

Financial Planning: Long-Term Care

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Most people know someone who has lived in a nursing home. Some residents stay for short periods to recuperate from an illness or injury. Others stay for months or years.

Most people also know that the costs associated with an extended stay in a nursing home are a financial burden to many families. Families and individuals can use one of three choices to fund nursing home care:

- **current income and assets**
- **government health care programs, Medicaid or Medicare**
- **long-term care or nursing home insurance**

Current income and assets are the way families and individuals traditionally pay for nursing home care. They turn to **Medicaid** when they can no longer meet their obligations.

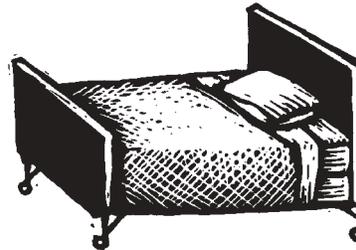
Medicaid in Arkansas is a government assistance program for financially eligible persons

administered by the Arkansas Department of Human Services. In Arkansas, almost 80 percent of nursing home residents are partially supported by Medicaid. If you qualify for Medicaid, you will not need additional health insurance, including long-term care or nursing home insurance.

Medicare will only pay for skilled nursing care in a Medicare certified institution. Custodial and intermediate care *are not covered* by Medicare. The availability of

Medicare-approved nursing homes varies among communities.

Long-term care (LTC) or nursing home insurance policies are offered by several companies. In Arkansas, LTC insurance policies must provide coverage for skilled, intermediate and custodial care in a nursing home. Some residential custodial homes will not meet the criteria for coverage under an LTC policy.



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**Should you buy LTC insurance?
Think carefully. Here are some things
to think about:**

- Coverage varies greatly from policy to policy.
- Limitations spelled out in the policy can reduce or eliminate policy benefits you might hope to receive.
- Premiums are fairly high. Can you afford the premiums month after month? Can you afford to pay for your own nursing home care? What are your other available resources?
- Insurance is risk protection. Do you want to insure against the financial risk of a costly nursing home stay? U.S. Department of Health and Human Services estimates persons age 65 and over have a 40 percent lifetime risk of ever entering a nursing home. That means two out of five senior adults are likely to enter a nursing home at some time.

This fact sheet can help you evaluate the financial resources you presently have to pay for nursing home care. A second handout, FSHEC98, *Insurance Series: Long-Term Care Insurance*, and a companion checklist, FSHEC99, *Insurance Series: Long-Term Care Insurance Policies' Checklist*, will help you evaluate LTC policies.

Paying Your Nursing Home Bill

In Arkansas, nursing home costs in 1998, not including medication, start at \$70 per day (\$2,100 per month or \$25,200 per year). In some areas, rates are much higher. Ask yourself whether you can afford to pay now for LTC insurance premiums in amounts up to \$4,000 or more annually (depending on your age, daily benefit paid, and coverage).

Before shopping for a nursing home policy, sit down and list the income and assets you have available to pay for a nursing home stay. To help you with this task,

ask for fact sheet FSHEC49, *Preparing Family Net Worth and Income Statements*, available at your county Extension office.

Which of the following resources can you use to pay LTC insurance premiums?

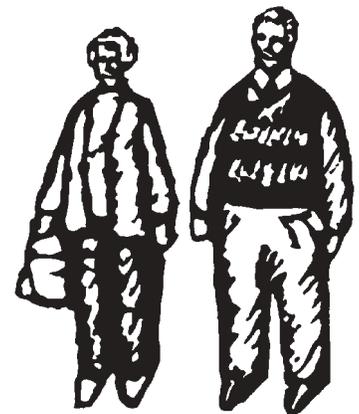
- Social Security income
- Private retirement or pension income
- Earnings from bank accounts, stocks, bonds, etc.
- Income from rental real estate
- Family contributions
- Veteran's benefits
- Monthly Supplemental Security Income payments (SSI is a government assistant program for low income, elderly, blind and disabled persons)

Medicare pays for the first 100 days of care in a **skilled nursing facility**. It pays all costs for the first 20 days. For the 21st to 100th days you are responsible for a portion of the cost. The portion paid by you is called a co-payment. All standardized Medicare supplement (Medigap) insurance plans except Plans A and B provide skilled nursing facility co-insurance.

