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Senior Living Community, Leaving an Inheritance: Is It an Either-Or?

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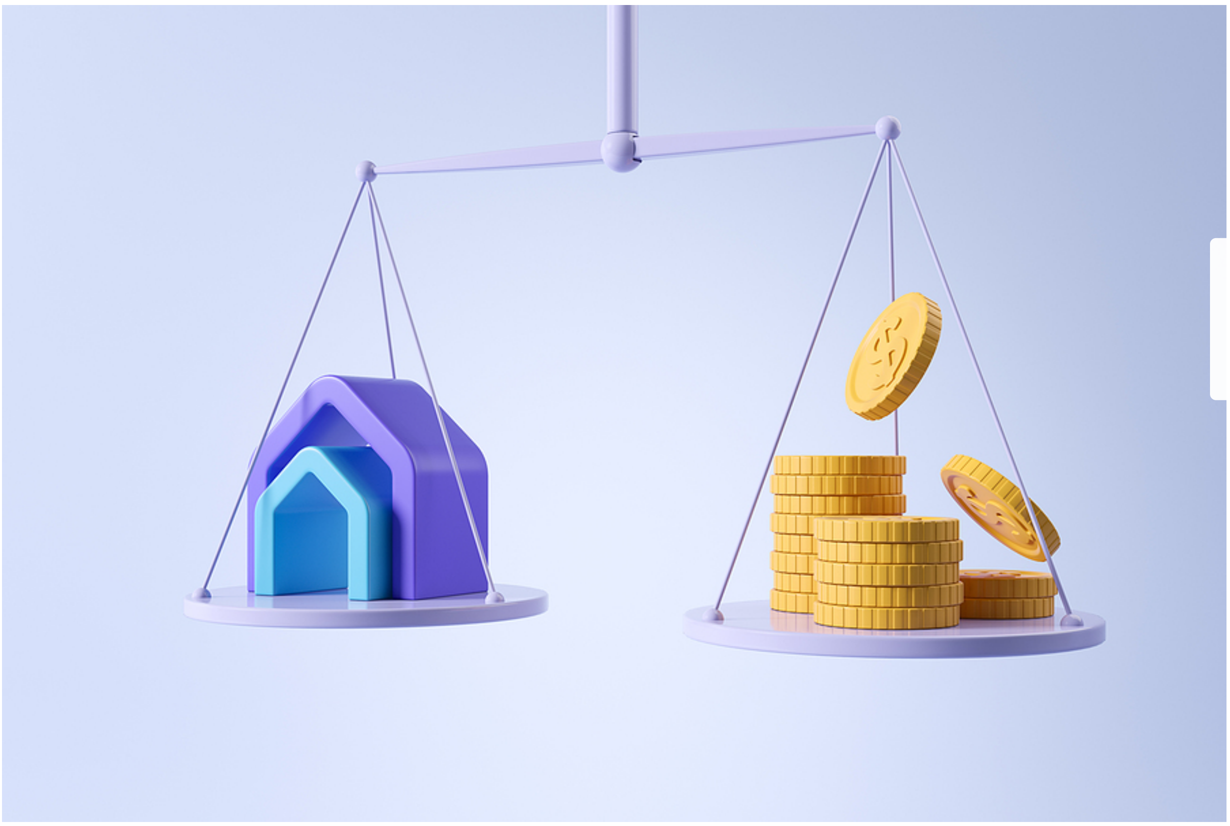

There was a great interview-article in Forbes last year entitled "Dilemma: Senior Living Facility or Kids' Inheritance?" In it, financial expert Larry Light interviewed Certified Financial Planner Rick Kahler about many seniors' desire to leave their adult children an inheritance.

The interview explored the common concern that opting to move to a senior living community might make an inheritance financially unfeasible, and it is for this reason that some seniors opt to remain in their existing home as they age.

But is this truly an either-or scenario in today's world? Does the decision to "age in place" ensure you will have enough savings remaining at the end of your life to leave a nest egg to your family? Not necessarily, cautions Kahler, since "choices that [aging] parents make can actually result in both failing to leave an inheritance and even costing [adult] children money."

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The high cost of a senior living community

In the Forbes interview, Kahler discusses an example of one senior living community in his own town: a continuing care retirement community (CCRC, or life plan community), which, by definition, offers a continuum of independent living, assisted living, and skilled nursing care. He explains the pricing structure, which includes a hefty entrance fee — $100,000 to $300,00, in his example, depending on the size of the unit the resident chooses — as well as a monthly service fee of between $1,500 and $3,500.

While this is just one example of a CCRC's costs, and those costs can vary depending on the CCRC's location, amenities, and contract-type, these are indeed big dollar figures by most people's standards. Kahler also notes that in this particular CCRC, the entrance fee is non-refundable (though this is not always the case, again, depending on the CCRC and the type of contract you choose).

