Amboy's In-Retirement Learning Center
HOUSING

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Personal Residence Issues in Retirement

What is it?

As you grow older, housing issues become an integral part of your retirement plans. You may be living on a fixed income and want to get additional cash by borrowing against the equity in your home. You may feel isolated in that big house you bought 30 years ago when your children were young. Perhaps your health isn't what it used be, and you may desire more convenient access to medical services or may need around-the-clock care. Maybe you want to leave your home to your children and avoid estate taxes if possible. These are just a few of the personal residence issues you may be facing in retirement. It is important to make a timely examination of the primary residence issues in your life. Financial, emotional, and physical considerations will drive your decisions. Careful planning may allow you to enrich the quality of your retirement years, get the health care and services you need, and maximize the financial benefits of homeownership for you and your family.

Getting the most out of your current home

If you are living on a fixed income, you may want to use the equity in your home to obtain additional cash. One way in which you can tap the equity in your home is by obtaining a reverse mortgage. One advantage of a reverse mortgage is that repayment is deferred until a later time. A home equity loan or second mortgage may also provide you with cash, but repayment is not deferred. Renting your home may provide you with additional cash flow and tax benefits, and seeking relief from real estate taxes may allow you to lower the expense of maintaining your home.

If you plan to leave your home to your family, you may be able to avoid estate taxes and continue using the home as your principal residence. A qualified personal residence trust allows you to transfer the home to your intended heirs now and retain the right to use the home for a number of years. A gift- or sale-leaseback transaction also involves a current transfer of your home but requires you to rent the home thereafter. If instead you decide to sell the house and move to a more agreeable climate or closer to the grandchildren, you should know that under the current tax laws, you may be able to exclude up to $250,000 ($500,000 for married couples filing jointly) of gain.

Other residence options

You should carefully consider your housing options before pulling up stakes and moving out. There may be advantages to staying where you are and financial products to help you do so. You may also be able to take advantage of in-home care programs if you need in-home healthcare services, household help, or personal care assistance. However, if you decide to move on, you also have choices.

Moving in with (or near) your children often seems the obvious choice, but be aware of your emotional and physical needs before taking over the spare room in your child's house. If you need independence but don't want to buy another house, consider an independent living community (retirement community) where you can rent or own a condominium or townhouse. Someone else will mow the lawn and shovel the sidewalk, but you can enjoy the privacy of your own living space. If you are faced with physical or medical limitations, assisted living options may be your best bet. Typical assisted living arrangements provide you with a room or apartment, housekeeping services, meals, transportation, and, in some cases, nursing services. When you need more care, your last resort may be a quality nursing home.

Choosing a continuing care retirement community

Continuing care retirement communities are an increasingly popular assisted living arrangement for retirees. If you are currently in good health, a CCRC will agree to provide you with housing and nursing home care throughout your life. When seeking the CCRC that is right for you, compare entrance fees, monthly fees, additional insurance requirements (if any), and the financial condition of the facility. In addition, check the quality of the facility and medical care provided. Be aware that a portion of your fees may be tax deductible as medical expenses.

Choosing and paying for a nursing home

The prospect of entering a nursing home can be a frightening one. However, there are good facilities that provide care and services not available elsewhere. You must choose carefully. Examine the quality of medical care and the cost of the care. Look at the appearance of the facility and grounds. Find out about safety and security. Ask about recreational activities and staff-to-resident ratios.

There are a number of ways to pay for nursing home care. You may have sufficient savings, or you may have long-term care insurance. Long-term care (LTC) insurance premiums may be tax deductible, and you may be able to exclude LTC insurance reimbursements from income. Government benefits may also pay for a portion of your nursing home costs.

Gift- or Sale-Leaseback: Estate Freeze Technique

What is it?

A sale-leaseback is a transaction where one party sells property to another party who then immediately leases the property back to the first party. A gift-leaseback is a transaction where one party gives property to another party who then leases the property back to the first party. A sale-leaseback is useful, for example, when a business owner needs to raise cash by selling assets but would like to continue to use those assets in his or her business. A gift-leaseback is an attractive strategy for someone who wishes to remove appreciating assets from his or her estate but needs to continue to use those assets.

If structured properly, a sale-leaseback transaction allows you, as the business owner, to raise cash by selling business assets, to continue to use those assets, to fully deduct the lease payments as a business expense, and to remove those assets from your taxable estate. The gift-leaseback may be a strategy to consider if you have assets that you expect to appreciate in the future, you would like to remove those assets from your estate, you need to continue to use those assets, and you have children or other beneficiaries to whom you would like to give the property. Typically, with a sale-leaseback, you sell a substantial physical asset (such as your plant or piece of major machinery) to a third party for cash. You then enter into a lease agreement (at a fair market rental) with that third party to continue to use that asset, and then fully deduct the lease payments as a business expense. The asset is removed from the balance sheet and you have additional cash to invest in the business.

With a gift-leaseback, you give a substantial physical asset (such as a medical office building in which you have your medical practice) directly to your children or to an irrevocable trust for the benefit of your children. You likely will incur gift tax on this transaction. You then enter into a fair market lease with your children or the trust to rent the building back. The lease payments are then deductible as a business expense. Your children or the trust receive the income from the lease payments and may be able to claim depreciation deductions with respect to the building. Because you no longer own the asset but merely lease it, the asset that may appreciate in the future is removed from your estate.

When can it be used?

Transaction needs to be structured and documented very carefully to minimize IRS scrutiny

The IRS has scrutinized both sale-leaseback and gift-leaseback transactions very closely to determine if the entire transaction is genuine and not merely disguised as a sale. If the IRS determines that the transaction is not a sale but is really a loan, then the lease payments will not be fully deductible. If the transaction is recharacterized, the business owner will be able to deduct only that portion of the lease payment that was determined to be interest — just as with a loan. If the IRS determines that the transaction is a loan, then the purchaser of the building is considered a mortgagee and will not be considered the owner, and thus cannot deduct depreciation and expenses. The IRS will especially scrutinize transactions between related parties, such as family members or corporations and shareholders.

Terms of transaction must be negotiated at arm's length

All of the terms of the sale- or gift-leaseback must be negotiated fairly and arrived at in an arm's length manner. In other words, the sale price of the asset should be the fair market value of the property; the lease payments should be reasonable and based on comparable rentals; the financial arrangements should be straightforward; and the buyer should be the party to benefit from any future appreciation (and suffer the burden of any future loss in value) with respect to the property.

Lease terms very important

In both sale-leaseback and gift-leaseback transactions, the IRS will examine very closely the terms of the lease to make sure that the transaction is bona fide and has been negotiated in good faith. Therefore, the parties to a sale- or gift-leaseback should make certain first that there is a written lease agreement between the parties. Second, the terms of the lease should be the same as the terms of any standard commercial lease for that type of property. Third, the rental amount should be the fair market rental for that type of property, so the parties should obtain a qualified, independent appraisal of the market rental rate. Fourth, the lease agreement should specify that the terms of the lease will be renegotiated frequently (preferably every year) to adjust for changes in the fair market rental of the property. Finally, all the terms of the lease should be complied with strictly, and the agreement should provide that there will be penalties for late payments and other breaches of the agreement. These types of provisions demonstrate that the transaction is bona fide; however, it is not necessary that parties include every single term (such as late fees). The inclusion of these types of provisions are especially important when the transaction is between related parties, such as family members or a corporation and its shareholders.

Sale-leaseback should be necessary business operation

With a sale-leaseback, the IRS will also scrutinize whether the transaction is a necessary business operation or merely an attempt to shift the tax burdens and responsibilities. The lease should have a bona fide business purpose. The Tax Court has held that if the assets sold were used in the business, then this would be sufficient to meet the business purpose test. However, two Federal Circuit Courts of Appeal have rejected the Tax Court's approach. These two appellate courts found that where the lessee owned the property before the transaction, the subsequent rental of the same property after the sale was not "ordinary and necessary." Therefore, you should consult with an attorney to determine if you live within the jurisdiction of either of these appellate courts. If so, then you may have to structure the transaction differently.

If trust is used, trustee should be completely independent from grantor of trust

If you would like to give or to sell property to your children, you might be hesitant to transfer direct ownership of the property to them, especially if they are minors. One solution is to set up a trust and name your children as beneficiaries. If you do set up a trust, it is extremely important that the trustee be completely independent, perhaps a bank or an independent fiduciary. The IRS will be extremely wary of either a sale- or gift-leaseback transaction where the trustee of the trust is related in some way to the person who creates the trust (the grantor).

If trust is used, property should not come back to grantor at the end of some period

If you decide to set up a trust for the benefit of your children and then sell or gift property to the trust with a leaseback provision, you should not have a provision in the trust where the property will revert (return) to you at some point in the future (called a reversionary interest trust). If there is such a provision in the trust agreement, then the IRS does not consider this arrangement to be a true sale or gift. The tax benefits of a gift- or sale-leaseback would not apply.

Tangible assets used in trade, business, or profession are best type of property to use in a gift- or sale-leaseback

The types of property you should use in a sale- or gift-leaseback are physical assets that you make use of in your trade, business, or profession, for example, a medical building that you use as an office for your medical practice. Other types of physical assets may include office equipment, land, machinery, or trucks. These are the types of assets that are rented or leased all the time by businesses and for which it is easy to determine fair market values.

Strengths

Sale-leaseback is a good way for companies to turn assets into cash

A sale-leaseback may be an excellent way for a company that is asset rich but cash poor to turn some of those assets into ready capital. The company would have the further benefit of being able to continue to use those assets. Most major airline companies, for example, use the sale-leaseback technique to finance their fleets of planes.

