



Paying For Long-Term Care Yourself

Most older adults will draw upon their earnings, savings, investments and assets to pay for long-term care services. More often people receive long-term care in their homes and a small percentage in assisted living residences and some in nursing when they meet the necessary requirements. Long-term care involves extended assistance with **Activities of Daily Living (ADLs)** by family, friends or non-medical health care aides because of chronic health conditions or disabilities. ADLs include help with dressing, bathing, eating, transferring, hygiene, using the bathroom, and walking.

Below are examples of different strategies that can be used to pay for long-term care needs. These strategies require scrutiny as a part of a larger plan. Because of their complexity, you may need to seek the advice of a lawyer, financial planner, insurance agent, tax advisor or social worker and others who are familiar with estate planning issues and long-term care planning.

The information below assumes that you will self-pay your long term care; however, as much as we plan ahead there can be circumstances that change our course of action and a **caution** must be noted. Some of the techniques below could cause significant problems if you ever need to seek assistance from the government, through Medicaid. If you have any reason to believe that you may ever need to apply for Medicaid, be sure to confer with a qualified elder law attorney before proceeding. For a list of elder law attorneys see the National Academy of Elder Law Attorneys at <http://www.naela.org>

With some strategies there are comments that pertain to Medicaid or give additional cautions. These are intended to give some additional consumer friendly red flags.

Evaluate Your Estate Plan

Your estate plan may not consider raising health-care costs, the need to pay for long-term care or other significant medical costs. You may want to consider:

- having your estate plan re-evaluated to take into consideration such costs and have future cash flow projections more realistically reflect such eventualities.
- changing your asset allowance to increase current income enough to pay for health care. Investments can be targeted for growth over time, for immediate income, or for low risk.

Obviously, no one can guarantee what will happen in the future, but some types of investments are historically better for certain goals. Do not expect to anticipate every curve in the road but be ready to adjust your plan when necessary. Your financial plan is not a single event but a journey that can last for years. See your investment advisor. Also discuss with your attorney how your Power of Attorney for Finances can give authority to a designated person to adjust investments as well as protect you from possible exploitation.

Tax Implications. Check to see if your health care expenses are eligible for tax deduction with the IRS or an appropriate tax advisor.

Your Home

Selling Your Home may be an option. You might want to consider selling your home and moving to a new home to reduce expenses or use sale proceeds to relieve yourself from the pressures of home maintenance and to meet care needs. Call the HBS's housing counseling coordinator at 734-998-9346 for resources to compare the cost of your home vs. senior housing as well options for assisted living care residences and nursing home.

Check with your tax advisor on the rules regarding the sale of your home and how much of the profits you could keep tax-free.

Reverse Mortgage (RM) may be an option, if the youngest owner is 62 or over, (thus, no children on the deed) and if you plan to remain in your home for several years. The cost of doing a reverse mortgage could be too expensive if it is repaid in a few years. Most RMs become due and payable, if you stop living in the home for a period of time. Moving into an assisted living facility or nursing home is considered leaving your home under reverse mortgage rules.

A RM allows you to tap the value in your home if you are not in position to sell because there is still a spouse at home or you want to pass it along to your children. However, a RM is not the best vehicle for leaving your home to your children.

Unlike a home equity line of credit, a RM can pay out in different ways such as equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence, a line of credit with unscheduled payments or in installments until the line of credit is exhausted or some kind of combination. Some lenders allow a person or spouse to remain in the home until death, but others will set a time for the sale of the house so the mortgage can be repaid. For more information:

- Refer to US Housing and Urban Development's website for more information on at <http://www.hud.gov/> or contact AARP at 1-800-209-8085.
- Call HBS and ask for Terry Allon at 743-998-9341 with questions and go to <http://www.med.umich.edu/seniors/comres/mortgage.htm> to see if you are ready for reverse mortgage counseling.

Home Sharing allows you to have another adult in your home with a private bedroom room in an exchange for rent and some chore services. The amount of rent and types of services are negotiated and an agreement is established. For more information call HBS, home share coordinator at 734-998-9395. HBS screens both "home providers" and "home seekers" and monitors the arrangement.

Insurance Policy Options

Life Insurance may be an option if it is a 'universal' or other comprehensive life insurance product, as opposed to 'term' products that cover you year-to-year and does not have a portion that grows.

