**Where to Find Money to Pay for Your Parents’ Care**

If a sizable nest egg and long-term-care insurance aren't in the cards, explore these ways to help pay for care.

*By Sandra Block*

Your parents fed you, clothed you and forgave you when you wrecked their car, so lending them a helping hand in their final years seems like the least you can do. But you also have your own retirement security to worry about—and maybe college bills for your kids, too.

If you're paying your parents' bills, don't overlook these sources of money and tax breaks.

**Medicaid.** Of all the things we do for our parents, moving them into a nursing home is probably the most heartbreaking. It's also the most expensive. Medicare provides only limited coverage for skilled nursing or rehabilitation services after a hospital stay. It doesn't cover custodial care, such as help with bathing, dressing and eating, which people with Alzheimer's and other debilitating illnesses need.

Even if your parents had the foresight to buy long-term-care insurance, it won't cover all of the costs. Policies typically have waiting periods of 90 days (sometimes more) and cap daily or monthly benefits. Some policies limit payouts to two or three years.

Medicaid covers custodial care in Medicaid-eligible long-term-care facilities. In some states, it will also cover home health care. The catch is that your parents must be practically impoverished to qualify. State laws differ, but in general, your parent can't have more than $2,000 in countable assets, including investments. A spouse who lives at home can usually keep up to $115,920, along with the home, car and assets in certain kinds of trusts (for more information about eligibility in your state, go to <http://www.medicaid.gov/>). If your parents want to preserve some assets by giving them to you or your siblings, they usually must do so more than five years before applying for Medicaid.

If your parents have a long-term-care insurance policy that qualifies for a state partnership program, they may be able to protect more of their assets. These programs, available in most states, are designed to encourage residents to buy long-term-care insurance. For example, if your mother has a partnership-eligible policy that covers a total of $200,000 in care, she can qualify for Medicaid after exhausting the policy's benefits but still keep $200,000 in assets. For more information, go to <http://www.longtermcare.gov/>.

**Help for veterans.** Is your parent a veteran who served in World War II, the Korean or Vietnam conflicts, or the Persian Gulf War? He or she may be eligible for a little-known U.S. Department of Veterans Affairs program known as the Aid and Attendance benefit. This benefit can provide up to about $2,000 a month toward the cost of home health care, a nursing home or assisted living. Spouses of veterans may also qualify. Veterans do not need to have a service-related injury.

The program is income-based. In general, an applicant must have less than $80,000 in assets, excluding a home and vehicle. Veterans with more assets may qualify if they have high unreimbursed medical costs, says Debbie Burak, founder of <http://www.veteranaid.org/>, a Web site that provides information about the program. Burak created the site after she learned that her parents would have been eligible for up to $160,000 for their assisted-living costs during the last nine years of their lives. Although the program has been around for more than 60 years, few people know about it, including most Veterans Affairs employees, Burak says.

If you believe your parents are eligible, be persistent. Only three VA processing centers handle A&A applications, Burak says, so it's important to mail your application to the right place (you can find those locations, and lots of other information, on Burak's Web site). Make sure you provide all of the required documents and obtain a return receipt for all correspondence, Burak says. The claims process can take several months, but if you're approved, benefits are retroactive to the day you filed.

**Cash from life insurance.** A whole-life insurance policy could provide funds for your parents' long-term care, especially if it has a sizable cash-value account. Your parents can always withdraw the basis—the amount in the cash-value account they paid in premiums—tax-free. Withdrawals that exceed that amount will be taxed at your parents' ordinary income tax rate, and their death benefit will be reduced by the amount they withdraw. Your parents could also borrow against the cash value. But if they don't pay back the loan, the interest plus the loan balance could exceed the cash value, and the policy could lapse.

Another option is to sell the policy to a life settlement company. These companies buy life insurance policies for cash, continue to pay the premiums and collect the death benefit when the insured individual dies. The settlement amount typically ranges from 12% to 25% of the death benefit, depending on the size of the premiums and the policyholder's life expectancy. A financial adviser with experience in insurance products can refer you to a life settlement broker. Contact your state insurance department to find out whether the broker is licensed, which is a requirement in most states, as well as whether the broker has a record of complaints.

**Tax breaks.** Depending on the amount of support you provide, you may be able to claim your parents as dependents on your tax return. Claiming Mom and Dad as dependents on a 2014 tax return will cut your taxable income by $7,900, saving you almost $2,000 if you're in the 25% tax bracket.

To qualify as a dependent, each parent's gross income must not exceed the personal exemption amount, which is $3,900 for 2013 ($3,950 for 2014). Social Security usually isn't included in gross income. However, even a modest pension or investment income could make your parents ineligible.

In addition, you must provide more than one-half of your parents' support during the year you claim them as dependents. Eligible expenses include food, clothing, lodging and medical costs. If your parents live with you, you can include the fair-market rental value of their lodging.

If your parents are eligible dependents, you may also be able to deduct their medical expenses on your tax return. To qualify for the medical-expense deduction, you must itemize, and your family's total medical expenses must exceed 10% of your adjusted gross income. Only expenses that exceed 10% of your AGI are deductible, unless you or your spouse is 65 or older. In that case, the cutoff is 7.5%. (Starting in 2017, the threshold will be 10% for all taxpayers.)

That's a high hurdle, but seniors' medical expenses, especially nursing-home bills, can add up quickly. Other deductible expenses include medical and prescription-drug costs not reimbursed by Medicare. Long-term-care insurance premiums are also deductible, up to set annual limits. For 2013, the deductible amount is $3,640 for policyholders between age 60 and 70, and $4,550 for those over 70.

Even if the income test prevents you from claiming your parents as dependents, you may qualify to deduct money you spend for their medical care—as long as you provide at least half of their support. Again, the deduction is limited to medical expenses that exceed 10% of your AGI (7.5% if you or your spouse is 65 or older). But if you're paying a parent's nursing-home bills, that threshold may be within reach.

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