Opinion: Financial planning strategies for health care needs

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The American Council on Aging reports the nationwide average cost of a private room in a nursing home is over $108,000 per year. The annual cost of a shared room is not much better at almost $95,000. For most people, a few months in a nursing home will wipe out or at least significantly reduce their financial resources.

While Medicare pays for almost every type of illness or health care you could need, it does not pay for nursing home care. Many Americans are looking for a way to handle the financial tsunami that nursing home expenses represent, so they can leave some assets to their loved ones.

Information varies widely on the average length of time most people require nursing home care before death. But assuming a relatively short stay of five months in a nursing home, the cost could approach $500,000. If both spouses required such care, which is not uncommon, the bill could exceed $1 million. In that case, no funds may be left to pass to children and other family members.

There are, however, options to deal with the burden. One solution may be to buy a long-term care insurance policy, which is available to pay a per diem amount for nursing home care. If you are still in your 50s or early 60s, such insurance may be affordable. As you age, the premium amount increases. Do not wait too long if you decide to purchase insurance. By the time many people realize they need to do something, the insurance has become unaffordable.

While Medicare does not pay for nursing home care, Medicaid does. But you have to qualify. If you have too many assets, you will not qualify until you spend down to the amount that you may retain without being disqualified for the Medicaid program.

To qualify, all available income, up to the full amount of your monthly nursing home bill, must go toward paying the bill. Income is defined to include employment wages, alimony payments, pensions and Social Security payments, IRA withdrawals, interest and dividend payments.

To qualify, your assets may not exceed $5,726 in value, and you must require the level of care offered by a nursing facility. Your home is exempt from the calculation if you live in it or intend to return to it, up to $688,000 in equity. People going into a nursing home usually do not qualify under this exemption, but if they have a spouse living in the home, it is not counted as an available asset for Medicaid purposes, regardless of the amount of equity.

By planning ahead, however, you may be able to protect some or most of your assets from being consumed by nursing home expenses. You may desire to protect a special asset so that it may be passed on to your children. Examples are a family homestead, a farm or your personal residence. Or you may want to pass your accumulated earnings to your children or other family members.

A viable option to protect assets, such as your personal residence, is to set up an irrevocable trust and transfer assets to it. You may retain the right to live in your house for your lifetime, and after death, it passes to your children or other beneficiaries with a stepped-up tax basis, avoiding the capital gains taxes.

You may not yourself serve as trustee of the asset protection trust, but you may appoint a child or independent corporate trustee. You are not allowed to receive any principal distributions, nor usually income distributions, from the trust. You may place other assets in the trust but need to leave enough assets outside of the trust and under your control so that you have enough money to live as you desire.

In order for the assets placed in the trust not to be counted as an asset for purposes of qualifying for Medicaid, you must make the transfer to the trust at least five years prior to the date on which you apply for Medicaid benefits. This gets you beyond the so-called five-year "look-back period" which can disqualify you from benefits for a period of time if you make gifts or sell property for less than fair market value.

The asset protection trust strategy works best when there is time to plan in advance. Nevertheless, there are other actions that can be taken even after entering a nursing facility. Pre-planning, however, is the best way to ensure your assets go to your family without being consumed by nursing home expenses.

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