

## Coping With Long-Term Health Blues

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**It's one of those “uh-oh” moments** that financial advisors often have with clients who are at the cusp of retiring: figuring out how to pay for long-term health care without breaking the nest egg. When Joan Crane of Fort Lauderdale, Fla., a wealth strategist for BNY Mellon Wealth Management, sits down with older investors, as part of her financial health checklist, she will raise the question of long-term-care costs. “Often times the answer is, ‘Isn't Medicare going to pay for that?’ They think that the Obama reform will pay for long-term care. I have to explain it to them,” she says. “The biggest red flag is if they're just coming in and they're thinking it's going to be status quo. ‘For the last year, I only spent this much on medical.’ They're not even thinking about it.”

Of course, Medicare only pays for up to 100 days of skilled nursing care. And there is no long-term care program in the new health care legislation that the president signed in March. The only government-run long-term health care program is Medicaid, which requires applicants to be virtually impoverished in order to qualify. If they are not impoverished, the government will require them to pay down their assets before they can qualify for Medicaid; when the investor dies, in some cases the government may place a lien on his or her house to recoup what was spent on nursing care. Medicare and Medicaid are hardly on the radar of high-net-worth investors who can easily cover the pricey premiums for long-term care insurance, or who may even pay the costs of nursing homes out of pocket. But for the rest of the investing public — more than 93 percent of American households last year had a net worth of less than \$1 million, according to the Chicago-based consultancy, Spectrem Group — relying on Medicaid could easily become a necessity, which raises the question of how to protect assets when Uncle Sam comes knocking.

## Health Care Blues Spell Opportunity

Indeed, preparing for end-of-life medical bills is a knotty problem that represents an opportunity for financial advisors who work with clients in this bracket, often called the mass affluent. “We’re trying to get our clients to think about what they would do if they got sick and weren’t going to get any better,” says Bernard A. Krooks, founding partner of Littman Krooks LLP, a New York law firm.

The cost of nursing home care varies widely in the United States, from as little as \$4,000 a month in places like Louisiana and Mississippi to about \$200,000 a year in the New York metro area, he says. For people with chronic illnesses such as Parkinson’s or Alzheimer’s, nursing home stays of 10 or 15 years are possible. “The financial advisor who’s attuned to these issues will develop better relations with their clients,” Krooks says. “Their clients and family members will appreciate the fact that they’re actually caring about an issue that might not necessarily result in a revenue-generating transaction for them, but will be a goodwill gesture for the family because it will help protect their assets.”

There is no question that healthcare is a subject that is weighing heavily on Americans’ minds. Over the past five years, U.S. workers have lost confidence in their ability to cover their long-term-care costs in retirement, according to a survey by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates. The percentage of those polled who said they were “very” confident fell from 17 percent in 2005 to 10 percent this year; those who said they were “not at all” confident increased from 26 percent to 31 percent. The results were similar when investors were asked about their confidence in their ability to pay for medical expenses in general during retirement. Those “very” confident fell from 20 percent to 12 percent, while those “not at all confident” rose from 20 percent to 26 percent.

The recent financial collapse aside, the major reason for this loss of confidence is the sheer magnitude of wealth required to cover health costs in retirement these days. In March, Fidelity Investments’ annual Retiree HealthCare Costs Estimate reported that a 65-year-old couple retiring this year will require \$250,000 to cover medical expenses through retirement, a figure that excludes the cost of nursing home care. A study in February by the Center for Retirement Research at Boston College found that a typical household at age 65 has a 5 percent chance of seeing the present value of its lifetime health care costs exceed \$311,000 — a figure that jumps to \$570,000 if long-term care is included.

## A Problem With A Solution

The ideal solution, many advisors agree, is long-term care insurance. Depending on such factors as the client’s age and how extensive the coverage is, policies can run several thousand dollars a year. Some clients, however, may be uninsurable if they’re very old or have medical conditions; nearly 43 percent of applications for LTC policies examined in 2003 and 2004 from people aged 70 to 79 were declined, according to the American Association for Long-Term Care Insurance. For applicants 80 and older, denials reached over 57 percent.

For mass affluent investors with less than \$1 million in net worth, the possibility exists that post-retirement medical costs could deplete most if not all their assets. People in such circumstances would qualify for Medicaid, but at a steep price. One strategy estate attorneys use that can afford clients some protection is to place the investor's house or other assets into an irrevocable trust. The investor is entitled to draw income from the assets over the life of the trust, but, since the investor has removed his rights of ownership over the assets, the trust will not preclude the investor from qualifying for Medicaid. (Eligibility requirements vary by state.) The assets in the trust can then be left to the investor's children or other beneficiaries.

“It's hard to put a number on it. By and large this is not planning that we're doing for the ultra-wealthy, although it may have some applicability to people with seven-figure estates,” Krooks says. “The most typical type of client who we do this planning for has a home in the Bronx or Westchester or Long Island or New York City, and a modest retirement account, either a 401(k) or an IRA that they've accumulated, plus several hundred thousand dollars in the bank. These are not wealthy people; these are lower-middle-class people who are stuck in a bind.”

There are important rules to consider when using such a trust. Paramount is that it be created at least five years before an individual applies for Medicaid; the government “looks back” over that period for assets that may have been turned over to other family members, and may disqualify an application if it finds such transfers. “The kids' parents are getting to the point almost of having to go into the nursing home tomorrow, and the kids will suddenly realize, ‘There go my assets. There goes my inheritance,’” Crain says. “I get quite a few calls from the 40-year-old professional who's worried, and there's really not a lot they can do at that point because there's the five-year look-back period.”