Example(s): *Old Time owns a manufacturing plant that it estimates has a fair market value of $1 million. Old Time would like to upgrade and modernize its plant but does not have sufficient cash flow to finance the modernization. Old Time would prefer not to mortgage the plant. One solution for Old Time would be to find a buyer and then do a sale-leaseback. Old Time could sell the plant for $1 million, receive the cash up front, and then enter into an agreement with the buyer to lease the plant back at a fair market rental amount. If the sale-leaseback is structured properly, Old Time could fully deduct the lease payments as business expenses. They would then have enough money to modernize the facility.*

Gift- or sale-leaseback can reduce size of gross estate

Either the sale-leaseback or the gift-leaseback may be used to reduce the size of your taxable estate. With both a sale and a gift, the asset is removed from your estate. With a sale, the property you receive in exchange for the asset you sold would likely be included in your gross estate. With a gift, a gift tax may have to be paid at the time of the gift. However, if the asset is appreciating rapidly, it may make sense for you to remove that asset as soon as possible. It's important to note that at your death, the value of all your taxable gifts made during your lifetime is added back into your gross estate. You are also given a credit for any gift tax that you have paid. However, any appreciation in the value of the gifts after the time of the gift is not included in your gross estate.

Example(s): *Hal has a very successful internal medicine practice in Los Angeles. He currently owns a medical building in which he is the only tenant. The building is in a part of the city where real estate prices are appreciating rapidly. He has two minor children. He already has substantial assets and expects these assets to continue to grow in the future. He would like to remove some of these assets from his estate. A gift-leaseback may be an excellent way to accomplish this goal. He could set up an irrevocable trust and name his two children as the beneficiaries. He could then name a bank or other independent person as the trustee. He could gift the medical building to the trust and either use the gift tax applicable exclusion amount or pay the gift taxes on the value of the building if the entire exclusion has been previously used. He could then enter into a lease agreement with the trust to rent the building at a fair market rental. The rental payments would then flow through the trust to his children, and the future appreciation of the building would be removed from his estate.*

Sale-leaseback and gift-leaseback may allow diversion of income from high tax bracket to low tax bracket

A sale-leaseback or a gift-leaseback of income-producing property may allow you to shift income from yourself (in a higher tax bracket) to your children or others (in a lower tax bracket).

Caution: *Your potential federal income tax savings from transferring income-producing property to your children may be reduced by the kiddie tax. Under the kiddie tax rules, unearned income above $2,100 (in 2018) is taxed using the trust and estate income tax brackets. Unearned income above $2,100 (in 2017) was taxed at the parent's income tax rate. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.*

Tradeoffs

Seller will have to pay taxes on gain at time of sale

In the case of a sale-leaseback, the seller of the property will have to pay the taxes on any gain realized. Therefore, if you own an asset with a low adjusted basis and you sell that asset, you will have to pay the taxes due just as with any other sale.

Example(s): *The Old Time Manufacturing Company owns a plant with an adjusted basis of $100,000. It plans to structure a sale-leaseback to raise cash to modernize the facility, and arranges to sell the plant for $1,000,000. In the year of the sale, Old Time will have to pay taxes on the gain of $900,000.*

In a gift-leaseback, the donor may have gift tax liability

In a gift-leaseback transaction, when the donor makes the gift, gift taxes may be incurred at the time of the transfer. There may also be gift tax liability in a sale-leaseback transaction if the selling price is less than the fair market value (FMV).

Example(s): *Hal owns the building in which his medical practice is located. He would like to transfer ownership of the building to an irrevocable trust for the benefit of his children. He gifts the building to the trust. The building has an FMV of $500,000. He has already fully used the gift tax applicable exclusion amount through past gifts. At the time of the transaction, Hal owes a gift tax on the $500,000 gift. Similarly, if he had sold the building to the trust for $200,000, then he would owe gift taxes on the $300,000 difference.*

Seller will not benefit from any appreciation in value of asset

One of the tradeoffs to doing a sale-leaseback is that the seller of the asset will not benefit from any appreciation of that asset in the future. One alternative to the sale-leaseback is to mortgage the property. This will also raise cash, and you can probably deduct the interest portion of the loan payments. You will also receive the benefit of any appreciation of the asset in the future. Therefore, if you are in a position where you may need the asset in the future, you should not do a sale-leaseback transaction. Simply mortgaging the asset may be a better way to go.

How to do it

Consult a competent and experienced legal advisor

As with any transaction of this type, a competent and experienced attorney should be hired to draft the necessary legal documents to document the transaction and especially the terms and conditions of the lease. If it is a gift-leaseback and you plan to set up a trust to receive the gift, then an attorney experienced in trusts and estates should be hired to draft the trust document. The requirements for establishing and maintaining trusts can be very complicated, and only an experienced attorney should handle these issues.

Appraiser should be hired to determine fair market value of assets and fair rental value

An independent, unbiased, and experienced appraiser should be hired to determine the fair market value of the asset that will be sold or given away. Caution: If the asset is sold for less than fair market value, it may be considered a partial gift, and gift tax may be due. The appraiser should also determine the fair market rental value of the asset. It is critically important that the rent be set at a market rate. The IRS scrutinizes these transactions very closely to see if the lease terms have been arrived at in a bona fide, arm's length manner.

Tax considerations

Income Tax

Tax must be paid at time of sale

In a sale-leaseback, if the property has been sold for more than its adjusted basis, then the seller must pay the full capital gains tax due at the time of the sale. There are no special tax breaks given to a sale-leaseback.

Lease payments may be fully deductible by lessor

If the sale-leaseback or gift-leaseback of a business asset is structured and documented properly, the lessor (the former owner of the property) can fully deduct the lease payments as an ordinary and necessary business expense. This may result in substantial tax savings for the lessor.

Lessee will have to report lease payments as income

The lessee (the person or entity to whom the property was sold) will have to report the lease payments as income. Depending on the type of property that is acquired, the lessee may be able to depreciate the asset and offset at least some of the lease income. If the lessee has financed the purchase of the asset, he or she may also have interest deductions to offset some of the income.

Estate Tax

Value of asset sold not included in gross estate of seller

If a sale-leaseback or a gift-leaseback has been structured and documented properly, then the asset transferred is not included in the gross estate of the seller. Instead, the consideration you received in exchange for the asset will be included in your gross estate, except to the extent you consume or otherwise remove it. If you own an asset that you think may appreciate in the future, a sale- or gift-leaseback may be an excellent way to remove that asset from your estate. You will still be able to use that asset in your business or profession. However, you should be aware that taxable gifts made during the lifetime of the donor are added back into the donor's gross estate. You are also given a credit for any gift tax that may have been paid. Furthermore, any appreciation in the value of the gift after the time of the gift is not included in your taxable estate.

Gift Tax

In a gift-leaseback, a gift tax may be due on fair market value of asset transferred

With a gift-leaseback, you may be liable for the gift tax on the fair market value of the asset transferred. You will either have to use the gift tax applicable exclusion amount or pay the gift tax due, if the entire exclusion has been previously used. The payment of the tax may pose a problem if you do not have sufficient liquid assets.

In a sale-leaseback, a gift tax may be due if property is sold for less than fair market value

With a sale-leaseback, if the property is sold for less than its fair market value, then the difference is considered to be a gift. Federal gift and estate tax may be due on the transaction if the gift exceeds the $15,000 (in 2018, $14,000 in 2017) annual gift tax exclusion and your applicable exclusion amount has been fully used (the exclusion amount is $11,200,000 in 2018, $5,490,000 in 2017).

Variations from State to State

When an asset has been sold for less than its fair market value, then the difference is considered to be a gift from both husband and wife in community property states

In a community property state, when the asset sold is community property and the sale price is less than the fair market value, the difference is a gift from both spouses.

In community property states, the signature of both spouses may be necessary to sell, lease, or mortgage community property

In certain community property states, the signatures of both spouses are required to sell, lease, or mortgage certain community property. Therefore, it will be necessary to get both spouses to sign any necessary documents to sell, lease, or gift property.

Questions & Answers

Why would a person or company do a sale-leaseback when they could simply mortgage the property?

There are two main advantages to selling an asset in a sale-leaseback transaction as opposed to simply mortgaging the property. First, in the business context, in a sale-leaseback, if the transaction is properly structured and documented, then the lease payments will be fully deductible as ordinary and necessary business expenses. With a mortgage, only the interest part of the payments would be deductible. Second, in the estate planning context, you would do a sale-leaseback if you wanted to remove the future appreciation of the asset from your gross estate. With a mortgage, you would still be considered the owner of the property, and it would be included in your estate at your death (though the mortgage debt would be deducted).

What are the factors that the IRS looks at to determine if a sale-leaseback is a legitimate transaction?

The IRS looks at several factors to determine if a sale-leaseback is a legitimate transaction or merely a loan disguised as a sale. Most importantly, the IRS looks at the lease agreement to see if rental payments are market rents, if the terms of the lease are standard commercial lease terms, if the terms of the lease are strictly enforced, and if the lease is in written form. The IRS also considers whether the sale price of the asset is the fair market price and reviews the transactions to see if there are any mandatory buy-back provisions (thus giving the asset back to the seller at some point in the future). If a trust is used, the IRS will look at the relationship between the trustee and the seller of the asset to make sure the trustee is completely independent of the seller.

Does the sale-leaseback transaction need to have a legitimate business purpose to pass IRS and Tax Court scrutiny?

Yes. The Tax Court has ruled that the sale-leaseback transaction needs to have a bona fide business purpose to qualify as a true sale. In one case, the Tax Court ruled that as long as the property sold and then leased back was actually used in the seller's trade, business, or profession, then this transaction would qualify as a legitimate business purpose.

But, some Federal Circuit Courts of Appeal have rejected the Tax Court's position. Instead, they held that the lease payments could not be ordinary and necessary expenses where the lessee actually owned the property prior to the transaction, and, thus, the sale transaction was not legitimate. Therefore, you should consult with your legal advisor prior to entering into a sale-leaseback. It is possible that if you live within the jurisdiction of either of these appellate courts, the transaction may have to be structured in a different manner.

Can there be a buy-back provision in the sale-leaseback agreement?

Yes. There may be an optional buy-back provision in the sale-leaseback agreement. However, the buy-back provisions need to be drafted very carefully. The terms of the buy-back should be in writing and should state that the purchase price of the buy-back option will be negotiated and based on the fair market value at the time of the repurchase. There should not be a mandatory buy-back provision in the sale-leaseback. If there is such a provision, the IRS may view the transaction the same as a loan and a mortgage.

In a gift-leaseback with the use of a trust, may the donor name anyone as the trustee of the trust?

No. The donor needs to be extremely careful about whom he or she names as the trustee of a trust in a gift-leaseback. The donor should certainly not name himself or herself as the trustee. The trustee should be completely independent of the donor and his family. For example, a bank or independent fiduciary could be used.

