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How to Pay for Nursing Home Care

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What is it?

Paying for nursing home care is a burden that most Americans bear, whether directly or indirectly. Even if you never need nursing home care yourself, you are already paying for the nursing home care of others by paying income taxes that, in part, finance Medicaid and veterans' benefits. In addition, you are probably paying Social Security or self-employment taxes that help pay the cost of skilled nursing home care provided through Medicare. Although your own nursing home care may someday be financed by one of these government programs, you may find yourself struggling to pay the high cost on your own if you are not poor enough to qualify for Medicaid or if you need custodial rather than skilled nursing care. In general, there are three ways you can finance nursing home care: pay for it from your own savings (self-insure), buy long-term care (LTC) insurance, or use government benefits.

Ways to pay for nursing home care

Self-insure

You may be able to afford to pay for nursing home care by using your own savings. To determine this, consider how much monthly income you will have after you retire. You may be able to liquidate some investments or sell your house to come up with additional funds if you need to. You might also be able to borrow against your cash value life insurance policy. (Note, though, that the death benefit available to your survivors will be reduced.) If you are seriously ill, and the policy permits, you can take accelerated benefits from the policy. However, when you determine how much retirement income you will have and how much your nursing home costs will be, don't forget to account for price increases and inflation. Consider also what will happen if your money runs out. Will you be able to qualify for Medicaid, or will you have to rely on your children for help?

Tip: If you plan on self-insuring, it would be wise to consult a financial professional well in advance of retirement, due to the complexity of self-insuring and the numerous estate planning and taxation issues involved.

Buy LTC insurance

LTC insurance pays for the cost of nursing home (or sometimes in-home) custodial care. It pays a fixed dollar amount of benefits per day to cover nursing home care, so it may not pay the total cost of nursing home care. LTC insurance is expensive, but the premium you pay depends upon at what age you buy the policy. The premium is fixed as of the date of purchase and only goes up if the insurance company raises its overall rates. Your premium is also affected by the elimination period you choose. (The elimination period is the time between when care begins and when the insurance company starts paying benefits.) Some policies give lifetime coverage, while others only give coverage for a specified number of years.

Example(s): Marvin bought a LTC policy at age 66. His annual premium is \$3,000. He chose a 15-day elimination period and 3-year coverage at \$100 per day. This means that if Marvin enters a nursing home at age 76, his LTC policy will pay the nursing home \$100 per day for three years, but his coverage won't start until he has been in the nursing home for 15 days.

Like any insurance policy, the features and price of a LTC policy may vary from one company to another, so you have to comparison shop. For more information on this topic, see Long-Term Care (LTC) Insurance.

Use government benefits

If you meet certain eligibility requirements, three types of government benefits can help you pay the cost of nursing home care: Medicare, Medicaid, and veterans' benefits.

Medicare

Medicare does not pay the cost of custodial nursing home care. However, it may pay part of the cost of skilled nursing care/rehabilitative care in a hospital or nursing home under the following conditions:

- You have been hospitalized for at least three days prior to entering the nursing home (and entered the nursing home within 30 days of being discharged from the hospital)
- A doctor certifies that you need skilled nursing care
- The nursing home or hospital is a Medicare-certified skilled nursing facility

Caution: Relying solely on Medicare to pay for nursing home care is a mistake, because Medicare defines skilled nursing care narrowly and pays limited benefits for care. For instance, if skilled care in a Medicare facility is approved, Medicare will pay for the first 20 days of care, and then will pay only part of the cost for days 21 to 100. After that, Medicare pays none of the cost. For more information on what benefits Medicare does provide, see Medicare.

Medicaid

Medicaid does pay for custodial nursing home care (and in some states, in-home care), but only for low-income individuals who have few assets. If you have income and assets higher than the Medicaid limits, you will not be eligible for Medicaid. However, if you enter a nursing home and pay for care yourself for months or years, you may qualify for Medicaid once your money runs out. In addition, you may be able to qualify for Medicaid if you spend down or transfer your assets. For detailed discussions of strategies you may use to qualify for Medicaid and the rules surrounding Medicaid, see Medicaid Planning Goals and Strategies.

Veterans' benefits

If you are a veteran age 65 or over, you may be eligible for treatment in a Veterans Administration (VA) nursing home. You don't have to have a service-connected illness or injury to get treatment, but since nursing home space is limited, veterans with service-connected conditions will be admitted first. Their treatment will be free; for others, treatment will be free only if certain eligibility rules are met. In addition, the VA runs other community retirement facilities that you may be eligible to enter. For more information, contact your local Veterans Administration office. Also see Veterans' Benefits.

Tax considerations

You may be able to deduct LTC insurance premiums

LTC insurance premiums are deductible as medical expenses within certain limits. How much you can deduct depends upon your age at the end of the tax year. For further information see the general discussion Long-Term Care (LTC) Insurance.

You may be able to exclude LTC insurance reimbursements from income

Money you receive under your LTC insurance contract may be excludable from income for tax purposes (subject to certain limitations). In addition, if your employer provides coverage for you under a LTC insurance contract, the value of coverage is generally excludable from your income, unless the coverage is provided through a cafeteria plan or if you are reimbursed under a flexible spending account.

Example(s): Grant's LTC insurance contract states that the company will pay for nursing home care beginning on the 16th day after care begins. Grant enters a nursing home that charges \$125 a day. His total expenses for 60 days are \$7,500. His insurance company sends him a check for \$5,625 (45 x \$125). The \$5,625 he receives is excludable from his income for tax purposes when he files his annual income tax return.

Caution: When deducting your medical and dental expenses from your income taxes, you must reduce your total medical and dental expenses for the year by reimbursements you receive under a LTC or other insurance contract. For more information see Medical and Dental Expenses.

You may be able to deduct nursing home costs for which you are not reimbursed

You may be only partially reimbursed for nursing home costs under your health insurance or LTC insurance contract. However, any expenses you have for which you are not reimbursed may qualify as medical deductions for income tax purposes. For more information see Medical and Dental Expenses.

Questions & Answers

Can your son or daughter be asked to guarantee payment to a nursing home if you don't qualify for Medicaid?

No. In fact, under federal law it's illegal for a nursing home to ask a child to personally guarantee payment for your care. However, the nursing home may require you to prove you have the money to pay for your care by asking you to provide bank statements or by asking you to put down a deposit.

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