"When the resident passes away, there is no equity to pass to heirs," Kahler explains of this particular non-refundable entrance fee community. "Basically, what a person is buying when they move into this facility is a form of long-term care insurance. The IRS allows around two-thirds of the upfront fee to be deducted from income as a health expense."

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Prioritizing leaving an inheritance

With these substantial costs in mind, Kahler says that he has some friends who have decided to forego moving to a senior living community because they want to be able to leave money to their children when they die. They have decided to downsize and build a smaller house instead of "losing" the non-refundable entrance fee at this particular CCRC. (Again, some CCRC contracts ***do*** provide for a full or partial refund of the entrance fee to your heirs.)

Of course, building this smaller home will cost Kahler's friends twice as much as that CCRC entrance fee, but the couple believes this approach will ensure their kids at least inherit the home's equity.

Or will they? The reality is that it depends on a lot of different factors, some of which are beyond the senior's control.

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A potentially expensive gamble

As Kahler goes on to explain in the Forbes article, the decision to remain in the existing home in hopes of leaving money to children is a gamble. Why? Because whether you decide to "age in place" or move to a senior living community, the fact remains that approximately 70 percent of people who turned 65 in 2020 will require some degree of long-term care services during their lifetime, per U.S. Department of Health and Human Services (DHHS) data. So, then the questions become:

- **Where** will you receive that care?
- **Who** will provide it?
- **How** will you pay for it?

The answers to these questions can vary widely, depending on a person's unique situation, both health-wise and money-wise. But each question basically has only a few potential answers:

- **Where?:** You can receive the care you need either in your current home, or you can move to an assisted living or skilled nursing community (also called a nursing home). However, it can be difficult to find a desirable care facility with vacancies in the event of an unplanned health event/crisis. And you must be able to pass a health examination and live independently in order to move into a CCRC, thus precluding this as a senior living option once care is needed.
- **Who?:** The care can be provided by unpaid family caregivers or by paid caregivers (or a combination of both), but finding a reputable in-home paid caregiver can be costly and difficult given our nation's caregiver shortage.
- **How?:** You can pay for these services with your savings, a long-term care insurance policy (which can be quite expensive), or by selling your home and using the equity (both of which eat into your ability to leave an inheritance) — or by relying on loved ones to provide the care free of charge to you. (***Note:*** Medicare does not cover the cost of most long-term care services.)

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Feedback

The cost to the unpaid caregiver

It is important to bear in mind, however, that unpaid care is far from "free." In fact, it can be incredibly costly for the caregiver, both in terms of their financial situation and their health.

A 2021 AARP study found that the typical annual amount that a family caregiver spends out of their own pocket on their care recipient is $7,242. That works out to 26 percent of the average caregiver's own income that is going toward caregiving-related expenses. Additionally, long-distance caregivers must add in travel-related expenses.

And these are just averages: The cost can be substantially more in some cases. A 2021 AARP article shared a real-world example of the expenses incurred by an unpaid family caregiver named Amy. In her particular case, her elderly father's monthly medical expenses alone topped $10,000. In addition to the 60 to 80 hours of unpaid care per week Amy was providing, the father required over $90,000 per year in-home paid care as well.

And then there is the physical and mental toll of unpaid caregiving, including impacts to career and home life. Based on [2020 research from AARP and the National Alliance for Caregiving (NAC):]

- 21 percent of unpaid family caregivers say they feel alone.
- 23 percent say caregiving has made their own health worse.
- 61 percent have experienced at least one work-related impact such as having to go in late or take time off to fulfill their caregiving duties.
- 10 percent of caregivers have had to give up their job altogether or retire early, leading to lost income, retirement savings, and Social Security savings.

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The gift of peace of mind

All of this brings us back to the Forbes article. While proactively moving to a senior living community, such as a CCRC, when a senior is still in relatively good health *can* be expensive, the alternatives can be equally — or even more — costly to them and potentially to their adult children should they be thrust into the role of unpaid caregiver in the event long-term care services are needed.

As Kahler explains, the decision to move to a community that provides a continuum of care services can alleviate the stress and potential costs of the future's unknowns. For a CCRC resident in independent living, "just one phone call when a health crisis hits would initiate increasing in-home nursing services or moving to assisted living or nursing care," says Kahler. He also notes other "intangible benefits" of senior living communities like companionship, opportunities to stay active, transportation assistance, and safety features.

In conclusion, Kahler astutely observes: "Many seniors might view moving to such a community as depriving their children of an inheritance. Yet, sometimes, it can turn out to be a way of taking care of themselves as well as their children's financial wellbeing." For some people, this gift of peace of mind is absolutely worth a CCRC's expense.