Sale of Principal Residence: Tax Considerations

Introduction

You should be aware of the federal income tax issues that may arise upon the sale of your principal residence. In particular, you should understand how to calculate capital gain (or loss), and know when capital gain can be excluded from taxation. You should also know which items you can deduct on your tax return for the year of sale, and how closing costs are treated. Additionally, if you rent a portion of your principal residence to tenants or use part of your residence for business purposes, special tax rules may apply.

Caution: *This discussion applies to the sale of your principal residence only, not to the tax treatment of the sale of your second home or vacation home.*

What is a principal residence?

Although you might own several homes, you can have only one principal residence. The home in which you spend most of your time during the year will ordinarily be considered your principal residence. However, the IRS has listed other factors that are relevant in determining your principal residence. These factors include (but are not limited to) the following:

- The address listed on your income tax returns, driver's license, and automobile and voter registrations
- Your place of employment
- Your mailing address for bills and correspondence
- The location of your family members
- The place you maintain your bank accounts
- The location of your memberships (e.g., places of worship, clubs, etc.)

Tip: *For purposes of qualifying for the capital gain exclusion, you must have an ownership interest in the residence (i.e., legal title), rather than simply a right to occupy (as a tenant would have). Single family homes can qualify as principal residences, along with condominiums, co-ops, mobile homes, houseboats, and trailers (assuming they have living accommodations that include a sleeping space, toilet, and cooking facilities).*

An investment in a retirement community will not qualify as your principal residence unless you receive equity in the property.

How do you calculate capital gain or loss when you sell your principal residence?

In general

The sale of your home will ordinarily result in either a capital gain or a capital loss. Gain (or loss) on the sale of your principal residence is the selling price (less expenses of the sale) minus your adjusted basis in the residence. If the sales price of your residence exceeds your adjusted basis in the home, you'll realize a capital gain. If the sales price of your principal residence is less than your adjusted basis in the residence, you'll realize a capital loss. You generally can't claim such a loss as a deduction on your federal income tax return.

Tip: *If you pay a broker's commission for selling your home, your sales price is reduced by the amount you paid to the broker.*

Adjusted basis

In general, the adjusted basis of a personal residence is the cost of the property (i.e., what you paid for the property when you first purchased it), plus amounts paid for capital improvements, less any depreciation and casualty losses claimed for tax purposes.

Tip: *Improvements add value to the home, prolong its life, or adapt it to a new use. Regular repairs and maintenance are not considered improvements and are not included in the tax basis of the home.*

Tip: *Depreciation deductions would apply only if you had used your home for business purposes.*

If you are selling your home and you pay some or all of the buyer's points at closing, your adjusted basis is not affected. Rather, for tax purposes, you must reduce the sales price of the home by the amount of seller-paid points. For more information about adjusted basis, see IRS Publication 523, Selling Your Home.

Under what conditions may you exclude gain from the sale of your principal residence?

Full exclusion

If you sell your principal residence at a gain, you may be able to exclude from taxation all or part of the capital gain. If you meet the requirements, you can exclude up to $250,000 (up to $500,000 for married couples filing jointly) of the capital gain, regardless of your age.

You can generally exclude the gain only if you owned and used the home as your principal residence for at least two out of the five years preceding the sale (the two years do not have to be consecutive). An individual, or either spouse in a married couple, can generally use this exclusion only once every two years.

Special rules may apply in the following cases:

- If you sell property within five years of acquiring the property through a like-kind exchange
- If you sell vacant land adjacent to your principal residence
- If your principal residence is owned by a trust
- If your principal residence contained a home office or was otherwise used partially for business purposes
- If you rented part of your principal residence to tenants, or used it as a vacation or second home (i.e., "nonqualifying use" under the Housing and Economic Recovery Act of 2008)
- If you owned your principal residence jointly with an unmarried taxpayer
- If you are a member of the uniformed services or foreign services personnel on qualified official extended duty

For more information about these special cases, see IRS Publication 523, Selling Your Home.

Tip: *Previously, a surviving spouse was entitled to the $500,000 exclusion only if he or she filed a joint return with the deceased spouse's estate, which can only occur for the tax year in which the deceased spouse dies. The Mortgage Forgiveness Debt Relief Act of 2007 extended the period of time in which the surviving spouse has to take the $500,000 home sale exclusion. For sales on or after January 1, 2008, the sale of a jointly-owned and occupied residence is entitled to the $500,000 exclusion provided the sale occurs no later than two years after the date of the deceased spouse's death.*

Partial exclusion

A partial exemption may be available even if you fail to meet the two-out-of-five-years test or the one-sale-in-two-years test. You may claim a partial homesale exclusion if the primary reason for selling your house is a change in place of employment, for health reasons, or for certain other unforeseen circumstances (e.g., your home was sold because you were directly affected by the September 11, 2001, terrorist attacks). Generally, you must establish by the facts and circumstances of your situation that your home sale was for one of these reasons.

The IRS has issued regulations that clarify the meaning of the above conditions (change in place of employment, health reasons, and unforeseen circumstances). In addition, various "safe harbors" exist that will automatically establish that a sale is for one of these reasons.

Tip: *If the capital gain from the sale of your home is entirely excluded from federal income taxation, you don't have to report the sale transaction on your income tax return. However, if part or all of your capital gain is taxable, you must report the transaction on Schedule D of your federal income tax return.*

What can you deduct on your federal income tax return for the year you sell your principal residence?

In general

If you did not rent your principal home to others (or if you rented it for fewer than 15 days during the year), you can deduct the following home-related expenses on your income tax return:

- Property taxes
- Qualified interest on loans secured by the residence
- Certain casualty losses
- Qualified mortgage insurance premiums

Tip: *If you rent your principal home for fewer than 15 days a year, any rental income you receive is not considered taxable income.*

Deducting property taxes

If you itemize your deductions on Schedule A of your federal income tax return, you may be able to deduct the property taxes you paid during the year for your principal home. A home seller is responsible for real estate taxes up to the date of sale. At the closing, you and the buyer divide the real estate taxes. You pay taxes up to (but not including) the date of closing. If you've already paid a tax bill for a period extending beyond the closing date, the buyer will reimburse you at the closing for that extra portion. For 2018 to 2025, the deduction for state and local taxes is limited to a total of $10,000 ($5,000 for married filing separately).

Deducting mortgage interest

You may be able to deduct qualified interest you paid on a mortgage to buy, build, or improve your home, provided that the loan is secured by your home. You may also be able to deduct the interest you paid on a home equity loan. For 2018 to 2025, the deduction for home mortgage interest is not available for home equity loans and lines of credit, unless they are used to buy, build, or substantially improve the taxpayer's home that secures the loan.

Deducting casualty losses

If you use your home only for personal (nonbusiness) purposes, you can't deduct your homeowners insurance premiums on your federal income tax return. However, if you suffer an insurance-related loss for which you are not fully compensated, you may be able to claim a casualty loss deduction on your income tax return if the casualty loss is attributable to a federally declared disaster.

Deducting qualified mortgage insurance premiums

For 2007 through 2017 only, premiums paid or accrued for qualified mortgage insurance is treated as deductible mortgage interest. Qualified mortgage insurance means mortgage insurance provided by the VA, FHA, and Rural Housing Authority as well as private mortgage insurance (PMI). The amount of the deduction is phased out if your AGI exceeds $100,000 ($50,000 if married filing separately). This provision does not apply with respect to any mortgage contract issued before January 1, 2007 or after December 31, 2017.

If you rented part of your home to others, or used part for business purposes

Special deduction and income-reporting rules apply if your principal residence was a multifamily home, a portion of which you rented to tenants for more than 15 days per year. In such a case, all rental income is reportable on your tax return. For purposes of deducting expenses, you must treat your principal residence as if it were two properties: one for personal use and one for rental use.

You deduct interest, taxes, and casualty losses attributable to the personal use portion on Schedule A of your return. You deduct from rental income the rental portion of interest and taxes, along with any expenses solely attributable to the rental activity. Depreciation is based on the rental portion of basis only. Losses from rental activity are deductible to the extent allowed by passive loss limitations. (Losses are not allowed on the personal-use portion.)

Special deduction rules also apply if you used a room within your principal residence as a home office. In such a case, you may be able to deduct some of your housing expenses (including part of your homeowners insurance premiums) on your federal income tax return.

How do you treat the capital gain from the sale of mixed-use

property (i.e., a principal residence used partly for business, investment, or rental purposes)

In general

In the past, the IRS took the position that if a principal residence was used partially for residential purposes and partially for business purposes (mixed-use property), any capital gain on the sale of the house would have to be prorated; that is, only the part of the gain allocable to the residential portion was eligible for exclusion.

Recently-issued final regulations, however, have adopted a more liberal position. All of the gain from the home sale (except for gain resulting from certain depreciation deductions) is eligible for the capital gain exclusion so long as both the residential and non-residential portions of the property are within the same dwelling unit (e.g., one room in the home is used as a home office). However, gain is allocated if the business portion of the home is separate from the dwelling unit (e.g., an office in a converted detached garage).

Example(s): *Assume a self-employed accountant bought a home and, five years later, sells the home at a $20,000 gain. Although the house was always used as his principal residence, the accountant used one room within the house as his business office. Over the years, the accountant claimed $2,000 of depreciation deductions for his office. Under the final regulations, $18,000 of the capital gain will be tax-free. Only the $2,000 of the gain equal to the depreciation deductions will be taxable. The taxable amount will be considered unrecaptured Section 1250 gain, which is taxed at a rate of 25 percent.*

Example(s): *If the accountant's office had been located in a converted detached garage on his property, he would have to treat the sale as two separate transactions and pay tax on the gain allocable to the converted garage.*

Caution: *If you have a home office or otherwise use part of your principal residence for business, investment, or rental purposes, the capital gain on the sale of your home will not qualify for this exclusion to the extent of any depreciation deductions attributable to periods after May 6, 1997.*

Multi-family homes

Be careful if you rent part of your principal residence to tenants. If you converted part of your residence into an apartment, or if you sell a multi-family house, you may not be able to exclude the gain from the rental portion of your house.

