



U.S. Department of Health and Human Services
Assistant Secretary for Planning and Evaluation
Office of Disability, Aging and Long-Term Care Policy

PAYING THE BILL

1998

Office of the Assistant Secretary for Planning and Evaluation

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Office of Disability, Aging and Long-Term Care Policy

The Office of Disability, Aging and Long-Term Care Policy (DALTCP), within ASPE, is responsible for the development, coordination, analysis, research and evaluation of HHS policies and programs which support the independence, health and long-term care of persons with disabilities--children, working aging adults, and older persons. DALTCP is also responsible for policy coordination and research to promote the economic and social well-being of the elderly.

In particular, DALTCP addresses policies concerning: nursing home and community-based services, informal caregiving, the integration of acute and long-term care, Medicare post-acute services and home care, managed care for people with disabilities, long-term rehabilitation services, children's disability, and linkages between employment and health policies. These activities are carried out through policy planning, policy and program analysis, regulatory reviews, formulation of legislative proposals, policy research, evaluation and data planning.

This article appeared in the ***Assisted Living Today*** (Volume 5, Number 4, pages 39-41). For additional information about this subject, you can visit the DALTCP home page at http://aspe.hhs.gov/_/office_specific/daltcp.cfm or contact the office at HHS/ASPE/DALTCP, Room 424E, H.H. Humphrey Building, 200 Independence Avenue, S.W., Washington, D.C. 20201. The e-mail address is: webmaster.DALTCP@hhs.gov. The Project Officer was John Cutler.

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Sorting out options as to how to pay for an assisted living stay, now or in the future, can be daunting. In most states, assisted living facilities cost only half as much as the expense of a nursing home. However, even at half the price tag of a full-fledged nursing home stay, the costs for assisted living are still impressive.

It is estimated that nine out of 10 residents in an assisted living facility are private pay, that is, the person pays for his or her own care. For the rest, costs are paid by Medicaid (MediCal in California) and supplemental security income (SSI), the first program paying for the health care and the second for the room and board.

In 1997, typical assisted living costs ranged from \$620 to \$995 a month on the low end to \$1,639 to \$3,565 a month on the high end, according to research for the Office of the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services (HHS). Typically, a person can reasonably expect to pay at least \$1,000 a month--and probably more--in most parts of the country. However, contrast that with nursing homes, where HHS figures show the average countrywide cost is around \$4,000 per month, or \$48,000 per year.

In assisted living facilities that are continuing care retirement communities (CCRCs), individuals pay an initial lump sum. In CCRCs, the monthly fees range from \$500 to \$2,000, while the entrance fee could be as low as \$30,000 or as high as \$500,000. Typically, a person can expect to have to deposit somewhere between \$50,000 and \$200,000 (in California, for example) and pay \$1,000 or so a month. To some, CCRCs are simply considered upscale assisted living facilities. Essentially, the true difference is that you buy the right to graduated care as you move, over time, from independent living (perhaps your own house) to a part of the CCRC where more extensive care can be provided.

There are basically four options for financing assisted living care: savings/investments (including pensions), the equity in an existing home, long-term care or life insurance, or the government.

GOVERNMENT ASSISTANCE

Many people erroneously believe that Medicare is going to pay for long-term care because it takes care of most of their hospital and doctor bills. Medicare pays for acute needs, not chronic long-term care needs. Only in limited circumstances where one might be going from a hospital to a skilled nursing facility (SNF) will Medicare pay for this or home health care.

The other government program is Medicaid, which may indeed pay for some assisted living. Medicaid is a joint federal-state program developed in the mid 1960s to help poor people pay all kinds of medical bills. Over the years, Medicaid has expanded to also assist people with long-term care needs such as those found in nursing homes, home care, and assisted living facilities.

Unfortunately, requirements for Medicaid eligibility vary from state to state and are usually quite complicated. Moreover, individuals have to be near poor or "spend down" to being poor to qualify. In this case, "poor" means meeting a definition set by the state for how much income a person has to get by on. In most states, it amounts to 100 to 300 percent of the SSI level (currently \$494 to \$1,482 a month), but some states have lower or higher eligibility levels.

Asset rules also must be considered. Asset limits vary in different states from \$2,000 for a single individual to \$80,000 for a couple. Both the income and asset eligibility are further complicated because states include different kinds of assets. For example, health or burial insurance, or one's home, may be handled differently in different states.

In addition, most states require that one need assistance to have Medicaid pay for long-term care services. Not only must an individual meet the income and asset limitations, but also must demonstrate a need for such services, and get a signed statement from a physician that the service is medically necessary. Most states require a need for assistance in at least two activities of daily living (ADL) or in cognitive ability. These activities include such things as dressing, grooming, bathing, eating, ambulating (getting around), and using the restroom.

Also, Medicaid only reimburses for services. The room and board portion of the rate must be paid by the resident from his Social Security, pension or SSI, or other sources. Another problem is that existing federal rules make it easier to get Medicaid reimbursement when going into a nursing home than into an assisted living facility.

