

Planning Ahead

How to Save Your Nest Egg From Nursing-home Costs

By GINA M. BARRY, Esq.

You have spent the majority of your life working and building your nest egg so that your retirement will be well-funded. Unfortunately, retirement comes at a time when the possibility of catastrophic illness is more likely.

Of all Americans age 65 or older, approximately 43% will enter a nursing home during their lifetime. Given that the average yearly cost of nursing home care is \$90,000, and that the average stay will last two and a half years, planning for long-term-care costs is crucial, as these costs will deplete your nest egg at an alarming rate. Planning ahead, which is planning several years prior to nursing-home admission, will mean the difference between spending your nest egg to finance your care and preserving your nest egg for your family.

Long-term nursing-home care is not paid for by Medicare or Medicare supplemental insurance. While Medicare may provide benefits for a short time period, once Medicare benefits end, the nursing-home resident must find another source of payment. Medicaid benefits are available to help pay for nursing-home care, but they are available only after eligibility requirements, which include strict asset limits, have been met.

Recent changes in Medicaid law have significantly reduced last-minute asset-protection opportunities. While there are still a few beneficial options available if you fail to plan ahead, they apply only in very specific situations and are much less fruitful than plans completed several years in advance. The only surefire way to maximize the assets protected for your family is to begin planning at least five years prior to a nursing-home admission.

Obtaining long-term-care insurance can alleviate the draining of assets and provide increased financial stability. Most long-term-care insurance policies will pay for long-term nursing-home care, although some pay benefits only for home care. Benefits are paid according to what is specified in the contract purchased.

A wide range of policies is available, including unique combinations of benefits and pricing structures. For example, some policies will pay for nursing-home, assisted-living, or home-health-care expenses, thus increasing one's long-term care options.



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Some policies provide that, if long-term care benefits are not used, the premium may be refunded as a death benefit. In order to purchase long-term-care insurance, you must be insurable, which means that you must not have a health condition that would prevent the insurance company from providing you with insurance.

Assuming you do not purchase long-term-care insurance or that you are already uninsurable, you should consider purchasing assets that will not count toward the asset limit for Medicaid benefits. Non-countable assets presently include an irrevocably prepaid funeral, a burial account of no more than \$1,500, a minimal amount of life insurance, a car, and, in some cases, a home. The payment of outstanding debts, such as a mortgage or credit-card balances, can also be beneficial in some cases.

Assuming that five years will pass before your admission to a nursing home, a gifting plan may be considered. When applying for Medicaid benefits, the Division of Medical Assistance will look at the five-year period immediately preceding the application to determine if you made any gifts. If gifts are found within this time period, a penalty period will be assessed, during which time the division will not pay any Medicaid benefits on your behalf. If at least five years and one day have passed since the date of the gift, under the current rules, the gift will not need to be reported when applying for benefits. Hence, no penalty period will be assessed.

A gifting plan may consist of outright gifting to your beneficiaries, usually your children, or to an irrevocable trust that can continue to provide you with income until you pass away. There is danger involved in gifting,

as you may be admitted to the nursing home prior to the expiration of the five-year-and-one-day period. You must plan for this possibility before beginning any gifting.

As opposed to a gifting plan, if you are presently being cared for by one of your children, you might consider establishing a paid-care agreement with your child. Rather than gifting assets, you pay your child for the care provided to you according to the terms of the agreement. As you pay for care, you are spending down your assets to purchase the services, as opposed to gifting the assets, and you are also benefiting your child by providing him or her with additional income. These agreements must be reasonable and fair to you and your caregiving child.

The planning strategies mentioned in this article are extremely complex and contain various benefits and detriments. Should you wish to determine which strategy, if any, is best for your situation, it is highly recommended that you seek the advice of your elder-law attorney before you take any further steps. Do so now to avoid paying later. ■

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