Example(s): *Suppose you buy a three-story townhouse and convert the basement level (which has a separate entrance) into a separate apartment by installing a kitchen and bathroom there. You also remove access from the interior stairway that leads from the basement to the upper floors. After the conversion, you use the first and second floors of the townhouse as your principal residence and rent the basement level to tenants for four years. During that period, you claim depreciation deductions of $2,000. You sell the entire property, realizing a gain of $18,000.*

Example(s): *Because the basement apartment was considered a separate dwelling unit, you must allocate the capital gain between the portion of the property that you used as your principal residence and the portion of the property that you rented. You may exclude from taxation only the non-rental portion. Assuming that the gain allocable to the rental portion of the property came to $6,000, you'd recognize the $6,000 as income ($2,000 of which is gain from depreciation deductions and $4,000 of which is adjusted net capital gain).*

Caution: *Capital gain realized on the sale of pure investment properties and residences other than your principal residence (for example, vacation homes) cannot be excluded from taxation under the homesale exclusion rules.*

Treatment of capital loss

If you sell your house at a loss, no loss is allowed on the personal use portion of your mixed-use residence. However, loss allocable to the business use portion may be deductible. Consult a tax professional.

How are closing costs treated when you sell your principal residence?

Generally, you can't deduct settlement costs on your income tax return when you sell your home. Often, however, if you pay certain settlement costs, such as a broker's commission, points owed by the buyer, transfer taxes, and other costs owed by the buyer, you can reduce the amount realized (sales price). This can be advantageous, because it will decrease your capital gain.

Residence Transfer Subject to Life Estate: Medicaid Planning

Introduction

A transfer subject to a life estate may be used to preserve your home and facilitate your eligibility for Medicaid. With this planning tool, you transfer the "remainder interest" in your house to your children (or other beneficiaries), and keep a "life estate" for yourself. As a practical matter, you deed the house to the remainder beneficiaries and incorporate language in the deed to retain your life estate. The life estate gives you the legal right to live in the house for life. As the "life tenant," you keep the responsibility for paying all ordinary and necessary expenses for maintaining the property, including property taxes, insurance, utilities, and routine repairs. When you die, the home passes to the remainder beneficiaries outright.

The advantage of this arrangement is that you can eliminate much of the value of your home from your financial picture for Medicaid eligibility purposes, and shorten any period of ineligibility, while maintaining your right to live in the house.

How does it work?

Remainder interest not countable as available asset for Medicaid eligibility purposes

To qualify for Medicaid, both your income and the value of your other assets must fall below certain limits (which vary from state to state). In determining your eligibility for Medicaid, a state may count only the income and resources legally available to you for paying your medical costs.

A transfer subject to life estate can help you qualify for Medicaid by making your remainder interest in your house unavailable to you (and, therefore, unavailable to the state) once any period of ineligibility ends. However, the life estate itself is counted as an available asset. Medicaid uses a "Life Estate and Remainder Table" that calculates the value of your life estate based on your life expectancy and the home value. Further, because you retain an interest in the home, any period of ineligibility will be shorter than if you had transferred the home entirely.

Caution: *If you (or, if married, both you and your spouse) enter a nursing home, the life estate still gives you the right to live in the house for life. However, if you are unable to return home, the house could (and perhaps must) be rented, and the net rental income would be applied toward your nursing home bills.*

Preserves home for your beneficiaries

Of course, along with helping you qualify for Medicaid, a life estate may help you preserve the house for your beneficiaries. When you die, the home passes to the remainder beneficiaries outright; the house is not part of your probate estate, and states will generally not be able to go after the home under a theory of estate recovery.

Caution: *Some states have adopted an expanded definition of estate that includes nonprobate assets that you hold an interest in at death. These states place a lien on your house after your death to collect the value of your life estate as of the date of your death.*

Shortens any period of ineligibility

A gift of the remainder interest in your home, like any transfer of assets for less than fair market value, can create a waiting period or period of ineligibility before you can qualify for Medicaid. When you apply for Medicaid, the state has the right to review or look back at your finances (and those of your spouse) for a period of months before the date you applied for assistance. For transfers made on or after February 8, 2006, the look-back period is 60 months. So, if you give away a house (or a remainder interest in the house) within 60 months of the date that you apply for Medicaid, you may be ineligible to qualify for Medicaid for a period of months, based on a formula set by the state. This formula may be explained as the value of the remainder interest (from the actuarial tables) divided by the average monthly cost of nursing homes in your locale, the quotient being the number of months for which you will be disqualified from applying for Medicaid benefits. Because only the value of the remainder interest is used in the calculation, any period of ineligibility will be shorter than if you had transferred the home entirely.

Strengths

Preserves your right to live in the property for life

If you gift your house to your children outright (without reserving a life estate), you lose the right to live in the home. Therefore, if your children get divorced or owe money to creditors, the house can be sold and you'll have no place to live. By reserving a life estate, on the other hand, you preserve your right to live in the house. Even if your child sells his or her remainder interest in the property, the buyer would have to wait until your death to take possession of the property.

Avoids probate

When you die, the property passes automatically and outright to the remainder beneficiaries, thus avoiding the expense and delay associated with probate.

Preserves assets for your loved ones (in some states)

After your death, many states seek reimbursement from your estate for Medicaid benefits it paid on your behalf. In some states, "estate" refers to your probate estate only. Since any assets given away pursuant to a life estate arrangement would be eliminated from your probate estate, these states would be unable to seek title to those assets subject to this arrangement. Consequently, the assets would be preserved for your loved ones.

Helps you qualify for Medicaid

A transfer subject to a life estate helps you qualify for Medicaid by making your remainder interest in your house unavailable to you (and, therefore, to the state) for purposes of Medicaid eligibility once any period of ineligibility ends. Further, any period of ineligibility is shortened because the value of your retained interest is not included in the calculation.

Minimizes gift tax on the transfer

If you deed your home and retain a life estate, you will have made a completed gift of the remainder interest. The value of the gift is the fair market value of the home at the time of the gift, minus the value of your life estate. However, you may not have to actually pay federal gift tax if it can be offset by your applicable exclusion amount.

Provides your children with a stepped-up basis

For income tax purposes, your children (or whomever you name as the remainder beneficiaries) are treated as though they inherited your property. In other words, in determining their capital gain on a later sale of the property, your children get to use the fair market value of the property on your date of death as their basis. This basis is referred to as a stepped-up basis.

Example(s): *Assume John paid $70,000 for his home 25 years ago. He reserved a life estate in the property and gave the remainder interest to his daughter, Mary. When John dies, the property is worth $250,000. If Mary sells the property for $250,000, there will be no capital gain, since Mary gets the "stepped-up" basis of $250,000. If, however, John had simply given the house to Mary without reserving a life estate, Mary's basis would be $70,000. She would recognize a capital gain of $180,000.*

Tradeoffs

Loss of control over asset

Your gift of the remainder interest is irrevocable. This means that once you've transferred the property, legally speaking, you have no further control over its final disposition.

Value of life estate may be subject to Medicaid estate recovery in some states

Your state can seek reimbursement from your estate after you die. For Medicaid purposes, the word "estate" has traditionally been construed by most states as your probate estate; that is, it has been interpreted by most states as being limited to those assets that pass under your will, and has not been interpreted as including those assets that pass by beneficiary designation, or those that pass by operation of law. Some states have, however, adopted an expanded definition of estate to include all nonprobate assets as well. Those states may exercise their ability to collect the value of your life estate at the moment before your death.

Sale of the home during your lifetime may be problematic

Your percentage of the sale proceeds can be considered an "available resource" for Medicaid eligibility purposes and may disqualify you from receiving benefits.

How to do it

Gather your Medicaid eligibility information before consulting an attorney or other financial professional

- Prepare a list of all your assets (and those of your spouse), indicating how title is held, the tax basis, and how much you paid for the asset.
- Prepare a list of your (and your spouse's) income from all sources.
- Indicate whether your resources are, for Medicaid purposes, exempt, nonexempt, or inaccessible.
- Prepare a list of all assets transferred within the last 60 months, by way of gift, trust, life estate, or otherwise. Indicate date of transfer, transferee, purpose, and consideration (what you received in return).

Consult a Medicaid law attorney

In recent years, the Medicaid laws have undergone a number of changes. Indeed, because certain planning vehicles have been eliminated and most rules tightened, it is reasonable to expect that further changes will occur in the years ahead. It is vital, therefore, to consult with an attorney experienced with Medicaid planning.

An attorney will advise you of your options, make recommendations, and ensure that establishing a life estate would be in your best interest.

Tax considerations

Income tax

Generally, there should be no income tax consequences of transferring your residence subject to a life estate. However, if the property generates rental income (e.g., a two-family house), the life tenant will continue to be responsible for reporting the rental income and expenses on Schedule E of his or her federal income tax return.

Gift tax

If you deed your home and retain a life estate, you will have made a completed gift of the remainder interest. The value of the gift would be the fair market value (FMV) of the home at the time of the gift, minus the value of your life estate. However, you may not have to pay federal gift tax because of the applicable exclusion amount.

Estate tax

If you have a life estate, the full FMV of the residence will be included in your gross estate for estate tax purposes.

Questions & Answers

When a person has a life estate in a property, how is his or her share of proceeds calculated when the property is sold during his or her life?

If you hold a life estate in real property and sell the property during your lifetime, you're entitled to a share of the proceeds equal to the proportionate value of the life estate.

Example(s): *Suppose a 60-year-old woman transferred her home to her son three years ago, subject to a life estate. She's decided to move in with her son and they both want to sell the house. She bought the home for $60,000 many years ago, and they have a buyer who'll pay $200,000 for it. Assuming the value of her life estate is about 74 percent and the value of her son's remainder interest is 26 percent, the woman's portion of the proceeds would be 74 percent of $200,000, or $148,000. Her son's portion would amount to 26 percent of $200,000, or $52,000.*

In general, if you sell your principal residence at a gain, you may be able to exclude from taxation all or part of the capital gain. If you meet the requirements, you can exclude up to $250,000 (up to $500,000 for married couples filing jointly) of the capital gain, regardless of your age. You can generally exclude the gain only if you owned and used the home as your principal residence for a total of two out of the five years before the sale (the two years do not have to be consecutive). An individual, or either spouse in a married couple, can generally use this exemption only once every two years. However, a partial exemption may be possible even if you don't meet these tests.

