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On the Horizon

5/21
Neighbors Luncheon
sponsored by Franciscan Oakes and Victoria Mews, Mountain Lakes, NJ

6/3
Leading Age New Jersey Annual Meeting,
Atlantic City, NJ

6/22
"What to Ask Your Financial Advisor About Life Plan Communities" –
The Atrium, Red Bank NJ

Life Plan Communities vs. Long-Term Care Insurance

As Baby Boomers continue to retire, questions about the costs associated with long-term care continue to concern them. Questions we commonly hear include: Exactly how will I pay for long-term care if my spouse or I need it? Where will we receive care? How much should I expect to pay for long-term care costs? How my care costs affect my children or my legacy when I'm gone?

Long-Term Care Insurance

Some of these questions can be addressed by long-term care insurance (LTCi). LTCi can provide a pool of assets you can use in various environments—such as the home, assisted living facilities or skilled nursing homes when your health deteriorates to a point where mobility or mental continence no longer permits you to care for yourself independently.

The problem for new LTCi shoppers, however, is that number of contracts and types of benefits have been significantly reduced as many larger insurers have withdrawn from this market. Retirees may also find that LTCi underwriting process has become much more conservative. For older retirees, age and health factors may preclude them from getting coverage.

Current policy holders are also experiencing new challenges. Significant premium increases on in-force contracts have either compelled some seniors to modify coverage by reducing benefits, or to pay more out of pocket for the benefits their policies were originally designed to provide.

Life Plan Communities (Formerly Known as Continuing Care Retirement Communities)

An alternative to buying LTCi is the option of entering a Life Plan Community (LPC). While LPCs have different cost structures, they effectively answer the question of where you'll receive care. Retirees typically enter a LPC when they are still capable of independent living, and they can enjoy the social aspects the community provides. The LPC cost may include a significant up-front entry fee (which is normally financed through the sale of a primary residence) and an ongoing monthly fee.

Depending on the type of LPC contract into which you enter, the cost of transitional care and accommodations (from independent living to assisted living to skilled nursing) can remain relatively predictable. Unless you are willing to pay more in upfront entry fees, the investment in the community may be non-refundable. That would limit the amount of money you'd be able to pass on through your estate. Also, while the LPC does provide housing, it is technically not a real-estate contract.

Which is Better: LTCi or LPC?

The answer to this key question depends both on your qualitative desires and your financial means. An LTCi policy provides benefits only when you need them, and provides some flexibility about where you'll receive care. The LPC, on the other hand, provides a lifestyle and living accommodations for anyone willing to leave their home and commit to a large up-front investment. Financially, the best outcome for an LTCi policyholder would be to pay the lowest-possible premium and go on claim for a long period of time collecting benefits. However, that does not represent the best "quality of life" outcome. On the LPC side of the equation, you risk forfeiting your large investment if you enter a LPC with a non-refundable contract and pass away within five years or less.

The Best of Both Worlds?

If you already own or are thinking of purchasing LTCi, it may be advantageous to coordinate the benefits of the policy with a lower-cost contract at a LPC. For example, a care community may offer a modified or "fee-for-service" contract that has a lower (or no) entry fee. If your ongoing monthly fees rise when you move from independent living to a more expensive level of care, you could tap your LTCi policy benefits as your healthcare costs go up.

Occasionally it is not an "either/or" decision between LPC and LTCi. Instead, the optimal solution may be the coordination of the right LPC contract with an LTCi policy with an appropriate amount of benefits.

Weigh Choices Carefully

As you can see, it's important to spend time understanding the costs and risks associated with long-term care. LPCs and LTCi both provide good ways to manage and transfer some of that risk.

Of course, some retirees may have sufficient assets to retain, or "self-insure," against long-term care risks. However, if you are considering paying for help managing future health care costs through a LPC or LTCi, be sure to talk about your options with a knowledgeable, objective professional like your Wealth Advisor.

This Quarter's Q&A Tips

Can I use the tax deduction I get from entering a Life Plan Community to offset a large capital gain due to the sale of my home?

In general, I am in favor of applying the proceeds of a home sale into a life plan community. There are, however, several tax issues to be considered. First, you need to find out if any percentage of the entry fee qualifies for a pre-payment of medical expenses. Second, note that refundable portions of the entry fee are not deductible, and fee-for-service communities may not even have an entry fee.

The third consideration is capital gains exclusions. When senior retirees transition into a life plan community, it is common that they sell their primary residence to generate the necessary capital for the entry fee. In order to be eligible for the capital gains exclusions ($250,000 for a single tax filer, and $500,000 for married filing jointly) your home needs to have been your primary resident for at least two of the last five years. However, if you purchased your home 40 years ago for $100,000 and it is now worth $1 million, you will still most likely have a large tax liability at the sale.

Capital gains on the sale of a primary residence can increase your itemized deductions under "modified adjusted gross income, " and typically will not offset capital gains dollar-for-dollar. That said, itemized deductions will reduce your taxable income. So, taking advantage of an itemized deduction - such as the pre-payment of medical expense incurred - will benefit your tax situation for the year you make the transition. Note that timing is important, because you want to realize the gain on the sale of your home in the same tax year that you incurred the deductible medical expense.

Everyone's tax and financial situation is unique, so it is important to consult with your wealth advisor as well as your accountant on specific tax advice.

