Financial Planning

Coming Home

Over one million older people now live in assisted-living communities. Here's how you can help them weigh the options and make the transition.

By Donald Jay Korn

November 1, 2005- Patrick Collins, a financial planner in Towson, Md., had an elderly client who suffered from dementia. "He should have been in a nursing home," Collins says. "But he wanted more independence and privacy, so he went into assisted living instead, where he lived until his death."

As America ages, planners increasingly will grapple with helping their elderly clients--and parents of clients--find suitable living situations. "Many seniors fear nursing homes," says Gary Crooms, president of Senior Information Services in Lewisville, Texas, a planning firm that specializes in helping the elderly and the disabled. "However, there are wonderful alternatives that may be overlooked--even doctors don't always know that there are different levels of care. Generally, if people are mobile, and can make it to the dining room, they can be in assisted living instead of in a nursing home." Some "continuous-care communities" even offer a complete spectrum of services, from independent living to assistance to nursing-home care--all at the same facility.

According to the Assisted Living Research Institute in Fairfax, Va., over one million older people now live in about 40,000 assisted-living residences nationwide. AARP estimates that the average length of stay is from two-and-a-half to three years, although some people stay until death, and others go on to a nursing home for more comprehensive care.

Generally, assisted-living communities are less restrictive than nursing homes, offering residents more autonomy and a more homelike environment. Facilities vary greatly, from apartment buildings to former motels and converted single-family homes. In any form, these residences provide special services not found in regular rental units such as housekeeping, laundry, and meals served in a common dining area.

Although financial planners can't dictate housing choices to elderly clients, they can play a vital role in such decisions. "This is going to be a recurring theme over the next several decades--one that planners must think about," Collins says. "Once we have an idea of what we'd like clients' lives to look like in a long-term-care scenario, we can determine the type of care or facility they would need."

Financial planning clients typically have significant assets and can afford to pay out of pocket or use insurance for any form of custodial care. Nonetheless, assisted living, which typically is half the cost of nursing home care, can save them money for other uses.

According to the 2004 MetLife Market Survey of Assisted Living Costs, the national average monthly base rate for an individual at an assisted-living facility was $2,524, or about $30,000 a year. By comparison, MetLife's 2004 nursing-home survey put the average daily rate for a private room at $192, or $70,000 a year.

"In our area, assisted living can range from $1,000 to $9,000 per month," says Judith Diamond, director of community relations for Concepts for Living, a residential-placement service for seniors, based in Woodland Hills, Calif. "Most assisted-living residents probably pay $3,000 to $4,000 per month, which might entitle them to three meals a day, some housekeeping, some laundry and local transportation." Even at $4,000 per month, assisted living is more affordable than most nursing homes.

Clients usually pay a base rate for minimal services and more for extra care. For example, the Bethel Springvale Inn, an assisted-living community in Croton-on-Hudson, N.Y., currently charges $2,900 per month for some rooms. Residents who need a "Silver Program" (bathing assistance, personal escorts, coordination of medical appointments) pay an additional $500 a month, and residents who need the "Gold Program" (which also includes dressing, oral care and regular supervisory checks, among other services) pay an additional $900 a month.

UPFRONT DOWN PAYMENTS

At the very least, financial planners can add value by simply informing clients that there are less expensive alternatives to nursing homes when living in a traditional house or apartment becomes impractical. Moreover, some assisted-living communities will accept residents who need more than a little assistance. "You can be in assisted living even if you are pretty far gone," says Sharon Luker, who heads LTC Planning Consultants in Plano, Texas. "These communities may bend over backwards to keep residents there as long as they can, although some seniors reach a point where they have to get out." Residents who need full-time help and can't hire aides in an assisted-living setting may have to move to a nursing home.

Collins had trouble finding an assisted-living community for his client who suffered from dementia, and when he did, the client still had to hire a nurse for a good chunk of each day. "He wound up spending about as much as he would have in a nursing home," says Collins. "But he preferred assisted living."

Assisted-living communities also offer a savings to married couples, who would otherwise have to cover one spouse's nursing-home bill and the other's independent-living costs. "Some places have one-bedroom apartments for couples," says Kathleen Cotton, a planner in Lynnwood, Wash. "In some cases, an assisted-living facility will take a couple even if one of them has Alzheimer's, as long as the other is able to provide the needed care."

