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27 Costly Misconceptions About Planning for Your Senior Years

Misconception #1: Most seniors move into nursing homes as a result of minor physical ailments that make it hard for them get around. Wrong! The largest percentage of admissions to nursing homes is because of serious health, behavior, and safety issues, such as those caused by Alzheimer's and heart disease.

Misconception #2: Nursing home costs in Pennsylvania average \$1,500 to \$2,500 per month per person. Hardly. Current nursing home charges for one resident typically run approximately \$7,500 to \$10,000 per month, or more than \$100,000 per year, which does not include prescription drugs—and those costs continue to rise.

Misconception #3: Children can care for a parent with Alzheimer's disease at home without the need for nursing home care. Not true! Many patients with Alzheimer's disease end up in nursing homes because children are simply unable to provide the level of care their parent needs. In most cases, the children want to care for their parents. But, as a practical matter, they simply can't. Moving a parent into a nursing home is an intensely personal issue and should not be labeled as a right or wrong decision. In many cases, it's the only realistic option. The rare exception is when the family has enough money to pay for skilled nursing care at home.

Misconception #4: Standard legal forms are all you need for a good estate plan. Not true. A competent estate plan begins with clearly defined goals, supported by well-drafted legal documents, and the repositioning of assets, as needed, to protect your estate from taxes, probate costs, and catastrophic nursing home costs.

Misconception #5: Your child will never move you into a nursing home. Wrong. Most children consider all options before moving a parent into a nursing home. But, sadly, children usually find they have no other alternative. As a result, parents who never expected to live in a nursing home soon discover that a nursing home is the only place with the staff and equipment to provide the care they need.

Misconception #6: As payment for nursing home care, the government will take your family home. Not true, if you plan ahead. Many people fear that the government

will take their home in exchange for nursing home care, but you can avoid this with proper planning. You'll be glad to know there are some ways you can protect your home so it cannot be taken.

Misconception #7: You will never end up in a nursing home. That's hard to predict. Your odds are roughly 50/50. Of Americans reaching age 65 in any year, 48% will spend some time in a nursing home. One in four seniors will require care for longer than one year. That means one in four seniors will face costs of \$86,000 or more, which does not include the cost of prescription drugs. Even worse, one in ten will require nursing home care for more than five years, costing a staggering \$430,000 or more.

Misconception #8: Medicare will pay for all of your long-term nursing home costs. Not true. Medicare may pay for up to a maximum of 100 days of skilled care in a nursing facility, providing you meet certain requirements. One, you must have moved into the skilled nursing facility within 30 days after your discharge from a hospital for a related illness or injury. Two, your hospital stay must have lasted at least three days. And three, you must require and receive an ongoing skilled level of care. Medicare will pay the entire cost of your care for days 1-20, but for days 21-100 Medicare will provide only partial coverage. Medigap insurance often makes up the difference for the partial Medicare coverage during days 21-100. If you are fortunate to receive 100 days of Medicare coverage and cannot return home, you have three primary ways to pay ongoing costs: long-term care insurance, Medicaid, or from your personal funds.

Misconception #9: Medicaid won't pay your nursing home costs. It's only for poor people. Not true. In fact, a substantial number of all nursing home residents qualify for Medicaid to pay their expense.

Misconception #10: To qualify for Medicaid, you will have to give up your family home. No, not to obtain initial eligibility. At the time you qualify for Medicaid, you may keep your home as long as you intend to return there to live, no matter whether you eventually can or do. There are Medicaid laws that allow you to keep your home if you are married or meet other legal requirements. These laws are very fact specific. However, if your home is part of your estate at death, the Commonwealth of Pennsylvania may have the right to recover whatever it has spent on your care.

Misconception #11: If your spouse enters a nursing home, all of your savings will have to be spent on his or her care. No. With proper planning, you can keep half of your combined "countable" resources up to a maximum amount which is determined by the government each year. In some circumstances, you may be able to protect nearly all of your life savings. In fact, it is often possible to protect more than the maximum amount. "Countable" resources are those resources such as cash, checking accounts, savings, CDs, stocks, and bonds that the government considers available to be spent on the cost of nursing home care.

Misconception #12: If you give money to your children, you will not be eligible for Medicaid benefits. Not entirely true. Such a gift will not make you ineligible if you made the gift more than 60 months before you seek Medicaid benefits. If you make gifts within the 60-month time period, you will be ineligible for Medicaid benefits for one month for every approximately \$8,000¹ transferred. This penalty will not begin to run until you are otherwise qualified for Medicaid benefits. However, in some circumstances, you can make gifts without suffering any penalty.

Misconception #13: If you apply for Medicaid, the Pennsylvania Department of Public Welfare (DPW) and the nursing home staff will guide you through the process. Sometimes, but generally not in your favor. Also, they may not be able to advise you about when to appeal a denial. Applications for Medicaid require extensive documentation and can be quite time consuming, often beyond the ability of DPW and nursing home staff to stay involved. An elder law attorney is the best resource for going through this complex process.

Misconception #14: Legally, you can give away only \$13,000² to each of your children each year. Not true. Under federal tax law, you can give away any amount, but you have to report gifts in excess of \$13,000 per recipient per year to the IRS (\$26,000 if husband and wife each make a gift). However, there is no requirement that you pay any gift tax unless you have exhausted the lifetime exemption amount. Don't confuse this law with the Medicaid gifting rules in Misconception #12.