Special capital gain exclusion rules apply when you sell a partial interest in your principal residence (such as a life estate). Assuming all requirements are met, you may exclude gain from the sale or exchange of a partial interest in your principal residence if the interest sold or exchanged includes an interest in the dwelling unit. However, only one maximum limitation amount of $250,000 ($500,000 for certain joint returns) applies to the combined sales or exchanges of partial interests. In other words, sales or exchanges of partial interests in the same principal residence are treated as one sale or exchange. See IRS Publication 523, Selling Your Home.

When You Need Help: Community Resources and Programs for Older Individuals

What is it?

Many programs and resources are available from your community to help you live independently at home. Some of these programs are funded either by your state government or by the federal government. Others are privately funded or are provided by charitable organizations. Since many programs and resources are available, you may need to spend a lot of time sorting through the various programs that are out there in order to find one suitable for you.

What types of community programs and resources are available?

The following is a list of some of the programs and resources that are available either in your community or at the state or national level.

Associations and referral organizations

Numerous associations and referral organizations exist to help you find the services or advice you need. You can call your local area agency on aging to find an information and referral service. Many national organizations such as the American Association of Retired Persons (AARP), the American Red Cross, or the Eldercare Locator can also provide good referral information. Contact the Eldercare Locator, a public service of the U.S. Administration on Aging, at (800) 677-1116 or by visiting www.eldercare.gov .

Care management

Some agencies specialize in coordinating help for senior citizens. Instead of trying to figure out the services you need and then finding them, you can use a case manager or a geriatric care manager to do this for you. Geriatric care managers are often found through private companies and licensed agencies. Case managers can also be found through licensed agencies, as well as through government and nonprofit agencies. You will find a case manager or a geriatric care manager helpful if you need a lot of services, or if your needs are complicated.

Companionship programs and support groups

From time to time, you may appreciate a visit from a friendly volunteer to help you with certain tasks (such as letter writing) or just to chat. You may also find getting involved with a support group helpful if you are a widow, a spouse, or a child of someone who has a chronic disease or mental impairment. Certain organizations provide telephone support or reassurance. Some government agencies such as the postal service or your local police station may have a program set up to check on you daily. If your community doesn't have a program like this, and you are worried about being alone in a medical or physical emergency, you can buy devices or security systems that you can use to summon help instantly if you need it.

Financial advice and/or assistance

For financial advice, talk to your banker, lawyer, financial planner, investment counselor, social worker, or accountant. If he or she can't answer your question, he or she should know someone who can. Volunteer organizations such as the AARP can also help. If you receive Social Security but are afraid that you can no longer manage your own finances, you should contact the Social Security Administration (SSA) for information on the Representative Payee Project. You should also contact the SSA for information on retirement, disability, survivor's, Medicare, and Supplemental Security Income (SSI) benefits.

Health information services

National associations (such as the Alzheimer's Association) are excellent sources of information on various health problems. Home health care agencies and associations such as the Visiting Nurse Association can help you locate in-home medical care or household help. Social Service agencies can provide you with mental health services or referrals and information on Medicaid. Hospitals can provide physician referrals, and doctors can provide referrals for geriatric assessment. Each state is required to have a health insurance counseling program, and you can receive advice about health insurance from an insurance agent or financial planner.

Legal services

Your local bar association may operate a referral service that you can use to find a lawyer if you need one. They may not recommend one particular attorney, but may provide you with a list of attorneys that specialize in elder law and help you set up a consultation with one or more of them. You can also receive information from your AARP chapter or from certain federal agencies. National organizations such as Legal Counsel for the Elderly can also answer your questions and provide referrals.

Meal delivery services

Meals-on-wheels is a well-known program that provides one hot meal and a light supper once a day, at least five days a week. Volunteers deliver the meals. If subsidized, the meals may be free, but sometimes you must pay a small charge for each meal that is delivered to you. Your community may also have a delivery service available that will pick up meals from a restaurant and deliver them to your home for a few dollars more than the actual cost of the meal. In addition, some national companies and local grocery store chains can ship or deliver groceries or meals to you.

Ombudsman programs

An ombudsman is a trained volunteer who monitors nursing home care or other long-term care facilities. Each state also has at least one ombudsman, and many cities and counties have local ombudsmen as well. If you or someone you love has a complaint about the quality of long-term care, you can contact the ombudsman through the nursing home or care facility, through the area agency on aging, or through your state department of aging.

Recreation services

Community centers, senior centers, churches, temples, and YMCAs (or YWCAs) offer recreation (including activities and exercise) programs geared towards older individuals.

Senior advocates

You may need an advocate in certain situations, particularly when you have a legal problem or a problem involving a government agency. You can find out about advocates from the National Association of Professional Geriatric Care Managers, the AARP, and through your local social service agency or bar association.

Senior centers

Local senior centers offer activities, trips, meals, education programs, health screening, and counseling. Fees for services and activities are usually low, and the fee might be waived if you can't afford it. Some provide free transportation. To find a senior center in your area call your local area agency on aging.

Social Service agencies

Social Service agencies sponsor in-home care, volunteer programs, family services, health or mental health programs, referral programs, adult day care, transportation, and other services. They can be nonprofit organizations or government agencies. You can call the Eldercare Locator or check with your local Social Service representative for information.

Transportation services

City buses and taxis are popular methods of transportation, but what if you don't live on a bus route or you can't afford a taxi? First, check with your local bus company. Some cities offer low-cost door-to-door bus transportation to seniors who live on city bus routes. Some hospitals or social service organizations also sponsor volunteer transportation services at little or no cost. You may be able to find transportation by contacting your local senior center or by looking under Transportation or Handicapped Transportation in your phone directory or by searching the Internet using those terms. In addition, your health insurance, Medicare, or Medicaid may cover some necessary medical transportation (for example, ambulance service).

Your Home as a Source of Dollars in Retirement

If you own a home, you may be wealthier than you think. The equity in your home could be one of your largest assets, especially if your mortgage has been paid down over the years or paid off. This home equity can be a valuable source of extra income during your retirement years.

How do you tap your home equity?

There are two ways to tap your home equity if you're approaching retirement (or already retired) and don't want to make mortgage payments: You can trade down, or you can use a reverse mortgage. Trading down involves selling your present home and replacing it with a smaller, less expensive home. A reverse mortgage is a home mortgage in which the lender makes monthly payments to you, rather than you making monthly payments to the lender. Both of these strategies can give you substantial additional income during retirement.

Note: You could get money from your home by taking a home equity loan, where you place a regular mortgage on your home. But you must repay the home equity loan, with interest, like other regular home mortgages.

Trading down can give you increased income

If your home is larger than you need, trading down to a smaller place may be a good way to increase your retirement income. The difference between the price that you receive for your present home and the cost of a smaller new home can be added to your retirement funds to provide you with additional investment income. The amount of cash that you can get by trading down depends on the value of your present home, the cost of purchasing a new home, and the incidental costs involved in the trade (e.g., brokerage commissions, legal fees, closing costs, and moving expenses). You should estimate these amounts to get some idea of the net amount that you will receive. To check the present value of your home, you should get an estimate of its selling price from two or three real estate agents. You should also get an estimate of the cost of your replacement home by shopping around for the type of home that you think you'll want.

Note: If you think that the tax consequences of trading down are a drawback, think again. You may be able to exclude from federal taxation up to $250,000 ($500,000 if you're married and file a joint return) of any resulting capital gain, regardless of your age. To qualify for this exclusion, you generally must have owned and used the home as your principal residence for a total of two out of the five years before the sale. An individual, or either spouse in a married couple, can generally use this exemption only once every two years. However, even if you don't meet these tests, a partial exemption may be available. (For sales and exchanges made after December 31, 2008, this homesale exclusion won't apply to the extent the gain is allocated to periods (not including any period before January 1, 2009) during which the property was not used as your, or your spouse's, principal residence.)

Trading down can reduce your housing costs

The other important financial benefit of trading down is that it reduces housing costs--often substantially. A smaller home usually means lower real estate taxes and smaller bills for heating, cooling, insurance, and maintenance costs. If your move is from a single-family house to a condominium, your costs will be reduced even more because outside painting, roof repair, landscaping, and similar costs disappear into lower monthly condo fees. You should carefully estimate the amount of the cost savings that you'll get from trading down. Compare the annual cost of maintaining your present home with the expected annual cost of maintaining your new home. Be sure to prorate expenses that do not occur regularly, such as indoor and outdoor painting and roof repairs.

But trading down may have disadvantages

Consider the possible drawbacks of trading down. For instance, you may not want to reduce your living space by moving to a smaller home. Or, you may not be able to find a smaller home as attractive as your present home. Another common problem with trading down occurs if you are strongly attached to your present home. You may not want to be uprooted from your home and the social network around it. Still, you may also be troubled by worries that afflict many older homeowners, such as rising property taxes, the threat of escalating insurance, and the unexpected cost of major repairs. You may decide that trading down is warranted to lighten these worries as well as your financial burden.

Note: If you sell your home at a gain and aren't eligible for the capital gain homesale exclusion, you'll have to pay federal income taxes on the difference between the selling price and your adjusted basis (the initial cost of your home, plus amounts you've paid for capital improvements, less any depreciation and casualty losses claimed for tax purposes) in the home.

A reverse mortgage can also give you increased income

If you are older and have substantial equity in your home, a reverse mortgage can give you a valuable supplemental source of retirement income. You can receive this income based on the equity that you have built up over the years in your home--without having to repay the reverse mortgage during your life. The amount of the monthly payment you receive from a reverse mortgage depends on four factors:

- Your age
- The amount of equity in your home
- The interest rate charged by the lender
- Closing costs

The older you are and the more the equity in your home, the larger your monthly payments will be. Also, a lower interest rate and lower closing costs will increase your payments.

A reverse mortgage lets you keep your present home for life

As discussed, you may not want to trade down for a variety of reasons, including attachment to your present home. With a reverse mortgage, you can increase your income and continue to live in your present home for life. The mortgage typically becomes due when you no longer live in the home.