Projecting the costs of assisted living can go beyond anticipating monthly outlays. In some parts of the country, assisted-living communities require some ownership in the form of a sizable upfront payment for living quarters, says John Daley, a planner in Sarasota, Fla. Some of these assisted-living contracts offer a refund option, which may have particular appeal to clients who want to leave a legacy. The community collects monthly fees while the clients live there, but when they die or move out, they or their heirs get back 90% of their initial investment. "The refund option costs more up front than no refund," says Patricia Houlihan, a planner in Reston, Va. "But that was acceptable to one couple, who found it hard to think about spending a great deal of money and not getting anything back if they only stayed a short time. And one of their goals is leaving an inheritance."

Planners should also counsel clients to check for an "out" clause when they make a large down payment, on the chance that they won't be happy in an assisted-living community. "I've had to move some clients out of assisted living shortly after they've moved in because they found out that they preferred a private house or apartment to a community," Daley says. Refunds for out clauses vary but can be as high as 90%. Even with a refund or out option, clients could face restrictions on when and to whom their equity can be resold if they move out. "I've recommended against some assisted-living facilities because those exit provisions are so restrictive," Daley says.

Another alternative to nursing homes is a continuing-care retirement community. These usually offer three levels of care: independent-living apartments for active seniors, assisted living, and long-term (nursing-home) care. Seniors can progress through these stages, if necessary, without leaving the same facility. Though costs for assisted living in these communities are generally in line with other assisted-living communities, there are all kinds of variations, and clients can expect to make a substantial upfront payment for most continuous-care communities, in which case the monthly charges might be a bit lower.

Continuous care was a good fit for one of Houlihan's client couples. "A year-and-a-half ago, it became noticeable that the wife was having some cognitive problems," she says. The wife was reluctant to make a change, but Houlihan suggested that they buy into a continuous community, so they'd have the option of greater care. "Now that it seems like she has Alzheimer's, they're grateful to have done this," she says. "The wife decorated the place the way she wanted to, so she's comfortable there. It's near the University of Virginia, and residents of the community have privileges on the campus." For now, the couple is inindependent living, but they can move into the assisted-living area of the community when it becomes necessary.

FOOTING THE BILL

Long-term-care (LTC) insurance can be a key piece in assembling the assisted-living payment puzzle. "LTC insurance usually pays assisted-living costs if residents can't perform two ADLs," says Luker of LTC Planning Consultants, referring to "activities of daily living," such as eating, bathing, dressing and walking. But some LTC policies pay only for what are deemed to be assisted-living costs (meals, laundry, housekeeping and bathing), not for basic rental housing, according to Diamond. Planners, of course, should go over clients' policies carefully before they go into assisted living or help clients who don't have insurance to find policies that cover most costs of an assisted-living community.

Otherwise clients have to pay out of pocket. Many afford to do so by selling their homes. "If someone sells a house for, say, $500,000, and ownership in an assisted-living community costs $300,000, the remaining $200,000 can be used for the ongoing maintenance fees," says Dailey.

Morris had a client whose house hadn't sold when the assisted-living down payment was due. Although he suggested a margin loan to bridge the gap, the client balked. "Many seniors don't like any kind of loans," he says. "Instead he took money from his portfolio to pay the entry fee. Eventually, the house was sold, and he put the money--and more--back into his portfolio."

When does it make sense to roll the proceeds from a home sale into an assisted-living community? "People in their 90s may be better off paying rent," says Dee Balliett, a planner in Winter Park, Fla. "When people are in their early 80s or younger, with good longevity prospects, they might be better off buying in. They'll have the security of being there, and even if they wind up going on Medicaid, they'll know they can keep staying in the facility."

Even clients who sell a house may have to shift some assets from equities into fixed income to meet ongoing assisted-living expenses. "We helped clients move into a continuing-care facility," Balliett says. "They sold their house, but they didn't receive quite as much as they expected. In the meantime, maintenance fees for the facility have gone up, so we've had to adjust their portfolio. We started going for growth, but we've changed the allocation to provide a little more income."

In today's low-yield environment, even combined income from Social Security, pensions, interest and dividends may not foot the bill. That means eating into capital, which frightens most clients. Reassuring them is a critical role planners can play. "Seniors are often reluctant to spend their principal," Crooms says. "So I might have to convince them that it's necessary when they go into assisted living. I tell them that they've been saving for a rainy day, and that day is here." Some clients worry even when they don't have to. "I try to bring them to a comfort level about their finances," he says. "However, many worry even if I tell them that they'll be okay. As the old story goes, an adviser tells a client that there's enough money to last until age 112, and the client asks, 'What then?' "

Kyra Morris, a planner in Mount Pleasant, S.C., says her clients express a similar anxiety. "Graphs are one thing," she says, "but seniors-men and women-like to see the numbers. I'll say, 'Using these assumptions, here's what you'll have left at age 90 or 95.' The last number, on the far right-hand side of the last line, is the only one they really look at."