The probability that one will be able to use Medicaid is unlikely. However, the Assisted Living Federation of America (ALFA) is currently working on a program to make it easier for people in need of long-term care to get assistance from Medicaid. This program would expand coverage of non-nursing home services. Generally, people in need of long-term care would still have to meet the eligibility criteria but would be issued portable payment certificates that could be used to purchase service from any approved long-term care provider.

TAPPING SAVINGS/INVESTMENTS OR SELLING YOUR HOME

The most likely option for someone about to enter into an assisted living facility is to tap into the value of their own home either by taking out a home-equity loan or by sale of the home. The Taxpayer Relief Act of 1997 changed the rules on the sale of a home and how much the seller could keep. Now when you sell your home, the tax laws are more favorable. Profits on home sales are now tax free up to \$250,000 (\$500,000 for a couple) regardless of age. Also, the value of an estate that will pass tax-free at death goes up (in stages) from \$600,000 to \$1 million by the year 2006.

For those who aren't in a position to sell because there is still a spouse at home or for those who want to pass the home along to their children, taking out a reverse mortgage is an obvious choice. Unlike a home equity line of credit, a reverse mortgage provides payments to the homeowner each month, assessed against the future sale of the house to pay for it. The typical reverse mortgage borrower is a 76-year-old woman living alone who has a \$10,000 income but a home value of \$100,000.

One version of a reverse mortgage worth considering is the Home Equity Conversion Mortgage (HECM). This Federal Housing Administration (FHA) program is offered through conventional lenders but has more protections built into it. For example, HECM products were the first to use the concept of disclosing the "total loan cost" now required of all lenders. Reverse mortgages vary greatly by locale. Practically every financial institution in your area can provide information on how much your house is worth and how much they will pay you each month. One caveat: You should make sure you are comfortable with when the house must be sold. Some lenders will allow a person (or spouse) to remain in, the home until death but others will have a set time for sale of the house so the mortgage can be repaid.

Tapping a life insurance policy also may be an option, if it is the kind that has "build up" (usually on universal or other more comprehensive life insurance products as opposed to "term" products that cover you year to year but do not have a portion that grows). It is even possible to "accelerate" life insurance, to receive portions before death. There's also the option to "viaticate," or sell, it Life insurance is meant, however, to pay out upon death. This means that one typically does not get a good value for accelerating or viaticating life insurance unless one has some sort of terminal illness or is within two years of death. And, of course, if the money is withdrawn early, it will not be available for the purpose it was originally bought. Accelerating or viaticating life insurance is not necessarily the best option for a person thinking of going into an assisted living facility, though it is something to keep in mind if one has to go into a nursing home.

INVESTING IN LONG-TERM CARE INSURANCE

For those who aren't near entering an assisted living facility, but are planning ahead, there's long-term care insurance. A relatively new idea in the last 10 years, long-term care insurance is designed specifically for taking care of long-term health needs. Most policies sold today actually cover a broader array of needs and could provide payment while someone is at home but needs some level of health care. Then, the policy could pay if the person later goes into an assisted living facility or a nursing home.

For those who are planning early, long-term care insurance is perhaps one of the best of the new options for those who already own a home and have made appropriate retirement plans. (Some financial planners will make the purchase of long-term care insurance part of a retirement plan.) Because as many as one in three

Americans are likely to need some degree of significant help when they are older, it makes sense to insure against this.

A comprehensive long-term care insurance policy that covers both home and home health care, assisted living, and nursing home stay would be appropriate. The policy should cover at least four years and, if bought at the younger age, have the 5 percent compound inflation protection feature. For more on long-term care insurance as an option, you can contact your health insurance carrier or ask your state insurance department which companies sell this product in your state. Many employers, especially larger ones, and trade associations might also have arrangements to make this sort of coverage available. One should compare several different companies and policies, though, and shop around. Also, in this product line, the strength and integrity of the insurance company is likely as important as the specific product purchased.

Whether you are thinking of an assisted living facility for yourself, your spouse, or your aging parents, it pays to explore all options. As is true of any financial or health planning, the earlier this is done, the better the results. But these decisions are often only made by (or for) the resident in the weeks and months before moving out of his home.

Whether the assisted living facility becomes the new home often depends on how well the move is made. And this part of the process will go smoother if the financial picture has been well considered.

RESOURCES

- For questions on assisted living facilities in general, contact ALFA at 703/691-8100 or write to 10300 Eaton Place, Suite 400, Fairfax, VA 22030. You may also visit ALFA's Web site at <http://www.alfa.org>.
- For follow-up on Medicaid, contact the Health Care Financing Administration (HCFA), which runs Medicaid in Washington, D.C., or one of its regional offices (or at the local Social Security office), or your state Office on Aging. HCFA's tollfree number is 800/638-6833 or visit the Web site at <http://www.hcfa.gov>.
- Counseling and information are available in most states from either the Office on Aging or the state insurance department. For private insurance options, contact trade groups such as the American Council of Life Insurance (202/624-2000) or the Health Insurance Association of American (202/824-1600). There are also consumer groups such as United Senior Health Cooperative (202/393-6222) with several wonderful publications. All these are located in Washington, D.C. The American Association of Retired Persons (AARP) also has publications on reverse mortgages, long-term care insurance, and other matters. It is located at 601 E St. NW, Washington, D.C. 20049.

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