When reverse mortgage payments last as long as you live in your home, the mortgage is known as a tenure reverse mortgage. You can get other types of reverse mortgages, including an annuity advance reverse mortgage. With the annuity mortgage, payments last as long as you live, regardless of whether you continue to live in your home.

But a reverse mortgage is not without drawbacks

With a reverse mortgage, you must mortgage your home to the lender. Each payment that you receive from the lender increases the amount of principal and interest that you owe on the mortgage. Although the mortgage typically does not become due while you're still living in the home, the equity value of your home is reduced by each payment that you receive. This reduction in the equity value of your home may have a negative effect on your children's ultimate inheritance.

Note: If you face a retirement income shortage, this equity reduction may be preferable to a reduction in your standard of living. Also, in the rare case where the value of your home appreciates more rapidly than the mortgage loan increases, equity reduction does not occur.

A reverse mortgage may have other drawbacks, including:

- High up-front costs: The closing costs for a reverse mortgage normally exceed the closing costs for a conventional mortgage. This means that a reverse mortgage may not be cost effective if you plan to remain in your home for only a few years.
- No reduction in homeowner costs: Unlike trading down to a home with lower housing expenses, a reverse mortgage does not reduce your housing costs. Since you stay in your home, you still face real estate taxes, insurance, repairs, and other costs associated with the home.

Housing Options for Older Individuals

As you grow older, your housing needs may change. Maybe you'll get tired of doing yardwork. You might want to retire in sunny Florida or live close to your grandchildren in Illinois. Perhaps you'll need to live in a nursing home or an assisted-living facility. Or, after considering your options, you may even decide to stay where you are. When the time comes to evaluate your housing situation, you'll have numerous options available to you.

There's no place like home

Are you able to take care of your home by yourself? If your answer is no, that doesn't necessarily mean it's time to move. Maybe a family member can help you with chores and shopping. Or perhaps you can hire someone to clean your house, mow your lawn, and help you with personal care. You may want to stay in your home because you have memories of raising your family there. On the other hand, change may be just what you need to get a new perspective on life. To evaluate whether you can continue living in your home or if it's time for you to move, consider the following questions:

- How willing are you to let someone else help you?
- Can you afford to hire help, or will you need to rely on friends, relatives, or volunteers?
- How far do you live from family and/or friends?
- How close do you live to public transportation?
- How easily can you renovate your home to address your physical needs?
- How easily do you adjust to change?
- How easily do you make friends?
- How does your family feel about you moving or about you staying in your own home?
- How does your spouse feel about moving?

Hey kids, Mom and Dad are moving in!

If you are moving in with your child, will you have adequate privacy? Will you be able to move around in your child's home easily? If not, you might ask him or her to install devices that will make your life easier, such as tub or shower grab bars and easy-to-open handles on doors.

You'll also want to consider the emotional consequences of moving in with your child. If you move closer to your child, will you expect him or her to take you shopping or to include you in every social event? Will you feel in the way? Will your child expect you to help with cooking, cleaning, and baby-sitting? Or, will he or she expect you to do little or nothing? How will other members of the family feel? Get these questions out in the open before you consider moving in.

Talk about important financial issues with your child before you agree to move in. This may help avoid conflicts or hurt feelings later. Here are some suggestions to get the conversation flowing:

- Will he or she expect you to contribute money toward household expenses?
- Will you feel guilty if you don't contribute money toward household expenses?
- Will you feel the need to critique his or her spending habits, or are you afraid that he or she will critique yours?
- Can your child afford to remodel his or her home to fit your needs?
- Do you have enough money to support yourself during retirement?
- How do you feel about your child supporting you financially?

Assisted-living options

Assisted-living facilities typically offer rental rooms or apartments, housekeeping services, meals, social activities, and transportation. The primary focus of an assisted-living facility is social, not medical, but some facilities do provide limited medical care. Assisted-living facilities can be state-licensed or unlicensed, and they primarily serve senior citizens who need more help than those who live in independent living communities.

Before entering an assisted-living facility, you should carefully read the contract and tour the facility. Some facilities are large, caring for over a thousand people. Others are small, caring for fewer than five people. Consider whether the facility meets your needs:

- Do you have enough privacy?
- How much personal care is provided?
- What happens if you get sick?
- Can you be asked to leave the facility if your physical or mental health deteriorates?
- Is the facility licensed or unlicensed?
- Who is in charge of health and safety?

Reading the fine print on the contract may save you a lot of time and money later if any conflict over services or care arises. If you find the terms of the contract confusing, ask a family member for help or consult an attorney. Check the financial strength of the company, especially if you're making a long-term commitment.

As for the cost, a wide range of care is available at a wide range of prices. For example, continuing care retirement communities are significantly more expensive than other assisted-living options and usually require an entrance fee above $50,000, in addition to a monthly rental fee. Keep in mind that Medicare probably will not cover your expenses at these facilities, unless those expenses are health-care related and the facility is licensed to provide medical care.

Nursing homes

Nursing homes are licensed facilities that offer 24-hour access to medical care. They provide care at three levels: skilled nursing care, intermediate care, and custodial care. Individuals in nursing homes generally cannot live by themselves or without a great deal of assistance.

It is important to note that privacy in a nursing home may be very limited. Although private rooms may be available, rooms more commonly are shared. Depending on the facility selected, a nursing home may be similar to a hospital environment or may have a more residential feel. Some on-site services may include:

- Physical therapy
- Occupational therapy
- Orthopedic rehabilitation
- Speech therapy
- Dialysis treatment
- Respiratory therapy

When you choose a nursing home, pay close attention to the quality of the facility. Visit several facilities in your area, and talk to your family about your needs and wishes regarding nursing home care. In addition, remember that most people don't remain in a nursing home indefinitely. If your physical or mental condition improves, you may be able to return home or move to a different type of facility. Contact your state department of elder services for guidelines on how to evaluate nursing homes.

Nursing homes are expensive. If you need nursing home care in the future, do you know how you will pay for it? Will you use private savings, or will you rely on Medicaid to pay for your care? If you have time to plan, consider purchasing long-term care insurance to pay for your nursing home care.

Housing Options for Aging Parents

	In-Home Care	Assisted-Living Facility	Nursing Home
When to consider	Parent can live independently but needs some assistance	Parent can live independently but needs some assistance	Parent can't live independently and requires regular nursing care
Types of care provided	• Medical care (nursing or health aide) • Household help • Companion or caretaker services • Meal delivery • Transportation	• Rental rooms, apartments, or houses • Housekeeping services • Meals • Social activities • Transportation • May provide limited health-care services	• 24-hour access to medical care • Custodial care: some help eating, bathing, dressing, or taking medications • Skilled nursing care
Potential advantages	• Can remain in familiar surroundings • May be less expensive than assisted-living or nursing home care if limited services are needed	• Staff available 24 hours a day • Social interaction with other residents • May have home-like atmosphere	• Social interaction with other residents • Access to round-the-clock medical care • May have special care units for individuals with Alzheimer's disease or related conditions
Potential disadvantages	• Strangers in home • Can be difficult to coordinate care	• Limited privacy • Long waiting lists • High fees for extra services	• Limited privacy • Long waiting lists • Very expensive
What you need to do	• Assess hazards and functionality of home, renovate if necessary • Check credentials of agency or individual providing service	• Research facility thoroughly • Consult an attorney before signing a contract	• Research facility thoroughly • Consult an attorney before signing a contract

Home Equity Loans and Second Mortgages in Retirement

What is it?

If you are retired, need extra money, and own a home, you may be able to get the cash you need by accessing the equity in your home . Home equity financing uses that equity to secure a loan. For this reason, lenders typically offer better interest rates for this type of financing than they do for other, unsecured types of personal loans. Typically, you'll be able to borrow an amount equal to 80 percent of the value of your equity. Home equity financing can be either a loan (often referred to as a second mortgage) or a line of credit.

Caution: *If you are living on a fixed income and have no other liquid assets, this form of borrowing can be risky. If you fail to make timely mortgage payments, you can lose your home. There may be* better options *available to you.*

When can you use it?

You have equity in your home

The equity in your home secures the loan . If your home is already fully encumbered by a first mortgage or other liens, then it is unlikely that you will qualify.

You can afford to service the loan

You should be absolutely certain that you will have sufficient monthly income to service the debt over the life of the loan. Once you have received a disbursement of cash from the lender, you will be expected to begin making regular monthly loan payments within 30 to 60 days. You must continue to make payments until the outstanding balance is paid in full. If you are unable to make the payments, the lender can foreclose (take) your home to satisfy the debt.

Strengths

Conventional home equity financing is readily available from most mortgage lenders

Most banks, credit unions, savings and loan associations, and other mortgage lenders offer home equity financing. It's easy to shop for.

With a line of credit, you have convenient access to loan funds

Most home equity lines of credit are accessed with checks or a credit card. This makes access to the funds easy and convenient. You present the check or card in the same manner that you would present any other check or card. The lender extends the funds and adds the amount to your principal balance.

Caution: *Home equity loans do not have this feature. When you obtain a home equity loan, the lender transfers the entire loan amount to you at the loan closing. When you obtain a reverse mortgage, you typically receive monthly disbursements in a fixed amount.*

Tradeoffs

Your home is at risk

Whenever you post your home as collateral, you take the risk of losing it in the event of default.

Technical Note: *Holders of home equity loans and lines of credit can foreclose and sell your real estate in the event of default. However, they are obligated to satisfy the first mortgage holder's lien and pay foreclosure costs before taking any sale proceeds to satisfy their own lien.*

You may have to pay closing costs

As with most transactions involving real estate, a mortgage closing must be conducted to finalize your home equity loan/line of credit. You may be required to pay closing costs, which include points, application fees, filing fees, and up-front costs. All such costs increase the expense of borrowing money.

Tip: *Some lenders waive these costs. It is a good idea to ask about closing costs when shopping for a loan.*

Conventional home equity financing does not have deferred repayment terms

Unlike a reverse mortgage , a home equity loan or line of credit does not allow for deferred repayment. You are not permitted to wait until you sell the home, until you die, or until some other event to repay the outstanding balance. You must begin making payments immediately. If you fail, you risk losing your home.

