Marginal Tax Rate:</b>	<b>Estates &amp; Trusts</b>
15%	\$0 - \$2,550
25%	\$2,551 - \$5,950
28%	\$5,951 - \$9,050
33%	\$9,051 - \$12,400
39.6%	Over \$12,000

## Finding the Right Advisor to Help and One That You Trust

Your advisor should be a licensed professional and be able to clearly define the objectives for you or your loved one's needs. If you aren't 100% confident that your current advisor can help you accomplish these goals, please reach out and we can help you find the right people to work with in your area. As mentioned before, we won't get paid on anyone we refer you to or if you purchase any type of insurance you buy, period.



# About the Authors



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Parker Lenz is a Partner at Fox River Capital. He has earned the Accredited Wealth Management Advisor designation<sup>SM</sup>, AWMA®, from the College for Financial Planning. During his time at the University of Wisconsin Oshkosh pursuing a finance degree, Parker was a member of a student team that managed a portion of the university's endowment through the Managed Endowment Fund program. Parker is an accomplished Eagle Scout, and in his spare time you can find him cycling or boating. He currently lives in Appleton, Wisconsin.



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