Misconception #15: You can wait to do long-term planning until your spouse or you get sick. Yes, to some degree. However, you and your spouse will be much better off if you have taken important planning steps in advance, before a crisis occurs. What stops most people from being able to plan effectively when they are in the middle of a crisis is that the ill person is unable to make decisions and sign the necessary legal documents.

Misconception #16: You have to give away everything you own to get Medicaid. Not true. You are permitted to own some property and still be eligible for Medicaid. The challenge comes in knowing what property is "countable" and what is "exempt" under the Medicaid rules. For a married couple, the family home is exempt as long as the healthy spouse occupies it. Regardless of whether you are married, certain types of prepaid burial contracts are non-countable. Other types of property are exempt as well. Bottom line: You don't need to be completely without resources to be eligible for Medicaid.

¹ This amount usually increases annually.

² This amount is subject to periodic increases due to inflation.

Misconception #17: You can keep all of your marital property and your inherited property when your spouse gets Medicaid. Not true! When a married person applies for Medicaid, resources in either or both spouses' names are reviewed by the Pennsylvania Department of Public Welfare. You can keep the resources that are exempt. And you will be allowed to keep a portion of the "countable" resources if your spouse enters a nursing home and qualifies for Medicaid.

Misconception #18: If you put your property into your spouse's name, you will make yourself eligible for Medicaid. No. Resources are counted, regardless of which spouse's name they are in. However, in most situations, it is advisable to transfer title to the home to the spouse who is not in the nursing home.

Misconception #19: If you enter a nursing home as a "private pay" resident, you must use up all of your resources before you can get Medicaid. False. You are not required to use all your resources to pay privately for nursing home care. However, some nursing homes want you to believe this is true. Nursing homes charge private-pay residents much more money than Medicaid pays them. This is why they want you to spend all of your money before they start to accept Medicaid payments for your care. With proper planning, you can often protect much of your savings for your family. **Be careful!**

Misconception #20: You can only spend down your resources on medical or nursing home bills. Hardly. Nursing homes may tell you that you have to spend your savings on the "private pay" rate before applying for Medicaid, but this is not true. In fact, it's against the law for nursing homes to discriminate in the care that they provide to people who are receiving or applying for Medicaid benefits. You can spend down your resources on anything, as long as it benefits you or your spouse.

Misconception #21: The agent you appoint in your Durable Power of Attorney automatically has the power to take property out of your name if you ever need Medicaid. Not automatically. When planning for Medicaid eligibility, the best and most effective General Durable Power of Attorney includes proper "gifting" powers. Your agent under the Power of Attorney will be able to re-title your assets only if your Power of Attorney contains authority to make gifts.

Misconception #22: All General Durable Powers of Attorney are created equal. Completely false! A General Durable Power of Attorney is a highly customized legal document – and NOT a form! Most Durable Powers of Attorney don't contain even the most basic gifting authority. Without a gifting power, your agent is usually limited to spending your money on your bills and selling your assets to generate cash to pay your bills. Some Durable Powers of Attorney contain a gifting provision, but often it is limited to the federal gift tax exclusion amount per year. This figure may be too small for effective asset protection planning and relates to a completely different type of federal estate and gift tax issue. Other Durable Powers of Attorney allow transfers only to certain people and do not take into account that you may want your agent, spouse, or children to receive your property.

Misconception #23: Since you are married, your spouse will be able to manage your property and make financial decisions without a General Durable Power of Attorney. Not true. If you become incapacitated and your spouse needs to sell or mortgage the family home – or gain access to financial accounts that are in your name only – your spouse will need a General Durable Power of Attorney. Without one, your spouse will be forced to petition the court to be appointed your guardian. This process can be costly because it requires a court hearing and involvement by your physician.

Misconception #24: Even if your spouse qualified for Medicaid, your income may have to be used to pay the nursing home bill. Not true. You do not have to use any of your income to pay for your spouse in a nursing home when he or she qualifies for Medicaid benefits. Also, if you have an IRA or 401(k)-type plan, these resources are exempt and do not count; only the IRA and/or 401(k)-type plan of the spouse in the nursing home would count.

Misconception #25: All of your spouse's income must go toward the nursing home bill if he or she is on Medicaid in a nursing home. Not true. The law allows you to keep a portion of your spouse's income if your income is below certain limits. In addition to this minimum maintenance allowance, you may be entitled to a greater allowance, based upon your income and monthly expenses. The nursing home spouse will always be entitled to keep a small personal needs allowance.

Misconception #26: You can hide your resources while you become eligible for Medicaid. False! Intentional misrepresentation in a Medicaid application is a crime and can be costly. The IRS shares any information concerning your income or resources with the local County Assistance Office (CAO) for DPW. You – or whoever applied for Medicaid – may have to repay Medicaid to avoid prosecution.

Misconception #27: Medicaid rules that applied to your neighbor when he went into a nursing home will also apply to you. Maybe not. Medicaid rules change. Don't assume the law that applied to your neighbor will also apply to you. In addition, there may have been facts about your neighbor's situation that you just don't know.

You're Invited to Call or E-Mail

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