Cutting into capital is one thing; risking capital is another. Daley says that he likes to use inflation-adjusted bonds for assisted-living residents, especially those over 80. "I don't want them to be in a position where their portfolio might drop by 10% or more."

If capital does run low, clients may have to move to a nursing home, and deplete their assets until Medicaid picks up the tab. Balliett assures clients that, even then, their quality of care shouldn't suffer since the nursing-home staff doesn't know that a resident has gone on Medicaid.

Medicaid, the government program that pays much of the nation's nursing-home costs, won't help most financial planning clients, who usually have too much money to qualify for benefits. Moreover, "it's extremely hard to qualify for Medicaid in assisted living, because basic Medicaid only covers nursing homes," Luker says.

To avoid getting stuck with the steeper tab for nursing-home care, however, states can petition to allow Medicaid dollars to be used for assisted living, says Harley Gordon, president of the Corporation for Long-Term Care Certification, in Newton, Mass. Most states have done so. Still, he notes, "there are limits to how much can be paid given the individual's financial situation. Generally, for financial planning clients, this will be a last resort, after spending down all their money."

If it comes to that, clients who have the luxury of planning ahead may be able to snatch some assets from the nursing-home maw by transferring them to heirs and using Medicaid for their assisted living. One catch: The state requires a waiting period between the time the assets are transferred and when Medicaid can be used. The length of the waiting period is based on the amount transferred and the average monthly cost of care. For instance, if the statewide cost is currently $4,400 a month, someone could transfer $44,000, wait 10 months, and then apply for Medicaid. If the applicant's income and assets at that time are below the allowed amounts, the transferred assets won't be counted, and the state will pick up future costs.

Roger Kruse, a senior partner at FFP Wealth Management in Coon Rapids, Minn., had a client whose father needed to go into a nursing home after a hospital stay. "We calculated that the client's parents would have $200,000 to $250,000 in assets if they sold their home," Kruse says. "Then we figured an amount the parents could transfer to their children and eventually go on public assistance. We'd probably wait [an extra month] before making an application, just to make sure."

Planners can also help clients select an assisted-living community. Morris says that she's become very familiar with two local communities. "We put them on a list of possibilities that we provide to interested clients. So far, all the clients who have gone into assisted living have chosen one of these facilities."

COMMUNITY SEARCH

What works in South Carolina may not be feasible in more populous, sprawling southern California, where it's tougher to be on top of all of the choices. "I know of at least three placement firms that visit all the local facilities and make recommendations to prospective residents," says Eileen Freiburger, a planner in Manhattan Beach, Calif.

This service is free to would-be residents or planners because the firms are paid by the facility if the client goes there. "When I've had to use one of these services, I've worked hand-in-hand with them to run numbers and get a sense of what clients could afford," Freiburger says. "I think it's helpful to be able to provide my clients with options before they start dialing through the Yellow Pages."

Diamond, who represents a placement service used by Freiburger, says that her firm might present clients with anywhere from four to 12 assisted-living communities to visit. "This narrows the field a lot," she says. "Working with a financial planner can be helpful for us, if we learn what a client can spend."

Planners can also evaluate the community's financial stability--especially when clients pay a large upfront fee and expect a refund. "I look into a facility's credit rating, its financial strength and its escrow provisions," Daley says. "Some assisted-living communities have become insolvent. In at least one case, the chief executive was sent to jail. Although the state stepped in and found a new provider, the entire episode was very stressful for the residents and their families."

Balliett is more comfortable with older facilities that are supported by a church, foundation or school that is backed by a healthy endowment, while Houlihan prefers face-to-face due diligence. "Before my clients went into a continuing-care community, I met with the CFO and determined the community's financial viability," she says. "I also coordinated with my client's long-term-care insurance to make sure the policy would pay benefits."

Making sure makes sense, when it comes to advising seniors or their grown children about their care and quality of life down the road. While helping clients find an assisted-living community may not be considered traditional financial planning, it can give clients critical support about life decisions and financial obligations that everyone must face. "These are the types of things that people care about," Houlihan says. "When we have meetings with clients who have reached a certain stage in life, we spend far more time on these issues than we do on asset management."