You may become liable for more than what your home is worth

If the balance of your home equity loan or line of credit exceeds the value of your home, you or your estate may remain liable for the entire outstanding balance. In contrast, if the outstanding balance of your reverse mortgage exceeds the value of your home, you or your estate will only have to repay an amount equal to the value of the home.

Undisciplined borrowers may have trouble paying down principal on home equity loans/lines of credit

Home equity loans are designed to be paid off over a fixed period of time. Home equity lines of credit, like credit card agreements, require only that the borrower make a minimum monthly payment. Some require the borrower to pay only monthly accrued interest. If you are tempted into paying only the minimum monthly payment, your principal balance could remain outstanding for an unreasonably long period of time. This results in additional interest expenses and prevents you from regaining the equity in your home.

Home equity lines of credit may have minimum advance requirements

Many home equity lines of credit require that you take advances in predetermined minimum amounts. For instance, you may not be able to obtain an advance on your line of credit for less than $1,000 at a time. This may be inconvenient if you are traveling and need to pay for an unexpected $500 car repair. (If you obtain a traditional second mortgage, all funds will be advanced to you up front.)

What are the tax consequences of home equity financing?

Generally, interest payments on loans secured by your home are tax deductible, but there are some limitations. See our separate topic discussions, Personal Residence Tax Planning and Home Improvement Loans .

Choosing a Continuing Care Retirement Community

What is a continuing care retirement community (CCRC)?

CCRCs are retirement facilities that offer housing, meals, activities, and health care to their residents. These communities appeal to people who are currently in good health, but who worry that they may need nursing care later on. The CCRC and the resident sign a contract which guarantees that the CCRC will provide housing and typically nursing home care throughout the resident's life; in return, the resident pays an entrance fee and a monthly fee. When the resident dies, all or part of the entrance fee may be retained by the CCRC and the CCRC is typically free to assign the resident's apartment to someone else.

How to choose a CCRC

How much you get for your money will depend upon the range and quality of facilities and services the CCRC offers, and the type of contract you sign. There are several types of contracts available, including the following four common types:

- An extensive agreement (also called a "life care" agreement) is typically the most expensive type of contract and includes housing, services, amenities, and unlimited health-related services (including assisted living and long-term care services).
- A modified agreement includes the same coverage as the extensive agreement, except that after a specified amount of health care is used, a resident must pay for additional health care or long-term care services, sometimes at a reduced cost. This type of agreement is typically far less expensive than the extensive agreement, because the resident must shoulder some of the risk of future long-term care costs.
- A fee-for-service agreement is far less expensive than either the extensive or modified agreement, but offers little security when it comes to health-care costs. Health-care or long-term care services may be guaranteed, but the resident will need to pay for them out-of-pocket.
- A rental agreement allows residents to rent housing, but does not guarantee health-related services, and requires that residents pay for these services out-of-pocket.

Before signing a contract, carefully evaluate the CCRC, paying attention to the following factors: entrance fees, monthly fees, insurance requirements, facilities, medical care, and financial condition of the CCRC. Services offered and costs vary widely. Entering a CCRC is a big financial commitment and entails risk, so make sure you carefully read any contract you are asked to sign, and review it with your attorney.

Entrance fees

When you enter a CCRC, you will generally pay a one-time entrance fee. Policies regarding refunds of these fees vary widely. They may be fully refundable, partially refundable when the resident leaves or dies, or refundable on a declining scale. It's important to understand if and when the entrance fee you pay is refundable, and how refunds or rebates are structured.

Monthly fees

In addition to an entrance fee, you will have to pay monthly service or rental fees. Be aware that monthly fees are often not fixed: Like rent, they can be adjusted periodically to cover additional operating costs. Make sure you understand what's included in the monthly fee you'll be paying, and when fees may be raised.

Example(s): *Maria entered a CCRC. At that time, she paid a monthly fee of $1,700 for her apartment. Five years later, she was paying a monthly fee of $2,500.*

For some people, this may lead to a need for additional income or to financial hardship. Consider this possibility when planning a financial strategy for long-term care. Some CCRCs may offer a financial assistance fund to help residents pay entrance or service fees--find out if this type of help is available.

Insurance requirements

You may be required to buy extra insurance if you enter a CCRC facility. For example, the facility may require that you purchase long-term health care insurance , a supplemental Medicare policy (Medigap) or Medicare Part B insurance to cover your short-term or long-term health care costs. This may add significantly to the cost of living in a CCRC.

Financial condition

A CCRC's financial condition can affect everything from the services it offers, to the monthly fees it charges, to the quality of health care it provides. Before you sign a contract with a CCRC, it is vital that you get information from the CCRC regarding its projected revenue and costs for a number of upcoming years, and obtain copies of audited financial statements (if available) for review by a financial professional. In addition, ask if the company running the CCRC owns others, and find out how long they have been operating the CCRC facilities. You can also ask residents how they feel about the maintenance fees they pay and how satisfied they are with the quality of service they get for their money. Also consider the occupancy level of the complex. If many apartments are vacant, for example, the CCRC may need additional funding (now or in the future) to remain solvent.

Facilities

You should carefully inspect apartments, cottages, or other living quarters, as well as the dining room to make sure they are clean and suitable for you. Apartments should be handicapped-accessible, and may be equipped with a pull cord to use should a medical emergency arise. Also, examine the safety of the facility: Do the buildings have adequate fire prevention devices such as sprinkler systems and smoke alarms? Do you feel comfortable with the security offered? In addition, consider other common areas. Eat in the dining room and observe how the staff and residents interact. Find out what transportation and activities are available. In short, determine how much you will get for your money.

Medical care

Some CCRCs provide nursing home care at no extra cost, and some may offer residents basic health care only for no extra cost. The quality of medical care may also vary widely. Before you sign a contract with a CCRC, make sure you understand what health care you are entitled to and who pays for it. Visit the medical facility to make sure that you would be comfortable receiving care there, and if it is a nursing home facility, that you would be willing to move there, if necessary. In addition, find out who decides when you must leave your apartment and move into the nursing home. How much say do you have in the decision?

Tax considerations

Tax deductibility of fees paid to a CCRC

A percentage of your entrance fee and/or monthly fees may qualify as a deductible medical expense for income tax purposes. This depends upon whether your CCRC can document that a percentage of its overall operating expenses go towards providing you with medical care.

Example(s): *Amelia entered a CCRC and paid a $200,000 entrance fee and a monthly fee of $3,000. When she filed her income taxes, she deducted as medical expenses 25 percent of her entrance fee and 25 percent of the total amount of monthly fees she had paid during the year, because the CCRC provided her with documentation showing that 25 percent of their expenses were related to medical care.*

Taxation rules for refundable deposits

If you make a refundable initial payment to a qualified CCRC, it may be considered a below-market loan. If so, you may have to include the imputed interest deemed payable to you in your gross income. However, if you or your spouse is age 62 or older, the deposit is generally exempt from the below-market loan rules that normally apply.

Tip: *For more information on the tax implications of CCRCs, consult your tax advisor or financial professional.*

Questions & Answers

What happens if a CCRC resident has financial difficulties and can't pay the monthly fees?

That depends upon the CCRC. Read the contract; the answer to your question should be spelled out there.

Can someone who is bed-ridden or who needs extensive personal care assistance enter a CCRC?

Generally, CCRCs require that you be ambulatory when you enter the community. If you need a lot of help taking care of yourself, you might not be able to enter a CCRC unless it can provide some health services in your living quarters. However, this varies from facility to facility.

Where can I get more information?

The Commission on Accreditation of Rehabilitation Communities (CARF) has a number of brochures available on its website, www.carf.org that discuss what to consider when choosing a CCRC and how to evaluate a CCRC's financial condition. LeadingAge, an association of nonprofit organizations that provide services to and advocates for the aging, also offers guidebooks on its site, www.leadingage.org that can help you compare CCRCs.

Medicaid and Nursing Home Care

As you enter your 60s and 70s, health may become more of an issue than it once was, and your thoughts may turn to the future. Who will take care of you when you can no longer care for yourself? If you must enter a nursing home, how will you pay for it? By learning as much as you can about Medicaid right now and planning appropriately, you may be able to resolve these issues and create a more secure future.

Nursing homes provide different levels of long-term care

You may need to enter a nursing home if you become physically or mentally incapacitated and can no longer care for yourself properly. If the services of an in-home caregiver are inadequate or unavailable, or if you require around-the-clock care, entry into a nursing home on a long-term basis may be your only option.

A nursing home is a state-licensed facility that may provide skilled nursing care, intermediate care, and/or custodial care.

- Skilled care: This around-the-clock care, ordered by a physician and performed by skilled medical personnel, is designed to treat a medical condition.
- Intermediate care: This involves occasional nursing and rehabilitative care provided by registered nurses and certain other medical personnel under the supervision of a physician.
- Custodial care: This type of care is designed to help you perform the activities of daily living (e.g., bathing, eating, dressing). It can be provided by someone without professional medical skills but is supervised by a physician.

Medicaid can help you pay for nursing home care

Medicare (Part A), Medigap insurance, and Medicaid can each provide some assistance in paying for long-term care. However, Medicare and Medigap provide only short-term coverage for skilled care at nursing homes--only a certain number of days per year are covered. Also, they do not provide coverage for intermediate and custodial care in nursing homes.

In contrast, Medicaid (in most states) will pay for skilled care and intermediate care in nursing homes, and for custodial care at home. The bottom line is that most nursing home residents are left with only three alternatives for paying their nursing home bills: Medicaid, their own assets (e.g., cash, investments), and long-term care insurance (LTCI).

Although an LTCI policy may be an ideal solution, you may not be able to purchase such a policy later in life if you're uninsurable for health reasons, or if you find the premiums too high. If you don't want to spend your life savings on nursing home bills and can't afford LTCI premiums, qualifying for Medicaid may be your best bet. With proper planning, you may be able to qualify for Medicaid, protect your healthy spouse (if you have one), and even leave some assets to your loved ones after you're gone.