Krooks recommends that investors who set up such trusts reserve what is called the power of appointment, which allows the investor to change who the beneficiaries of the trust will be. Reserving that power means that when assets are transferred into the trust, the IRS won't require that a gift tax be paid. (It's not considered a completed gift for tax purposes.)

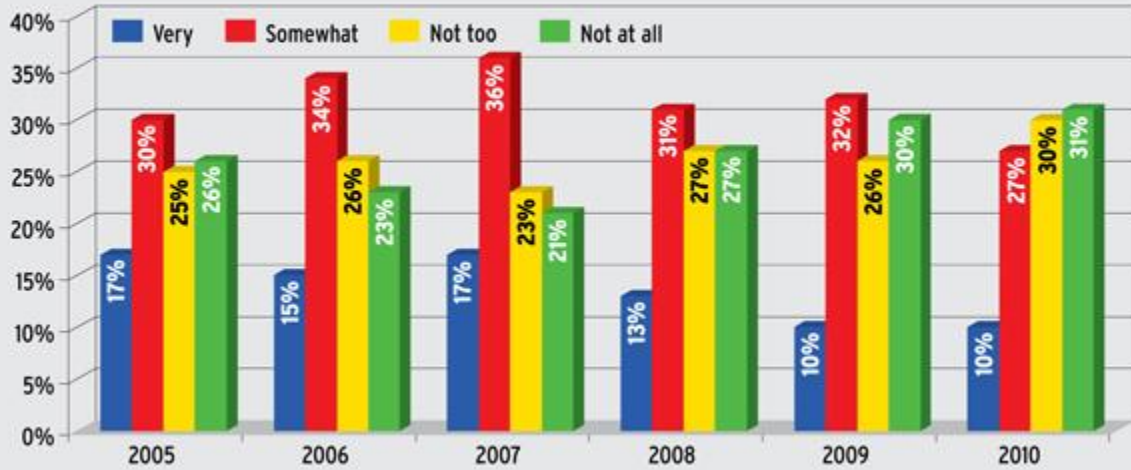
Deciding how many assets to put in the trust and how many to leave out is a judgment call, says elder law attorney Harry S. Margolis in Framingham, Mass. “It's probably better to err on leaving more out so you can lead a full life. You don't want to have this money sitting behind this wall,” Margolis says. Timing is also key. “If someone is coming to me and they're 65 and in good health and have just retired, I don't think we're putting anything into an irrevocable trust at that point. Then, we're really looking at long-term care insurance as the best option. But if they're 10 years older, and certainly if they're 20 years older, then we're a lot more inclined to consider an irrevocable trust,” he says.

Medicaid trusts can help with estate planning, but at the end of the day the assistance they provide is limited because of the income and asset rules, Crain says. The government is no fan of letting investors preserve wealth while using the program, and has tightened policies over the years. The lookback period, for example, lasted just two years until it was extended to five in 2006. Crain says she often has to disappoint clients who wonder if there isn't some loophole that can be exploited. “Most of the time they want to know if there's some gimmick they've overlooked. Is there something new they can use to shelter assets? Frankly there's nothing new,”

she says. “Looking at the state of the (federal) budget, I can only assume it's going to get tighter, not easier, to qualify for Medicaid.”?

### CAN YOU COVER LONG-TERM CARE?

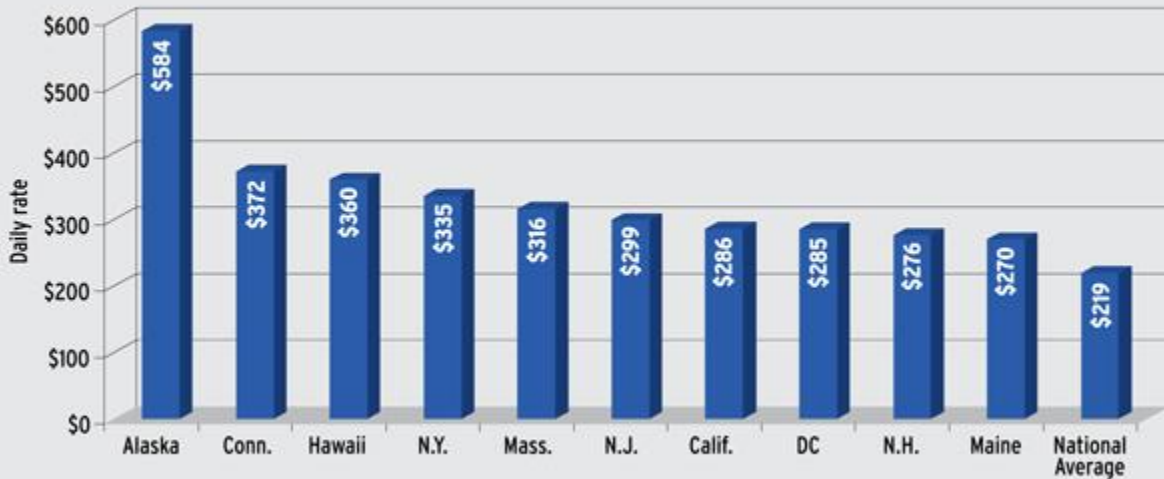
Workers were asked about how confident they were that they could pay for long-term care expenses in retirement.



Source: Employee Benefit Research Institute, Mathew Greenwald & Associates

### CASH OR CHARGE?

States with the highest average daily rates for a private room at a nursing home, 2009.



Source: MetLife Mature Market Institute, "Market Survey of Long-term Care Costs"