

Legal Brief



How Do You Pay If a Nursing Home Becomes The Reality?

The “golden” years of retirement arrive and life is grand until an unexpected change in health or medical condition changes everything. Suddenly, the possibility of leaving home and moving to a nursing home becomes a harsh reality, both emotionally and financially. Approximately 70 percent of Americans who reach retirement age will need some level of long-term care services during their lives. While more than half of those going into nursing homes will have stays of fewer than 90 days, those who remain in the nursing home will stay an average of two and a half to three years. The truth is, the longer you live, the greater the likelihood you will require long-term nursing home care.

Sticker Shock

The average cost of nursing home care in Pennsylvania is around \$260 per day (medical supplies and consumables are extra). Put another way, the cost is \$7,800 per month or \$93,600 per year. Contrary to popular belief, Medicare is not the source of paying for an “indefinite” nursing home stay. In reality, there are three ways to pay for long-term nursing home care: 1) private pay, 2) long-term care insurance, and 3) Medicaid (the “source of last resort”).

As the name suggests, “private pay” means the money comes out of your wallet. At \$93,600 a year, what kind of effect does that cost of care have on your life savings? If you are married, the nest egg needs to be large enough to cover both the nursing home cost and the cost of maintaining the home (and living

expenses) for your spouse. Some people do not think they need to plan for long-term care because, if and when the time comes, they expect to rely on their family to take care of them. Unfortunately, this expectation is rarely practical. While some may be able to depend on immediate family to help provide care in their homes, providing the necessary level of care can take an enormous physical and emotional toll on the family members.

Long-Term Care Insurance

This type of insurance can help pay for the long-term care or reimburse you for all or part of the long-term care cost. The two primary reasons for buying long-term care insurance are: 1) to insure receiving the appropriate level of care if you become chronically ill or disabled, and 2) to protect assets and savings for your and your spouse’s needs, and to leave an inheritance to your children. Whether you can or should buy long-term care insurance will depend on a variety of factors, including age, health, premium costs, assets you intend to preserve, and overall retirement goals. The best time to purchase long-term care insurance is before you need it. Some employers are now offering group long-term care insurance as an employee benefit. (See this month’s feature story on long-term care insurance on page 12 for additional information.)

Medicaid

Created in 1965, Medicaid (called “Medical Assistance” in Pennsylvania and often referred to as “MA”) is a program based on financial need. It is the only public benefits program

that pays for nursing home care. In general terms, you are required to “spend down” your assets and savings (except certain exempt assets, such as a home) to \$2,400 before qualifying for MA. Married couples are permitted to retain a higher level of assets, as long as one spouse is healthy enough to live at home. There is a harsh penalty when you give away assets in order to qualify for MA. Assets that are transferred within 60 months of applying for MA (known as the “look back” period) create a penalty period during which the individual is ineligible for MA.

Long-term care may be one of the most overlooked retirement planning issues. If a nursing home becomes the reality, how will you pay? Although you do not have to plan for the future, you do have to experience it. ☆

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