"Life Plan Communities": Name Changer or Game Changer?

There is no doubt that language in the senior housing world can be confusing. It is often difficult to differentiate between "assisted living," "skilled nursing," "independent living," "continuing care," "age-restricted" and the myriad of other terms used to describe retirement communities. A decision last month at the Leading Age Annual Meeting in Boston didn't make the process any easier. Those considering a "Continuing Care Retirement Community," will now be seeking out a facility officially called a "Life Plan Community" instead.

While researching CCRCs, I will admit that I was never a fan of that name or acronym. In addition to being a mouthful, it could also be used to describe several other completely unrelated entities. For instance, in academia you might find yourself at the Complex Carbohydrate Research Center (CCRC) at the University of Georgia. College sports fans may find themselves cheering on a team in the Colonial Coast Rugby Conference (CCRC). Finally, in a hospital environment, you may encounter a Certified Clinical Research Coordinator (CCRC). Ironically, my wife holds that nursing designation.

While the name has changed, the role of the LPC (formerly the CCRC) will remain the same: To provide a continuum of care in one environment for seniors, offering levels ranging from independent living to assisted living to skilled nursing.

It appears that the name change was primarily a way to speak to the desires of younger prospective residents who reacted negatively to the idea of "continuing care," but positively to the idea of having a "life plan."

While the new name may bring more focus to the independent living aspects of the communities—such as social activities and wellness events—it somewhat mutes the inevitable truth: That we may be unable to care for ourselves later in life, and that we may need extra help.

As you evaluate senior housing and care needs for yourself or a loved one, here is a helpful glossary to complicated phrases you may hear along the way:

Types of Facilities & Services*

Assisted Living Residences & Comprehensive Personal Care Homes

These homelike, residential settings assist seniors with activities of daily living so they can "age in place." Units are generally apartment-style living rentals. Rental rates may increase as residents move to units that offer higher levels of supportive and health services. These facilities offer residents health and social services as needed. The emphasis is on enabling residents to maintain their independence and privacy as long as possible, while living in a supportive environment that helps protect their health and safety. The Department of Health and Senior Services licenses (DHSS) assisted living facilities.

Life Plan Communities (formerly known as Continuing Care Retirement Communities, or CCRCs)

Residents enter into a contract with the facility to receive a continuum of care ranging from independent living through long-term care. An entrance fee and ongoing monthly charges for services are typical. Residents usually join these communities while they still in relatively good health. As they age and develop additional health and personal care needs, residents have access to licensed long-term care units (assisted living or nursing home) available within the community. Monthly charges for higher-levels of care may increase, depending on the LPC's contract. LPCs are certified by the Department of Community Affairs.

Independent/Subsidized Housing Facilities

These units traditionally include individual apartment units with kitchens or kitchenettes for residents who wish to prepare their own meals. Rents vary widely depending upon the size of the apartment and services offered. In addition, many facilities receive government subsidies so they can offer sliding rental rates based on qualified residents' incomes. Depending on the facility, resident may have access to services such as meal programs, housekeeping, transportation, counseling and social activities.

Long-Term Care/Nursing Facilities

The DHSS licenses these facilities to provide 24-hour nursing and health care services to residents with significant physical or mental health needs. For instance, long-term care may be necessary for individuals who have Alzheimer's Disease or related disorders, have suffered a catastrophic illness or accident, or who need physical rehabilitation, recuperation time after a serious hospitalization, tube feeding, restorative services or other specialized treatment. Some providers may be eligible for Medicare and/or Medicaid funding.

Residential Health Care Facilities

This type of facility is often best for seniors who are unable to live independently, but who can still walk (perhaps with an assistive device), are reasonably cognitively healthy and have no significant medical needs. These facilities provide a home-like atmosphere and offer services such as meals, housekeeping, laundry service, recreational activities, supervision of medication, and help getting health services. Many long-term care facilities offer separate residential health care units like these for individuals who don't need skilled nursing care. Facilities are licensed by the DHSS.

Home & Community-Based Services

This category includes a wide range of health and support services for individuals who wish to stay in their own homes as they age. Help is also available for the resident's caregivers, who may need support and respite. Services include: Adult Day Services; Care Managers; Home Health Care; Homemaker or Chore Services; Home-Delivered Meals; Hospice Care; Personal Care Services; Respite Care; Financial Counseling; Information & Referral; and Transportation Services.

* Source: Leading Age NJ: www.leadingagenj.org

Live the life you want, where you want.

Life Plan Communities (formerly Continuing Care Retirement Communities) are an increasingly attractive housing alternative for retirees. With a wide range of communities and types of contracts (all-inclusive, modified or fee-for-service) from which to choose, it is critical to understand the immediate and long-term impact on the individual's financial status. Jim Ciprich is recognized for his expertise in working with prospective residents, both to help them understand the nuances between community types, and advise on how to appropriately determine which category of community best aligns with their desired lifestyle and financial resources.

Assessing the community.

Investing in an LPC is a big financial decision: possibly the equivalent of exchanging your entire home proceeds to cover an entry fee, and contributing an entire pension or all Social Security benefits to cover the ongoing monthly fees. We know how to evaluate the financials associated with an LPC and recommend you work only with an experienced advisor.

For More Information

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