A Guide to Caring for Aging Parents

How to broach this sensitive topic.

by Sue Stevens
Editor,
Morningstar Practical Finance

No one wakes up one morning and thinks, "Hey, today's a great day for me to talk to mom and dad about planning for when they're no longer able to care for themselves." But whether you (or they) are ready or not, the day very well could come when your parents' care becomes a concern you must consider.

It used to be that more family members were in close proximity to one another. If an aunt or a parent needed financial or physical support, they could move in with another family member, or at least someone could look in on them. But more recently, families are spread all over the map, and more often than not, adult children and their spouses are working outside the home.

So here's a quick wake-up call for what you need to know about this thought-provoking and sensitive subject. After all, statistics show that 40% of adults over the age of 65 will require some sort of extended care.

Types of Care

Your House. Many families have an extra room in their home for a parent. Even if this is the best possible solution for the parent (and it may not be), be sure to consider the effect on the caregiver. Women typically assume the role of caregiver, but not always. There are ways to help ease the demands on the caregiver like adult day-care facilities or bringing a health care professional into the home on a daily basis.

Their House. In-home care can allow a parent to remain in their own home. You can hire skilled professionals who can help people with activities like feeding, bathing, and even some basic medical attention. This type of caregiver usually charges an hourly or weekly rate, which varies depending upon the level of skill required. Some of these costs may be covered by health insurance, but more likely they will be covered through a long-term care policy that also pays for home health care.

Assisted Living. Like in-home care, assisted living can provide a certain level of independence. But most assisted living facilities will provide a more formal support system, with a level of care that can change as needed.

According to a recent Met Life survey, the national average monthly base rate for assisted living is about $2,500, or $30,000 a year. Of course, rates vary depending on where you live as well as factors like the level of accommodations (private or shared room, for instance).

Nursing Homes. The highest level of care would come from a nursing home, or long-term care facility. Nursing homes differ from assisted living facilities in that they offer comprehensive medical care. Of the three, this is the most expensive, and typically ranges from $30,000 to $150,000 annually, or even higher. Gefinancial.com provides the average annual cost for nursing home care in each state.

A newer hybrid type of care is called "equity ownership." It allows residents to purchase living quarters in popular areas like Hilton Head, SC, Chapel Hill, NC, or various areas of California. For more on this type of program, see theforum-seniorliving.com or cedarsofchapelhill.com. Be prepared for a waiting list.

There are also more and more nursing homes that are trying to get away from an institutionalized setting. For example, The Green House Project remodels homes to allow residents to get the care they need in a traditional home setting. Find out more at thegreenhouseproject.com. As the baby boom generation reaches elder status, other opportunities will undoubtedly arise.

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Many people are under the mistaken impression that traditional health insurance or Medicare will pay for these levels of care. Health insurance will probably cover a stay in the hospital, but it soon ends if the patient is transferred to some type of rehab care. Medicare will cover the first 20 days of skilled nursing home care, and will cover some or all of the next 80 days, but after that you will be on your own. If your parent is a dependent, you can deduct some of their medical costs (assuming you paid for them) on your income tax return. If you pay their medical costs directly to the providers, those payments won't be considered gifts.

In a perfect world, cost would not be a factor, and our parents would receive only the best care when needed. But in reality, cost and the time needed to care for someone else should be carefully considered. With some thought, you and your parents can develop a plan that can make these concerns less worrisome.

Paying for Care

Costs are going to vary depending on the extent of care needed. You may be surprised to know that it's perfectly legal to deduct certain costs you incur in modifying your house to help a dependent elder. For example, the costs of building and maintaining a swimming pool for someone who has arthritis may be deductible (to the extent medical costs exceed 7.5% of your adjusted gross income). Swimming lessons are not deductible.

Acupuncture, seeing-eye dogs, hearing aids, false teeth, prescription drugs, installing an elevator or ramp, long-term care expenses, orthopedic shoes (above the cost of normal shoes), wigs (when alleviating mental discomfort of chemo patients), and even the services of a Native-American medicine man may be deductible. Dancing lessons, marijuana (even when prescribed), tattoos, and hair transplants are not. For more on what is and is not deductible as medical expenses, download IRS Publication 502 at irs.gov.

Medicare will pay for the first 20 days and, in part, up to 100 days in a nursing home, after a hospital stay of at least three days. Eligibility for Medicaid (an entirely different program than Medicare that is designed to help people with low incomes and resources) varies by state, but generally will pay for long-term care after the person has spent their assets down to a certain level and exhausted their Medicare benefits. Bear in mind, however, that you'll be limited to choosing a Medicaid-eligible facility. You can find out more about what Medicare will and will not cover by visiting medicare.gov or calling 800-medicare. The Medicare Web site has some terrific tools, like "Compare Nursing Homes in Your Area" and "Plan For Your Long-Term Care Needs." Be sure to check these out. Similarly, you can learn more about Medicaid at cms.hhs.gov or by calling 866-226-1819.

Some of you have written to me because you're confused between long-term disability (LTD) insurance and long-term care (LTC) insurance. LTD insurance insures a portion of your income if you can't work. That may have little or no correlation with what rehab or long-term care will cost. If there's a significant difference, you'll be on the hook to pay the balance. LTD policies also have time periods they cover based on whether you can do the work you used to do ("own occupation") or if you can do any job ("any occupation"). Again, those time periods will probably not coincide with a long-term care stay.