- **Viatical Settlement** allows for the sale of your life insurance policy to a third party and use the money you receive to pay for your care when you have a life-threatening illness.
- **Life Settlements** give those 65 + the ability to raise cash by selling their life insurance policy.
- **Accelerated Death Benefit** is a life insurance death benefit paid in cash in advance, tax-free.

For more information call the Michigan Office of Financial and Insurance Services at 877-999-6442 and your insurance agent.

Long Term Care Insurance may be an option for baby boomers and others who wish to plan early for possible needs in the future. A comprehensive long-term care insurance policy covers for selected personal care services in the home or an assisted living care residence, and nursing home. Take the following steps to become more informed:

- Obtain a free copy of *A Shopper's Guide to Long-Term Care Insurance* by contacting the: National Association of Insurance Commissioners, 2301 McGee Street, Suite 800 Kansas City, MO 64108-2604 (816-842-3600)
- Take a Long Term Care Insurance Quiz at <http://www.med.umich.edu/seniors/comres/quiz.htm>
- Call Medicare/Medicaid Assistance Program for no cost counseling at 734-712-3625
- **Tax Implications.** Check out when you can claim a premium deduction on your income tax and if and when your policy might pay out benefits and how you can keep all or most of those benefits from being treated as taxable income.

Trusts Options

A trust is when a person (the trustor) transfers something of value (the asset) to another person (the trustee). Once that takes place, the trustee manages and controls the asset for the benefit of the trustor or for a named beneficiary. One use of a trust is to provide flexible control of assets for the benefit of an elderly or disabled person, including yourself or your spouse. Do it yourself kits are not recommended and working with a qualified lawyer is the prudent course of action.

Charitable Remainder Trust

When setting this up it is possible to provide a gift to charity at fair market value and receive a tax deduction. The donor then receives payments from the trust that can be used to pay for long-term care. Once the donor dies the balance of the funds in the trust go to the selected charity.

Medicaid Disability Trust (MDT)

The purpose of a MDT is to enhance the quality of life of an individual with a disability who also qualifies for public benefits. There are 3 different types, with different rules.

- A **pooled trust** has to be administered by a non-profit organization, but people of any age can set them up in Michigan.
- **Two other trusts** may only be done for people with a disability under age 65 and have such complex rules that professional advice is strongly recommended. The rules are different depending on whether the funds used are those of the disabled person or are given by somebody else. The disabled person does not have to be receiving governmental benefits first. The purpose is often to facilitate an initial application for benefits.

Long-Term Care Annuity

When a long-term care annuity is established, it is based on a single payment such as a lump sum rolled over from an IRA or 401 (k) in return for a series of regular payments over a specified and defined period of time. Two types are available and **Immediate long-term care annuity** and **Deferred long-term care annuity**.

Note: Some annuities are not counted for Medicaid, while others are. Annuity sales people may not be aware of the latest regulations. You may want to contact an elder law attorney for advice.

High Risk Options: Transfer of Property

The following are ways you can transfer your property and they all require professional advice of an attorney and in some cases are an invitation for fraud and financial abuse:

- **"Reverse" Gifting.** This strategy is complicated, but in some cases it may be possible for a concerned senior to give away all of his or her assets, and rely on children or others to pay for care until the ineligibility period expires. Caveats include: complex rules and a myriad of possible problems; relying on children for more than nominal amounts can be risky; and the potential for fraudulent transfer issues, if bills aren't paid. What is more common is to purchase a Medicaid-compliant annuity to make up most of the difference.
- **Early Transfers of Property** to your children so they own all of your assets. This means that your children are legally in control of your assets and can use them as **they** want. Risks that will threaten your security include:
 - Your children getting divorced or sued, or having business setbacks, which could eat into your one time assets
 - Your children and you disagreeing on what care you require.
- **Sale-Leaseback Arrangement** is an arrangement where you sell your home to an investor, typically at below market value, and then you remain in the home as a renter. You essentially rent your home from the investor on a long-term lease. If Medicaid ever is a consideration, this approach could backfire. With Medicaid, the home is exempt, but the proceeds of the sale aren't. Some argue that sale-leaseback arrangements are an invitation to fraud and if an older adult wants to remain in their home, it would be safer to consider a reverse mortgage since the older person remains the homeowner.

Adapted from the following sources:

National Long-Term Care Clearinghouse at

[http:// www.longtermcare.gov](http://www.longtermcare.gov) Look at Understanding Long-Term Care.

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Housing Bureau for Seniors