To be eligible for Medicare skilled nursing home care benefits:

- You must have been hospitalized for 3 days and enter the nursing home within 30 days of your hospitalization;
- A doctor must order the skilled care;
- The facility must be Medicare-approved.

Medicaid pays for nursing home care if you can no longer pay the full cost of a nursing home stay with your own resources (monthly income and assets). To qualify for Medicaid assistance with nursing home



expenses in Arkansas, an individual must meet medical criteria, have a low income and have nonexempt assets worth no more than the limit set by Medicaid.

To qualify in Arkansas in 1998, your income including monthly social security and pension checks plus your share of earnings from savings and investments can be no more than \$1,482 per month. If your monthly income is above \$1,482, you will not qualify for Medicaid even if you meet the asset rules described below.

The income guidelines go up each year when they are adjusted for inflation. If married, your spouse's income does not count.

To qualify in Arkansas in 1998, your exempt assets are not counted when determining Medicaid eligibility. Single adults in nursing homes can keep \$2,000 in exempt assets. Exempt assets also include the value of your car (up to \$4,500) and your home if you or your spouse are living in it. An additional \$1,500 may be set aside in a separate bank account as a burial fund, if a nursing home resident does not have burial insurance or a prepaid funeral plan.

Under the spousal impoverishment rules, if one member of a married couple enters a nursing home, the spouse remaining at home may keep one-half of their total countable assets (up to a maximum of \$80,760 in 1998). When the total assets are "spent-down" to the one-half reserved for the community spouse, the spouse in the nursing home will be resource eligible and can apply for Medicaid.

Most persons **who "give away" assets or transfer property titles** to children or loved ones less than 36 months before entering a nursing home or meeting Medicaid eligibility requirements will find their Medicaid assistance can be delayed. There are few exceptions to the "look-back" rule.

If the adult transferred personal assets to a trust, the delay can be even longer. A recent federal law increased the waiting or

"look back" period for trust assets to 60 months.

Even though Medicaid recipients can keep assets such as their home, it doesn't mean their heirs will get them. Recent changes in state and federal laws require the state of Arkansas to collect from the property left by a Medicaid recipient, after both the recipient and the spouse have died. This includes Medicaid reimbursement for community care and nursing facility care.

Rules may change. Asset guidelines may change. Income guidelines are adjusted upward each year for inflation. New rules may be in place.

Check with your county Department of Human Services or Area Agency on Aging for current information before you purchase a

LTC insurance policy, transfer property or shop for nursing home care. Persons who learn "up front" how the Medicaid rules

affect their family will make fewer mistakes. It's up to you to keep track of changes, especially if your calculations indicate you just exceed or barely miss qualifying under current rules.

If you are not eligible for Medicaid, you will have to use current income and liquidate assets to fund long-term-care. Which assets can you use to help pay nursing home costs?

- Savings accounts
- Certificates of deposit, money market accounts
- Life insurance cash value
- Stocks, bonds, money market funds
- Real estate (other than your home)
- Personal property
- Antiques, jewelry and collectibles
- Business assets and income



Protecting Your Assets From Medicaid Rules

Some resourceful individuals come up with a plan to protect assets or transfer property before the waiting period imposed by Medicaid. Consider using an elder law attorney or a financial advisor who specializes in financial planning for older adults. He or she can advise you of your options.

Do-It-Yourself Strategy

A special savings account or investment plan started before retirement could provide the necessary funds for a nursing home stay 10, 20 or 30 years down the road. If, starting at age 55, you put \$75 a month in a savings account paying 6 percent interest, you will have accumulated \$52,234 by age 80.

Increase your earnings to 10 percent a year and your nest egg will exceed \$100,000. If you never require nursing home care, these funds will be available for other uses.

Each person has a unique financial situation. Think carefully before you act.

Ask your county Extension office for the following fact sheets to help you plan a strategy to fund nursing home care.

Preparing Family Net Worth and Income Statements (FSHEC49)

Ready, Set, Retire Series: Health and Life Insurance (FSHEC73)

Long-Term Care Insurance (FSHEC98)

Long-Term Care Insurance Policies Checklist (FSHEC99)

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