Many LTC policies will cover costs not only for nursing homes, but home health care and assisted living, too. Not everyone needs or can afford LTC insurance. The costs can be rather high, and may be prohibitive. Even if your assets are modest, however, it may be worthwhile to check out value-priced LTC insurance offered through organizations like AARP (aarp.org). At the opposite end of the scale, some people may have extensive assets that can more than cover the out-of-pocket costs of an extended stay in a nursing home—even if that figure is in the hundreds of thousands of dollars.

You should at least educate yourself, on your parents' behalf and your own, about what features to look for in a long-term care policy if you decide you should purchase coverage.

If you are self-employed, you can deduct the eligible portion of the LTC premium whether you itemize or not. A small business can offer long-term insurance on a discretionary basis and deduct 100% of the premium. For more on these tax benefits, go to nyltcb.com.

Long-Term Care Insurance

According to a recent MetLife survey, the average cost of a private nursing home room is about $70,000 per year. (To read this entire study, go to metlife.com.) The average stay in a nursing home varies by the type of condition that put you in the facility.

There are a dizzying array of options and features you'll need to understand if you are thinking about buying an LTC policy.

What daily benefit will you need? The higher the daily benefit, the higher your premium. But you'll need to find a balance between daily benefit and cost. To check the costs of LTC facilities in your area, go to gefinancial.com.

How long will benefits last? The typical stay at a nursing home is between three and five years, so make sure your coverage lasts for at least that long. Think about your own family's health history when choosing benefit periods. Have family members traditionally lived to ripe old ages or had dementia problems? If so, you may want a longer benefit period. Many policies offer unlimited benefits, although that gets expensive.

What's the elimination period? The elimination period is comparable to the deductible on your other insurance policies. Your long-term care policy won't begin paying out for a certain number of days. Medicare typically pays for about 20 days. Most policies start with a 30- to 90-day elimination period, but you can increase that. The longer the elimination period, the cheaper your premium. Consider, too, that you may be able to pay out of pocket for six months or even a year of care. It's the long haul that might sink the financial ship.

Is the benefit inflation-protected? Go for the guaranteed annual-inflation increases rather than the opportunity to increase daily benefits down the road. This rider may be more expensive up front, but you have a better chance of keeping pace with inflation.

Is the policy guaranteed to be renewable? This language guarantees that you can continue the policy as long as you pay your premiums. That includes coverage even if the company stops selling policies. This language does not, however, guarantee that your rates won't go up.

What level of care does the policy cover? The policy should cover all levels of care, both skilled and nonskilled. Nurses are generally the ones providing skilled care. Nonskilled care includes assistance with activities that don't require a nurse, such as bathing, walking, and dressing. You should be able to use the benefits not only for care at a nursing home but also for home health care, day care, or assisted living.

Does the policy cover help at home? Some policies will cover the costs of bringing people into your home to help with physical therapy, bathing, dressing, walking, and so on. Make sure the policy doesn't require a prior hospital stay before this benefit is available.

Does the policy cover mental conditions? Sadly, Alzheimer's disease is a reality for many people. Be sure your policy includes all types of dementia.

How are premiums waived? A typical policy will waive premiums after 90 days of skilled care. Check to see if the days must be consecutive. Also, find out when premiums kick back in if you get better and go home.

How financially stable is the insurer? Research the financial rating of the company offering the policy. Check out ratings at ambest.com. Several long-term care insurers have gone out of business. If you have a policy with a company that goes under, you still have a binding contract with that company. You do not have to surrender your contract unless you feel it is in your best interest.

Is the policy tax-qualified or non-qualified? In 1996, the Health Insurance Portability and Accountability Act was passed. Part of that law was a tax distinction for long-term care policies. A qualified policy allows you to deduct premiums as a medical expense, up to certain limits, (to the extent all medical expenses exceed 7.5% of adjusted gross income). Benefits from qualified policies are not considered taxable income. A doctor must certify that the insured will be unable to perform two or more activities of daily living (eating, going to the bathroom, moving from a bed to a chair, bathing, dressing, or maintaining continence) for the next 90 days or that the insured has been diagnosed with cognitive impairment (such as Alzheimer's). All policies issued before 1997 are considered qualified. The vast majority of policies issued today are qualified.

A non-qualified policy does not need a doctor's certification to pay benefits, but they set their own internal triggers of when to pay out benefits. For example, the policy may not include bathing as one of the daily living activities (and bathing is the number-one activity that people need help with). And you don't get the tax breaks that you would with a qualified policy. Do your homework on the companies issuing these policies to make sure they are financially solid.

What are "limited pay" options? A relatively new feature in long-term care policies is the ability to pay the entire cost at once or in a specified number of payments. This can help insure that you don't have price increases in the future. For example, with a "single pay" option, you would pay all costs at once in one premium. You can also find "10 pay," "20 pay," or even "paid up at age 65" premium options.

Some wealthier families are using these types of policies to pay for long-term care for their children and grandchildren while decreasing their taxable estates.

Granted, this isn't a particularly fun topic to discuss with your parents, but it is one that needs addressing. Once you start talking to your parents about it, you'll likely find that it's something they've been thinking about as well, and they'll probably be relieved that you're willing to help them make these important decisions. And by beginning the process, you're giving your parents a wonderful gift: peace of mind. M