You must satisfy several requirements to qualify for Medicaid

Medicaid is a joint federal-state program that provides medical assistance to various low-income people, including those who are aged (i.e., 65 or older), disabled, or blind. It can pay for a number of costs, including hospital bills, physician services, and long-term care. Medicaid is the single largest payer of nursing home bills in America and is the last resort for people who have no other way to finance their long-term care. Although the eligibility rules vary from state to state, federal minimum standards and guidelines must be observed.

In addition to you meeting your state's medical and functional criteria for nursing home care, your assets and monthly income must each fall below certain limits if you are to qualify for Medicaid. However, several assets (which may include your family home) and a certain amount of income may be exempt or not counted.

Although many people are ineligible for Medicaid when they first enter a nursing home, several states allow elders to enter and then spend down their income and assets on nursing home bills to become eligible. This can be a great advantage. On the downside, though, you may have to kiss your life savings good-bye.

That's where Medicaid planning comes in. In determining your eligibility for Medicaid, a state may count only the income and assets that are legally available to you for paying bills. You can make assets unavailable by giving them away or by holding them in certain trusts. However, in some cases, such transfers may create a period of ineligibility before you can collect Medicaid. So, to engage in proper Medicaid planning, you should consult an experienced elder law attorney.

Choosing the right nursing home takes research

Because nursing homes have long waiting lists, you should research the nursing homes in your area before an emergency arises. If you plan on using Medicaid to pay for your nursing home care, make sure that the facility you select accepts Medicaid--not all nursing homes do. Many others restrict the number of Medicaid "beds" in the nursing home (some states, however, prohibit this). Also, be aware that if Medicaid will be paying for your nursing home care, you will not be entitled to a private room.

You should consider several factors when choosing a nursing home. These include:

- Level of medical care: Some homes provide mainly custodial care. If you think that you may need skilled nursing care in the future, don't choose a home that offers only custodial care.
- Cost of care: You will pay less at some facilities than at others. Compare the cost of each facility with the quality of care and the services provided.
- Recreational opportunities: Consider whether the nursing home organizes outside or in-house recreational activities for its residents.
- Appearance of grounds and facilities: The nursing home should be clean and well maintained. A bad smell is one sign of a poor-quality nursing home.
- Resident/staff ratio and interaction: Determine if the resident/staff ratio meets or exceeds state and federal requirements. Also, notice how staff members treat residents.

When you find a nursing home that you like, you should find out if a bed will be available for you, or if you can add your name to a waiting list. And remember, Medicaid planning should be done well before the need for a nursing home arises.

For more information on how to evaluate a nursing home, contact your state department of elder services.

Choosing a Nursing Home

What is a nursing home?

A nursing home is a state-licensed facility that may provide skilled nursing care, intermediate care, and/or custodial care. You may need to enter a nursing home on a short-term basis (for example, after a major illness or injury), or on a long-term basis (if you become physically or mentally incapacitated and cannot care for yourself). Although you may prefer in-home care, you may need to enter a nursing home if you require round-the-clock care, especially if you don't have family to help you at home or if the services of an in-home caregiver are inadequate or unavailable.

How to choose a nursing home

Like many people, you may fear entering a nursing home because you have heard horror stories about the quality of care. However, there are good nursing homes as well as bad ones. Getting into a good nursing home takes a combination of research, forethought, and financial planning. Ideally, you should research nursing home care before an emergency arises because many homes have long waiting lists. The following sections explain what to consider when choosing a nursing home.

Quality of medical care

Since medical care is an integral part of nursing home care, you should find out what level of care the nursing home provides. For example, some homes provide mainly custodial care while others may provide skilled nursing care. Many nursing homes provide both. If you think you may need skilled nursing care in the future, don't choose a home that offers only custodial care because it might be difficult to find another good home later on. In addition, determine how often you will receive basic health care such as physicals. Can you see your own doctor or the staff physician? Will you have access to dentists, eye doctors, or other specialists? In a medical emergency, what procedure does the nursing home follow?

Cost of care

Nursing home care is generally very expensive, but you will pay less at some facilities than at others. If you are concerned about the cost of nursing home care (and you probably are), you should compare the cost of each facility you are considering with the quality of care you will receive there and the services you receive for your money. For example, some nursing homes charge extra for certain types of care (such as assistance with meals). In addition, if you plan on using Medicaid to pay for your nursing home care, make sure that the facility you select accepts Medicaid; not all nursing homes do. Many others restrict the number of Medicaid "beds" in the nursing home (some states, however, prohibit this). If you need only short-term skilled nursing care in a nursing home, your care may be covered by Medicare if the facility participates in Medicare and has a Medicare bed available. Other ways to pay for nursing home care include using private funds or benefits from a long-term care insurance policy.

Appearance of grounds and facilities

The nursing home facility should be clean and well maintained. One sign of a poor quality nursing home is a bad smell, indicating that the staff is too busy to help the residents to the bathroom or change their clothing. Although rooms and public areas are often not luxurious, they should be comfortable. Notice whether residents are allowed to decorate their rooms, and if private rooms are available. Outside, the grounds should be maintained neatly; if being outside is important to you, check the nursing home's policy regarding this. In addition, pay close attention to the dining room. You'll have to eat there; does it seem clean, and does the food seem appetizing?

Safety and security

When you visit a nursing home, ask when the facility was built, and when it was last updated. In general, the newer the building, the more fire-resistant it will be due to changes in building codes. Look for safety features. Resident rooms should have windows, and room doors should unlock from the inside and open onto wide hallways. Hallways should have handrails, and bathrooms should have grab bars and toilets that are accessible to residents in wheelchairs. In addition, ask what kind of precautions the nursing home takes to make sure that patients do not wander off, or that unauthorized individuals do not wander in.

Resident/staff ratio and interaction

Ask each nursing home you consider how many staff members are assigned to each unit per shift, and determine if the patient/staff ratio meets or exceeds state/federal requirements. In addition, ask how the nursing home is complying with other federal government regulations regarding staff training and resident care. Notice how staff members treat residents. Are they generally caring and concerned, or do they seem hurried and distracted? Are a lot of residents sitting around in common areas doing nothing, or are they involved in activities? Do residents appear well cared for?

Recreational opportunities

Consider whether the nursing home organizes trips or outside activities for its residents or provides in-house recreational activities. Do residents have the opportunity to exercise? Look around; does the environment seem stimulating or dull? Is the nursing home a place where you (no matter what your condition) will enjoy living?

Questions & Answers

Are private rooms available in nursing homes?

Private rooms are available at many nursing homes, but they cost extra. If you are paying for your own care, make sure that you find out how much more private rooms cost. If Medicaid will be paying for your nursing home care, however, you will not be entitled to a private room. When you choose a nursing home, find out whether private rooms are commonly available, and, just in case, ask about how the nursing home decides who will share a room. If you end up with a roommate and you are unhappy with him or her, will you be able to move to a different room? If the nursing home wants to transfer you to a different room or unit, what procedures will it follow?

Even seemingly good nursing homes have complaints lodged against them. Why?

Nursing homes are, for some people, difficult and lonely places to live, and complaints against even the good ones are common. So, how can you tell the difference between a complaint that is justified and one that is not? For one thing, ask the nursing home administrator to explain how the home resolves problems and resident complaints. Do many of the complaints center around one issue? If so, the nursing home may have a serious problem in this area. Trust your own instincts. Do the nursing home residents, in general, seem well cared for, or do you see signs that the home may be poorly managed or even abusive?

What's the best way to resolve a complaint with a nursing home?

You'll probably be satisfied with the nursing home you choose. However, if you do have complaints about the quality of care you receive or the environment, don't remain silent. You can talk to the nursing home administrator, or, if you prefer, to the nursing home's ombudsman, a trained volunteer who monitors nursing home care or other long-term care facilities. Each state also has at least one full-time state ombudsman, and some cities and counties have local ombudsmen. If you have a complaint about the quality of long-term care, you can contact the ombudsman through the nursing home or care facility, through the area agency on aging, (call the Eldercare Locator at (800) 677-1116 for help in locating your area agency on aging), or through your state's department of aging.

How can I pay for nursing home care?

Answer:

In general, there are three ways to pay for nursing home care. You can pay for it from your own savings, buy long-term care insurance, or use government benefits.

Relying on your savings is risky and works better as a short-term strategy. You may be able to pay for nursing home care out of pocket for a few months, but a few years of nursing home care could wipe you out financially. Before deciding that you can afford to pay for nursing home care from your savings, ask a financial professional to review your total financial picture.

If you have time to plan ahead, consider buying long-term care insurance. It's expensive, but the premium you pay depends on both your age when you buy the policy and the type of benefits you choose. In general, though, it won't cover the entire cost of nursing home care, because it pays a fixed dollar amount of benefits per day.

Finally, you may qualify for government assistance. If you have little income and few assets, Medicaid may pay for your nursing home care. However, Medicare covers only short-term stays in a nursing home for the purpose of rehabilitation after a period of hospitalization. If you are a veteran, you may be eligible for care in a VA facility, although veterans with service-connected disabilities are more likely to receive care, due to limited space.

How can I tell if a nursing home provides high-quality care?

Answer:

You may have heard horror stories about the quality of nursing home care. However, there are good nursing homes as well as bad ones. Here are some points to consider when evaluating nursing home care:

- The quality of health care: Make sure that the nursing home is certified by the state. Ask about the credentials and training of the staff, including doctors, nurses, and aides. Can residents see their own doctors, or must they see the staff physician? Do they have access to dentists, eye doctors, and other specialists? Does the facility have clear procedures that it follows in medical emergencies?
- The facility's appearance: The nursing home should be clean and well maintained. A bad smell may indicate the staff is too busy or uncaring to help residents to the bathroom or to change clothes. Rooms and public areas should be comfortable. The dining room and kitchen should be clean, and the food should be hot and appetizing.
- Safety and security: Ask when the facility was built and/or updated. In general, the newer the building, the more fire-resistant it will be due to changes in building codes. Look for safety features such as wide hallways, doors that unlock from the inside, handrails, and grab bars.
- Resident/staff ratio and interaction: Find out how the nursing home complies with state and federal government regulations such as patient/staff ratio and training. Notice how staff members treat residents. Do they generally seem caring? Distracted? Are a lot of residents sitting around in common areas doing nothing, or are there stimulating activities going on?

You can access a tool that can help you find and compare nursing homes at www.medicare.gov.

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