

Planning for Alzheimer's

Dementia changes the math of long-term care dramatically—and unpredictably.

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Carolyn McClanahan, founder of Life Planning Partners

<http://wealthmanagement.com/retirement-planning/planning-alzheimer-s?page=1>

Carolyn McClanahan probably pays more attention to her clients' health than the typical financial planner. The founder of [Life Planning Partners](#) in Jacksonville, Fla., is also a physician with a background in family medicine; she spends a lot of time in conversations with clients about health and related financial issues.

One conversation she finds especially tough concerns planning for cognitive decline and Alzheimer's disease. "To me, the easy part is financial," she says. The broader conversation "needs to include financial planning, logistics and emotional issues."

Long-term care is a major wild card in any financial plan, but managing the risks associated with Alzheimer's is especially difficult.

Research by the [National Heart, Lung and Blood Institute](#) and [Boston University](#) shows that 65-year-old-women have a 20 percent chance of developing dementia, and a 17 percent change of Alzheimer's; for men, the corresponding figures are 17 percent and 9 percent.

For any client, the costs of long-term care can be high. The national median daily rate for a private nursing home was \$212 last year - a figure that has been rising at five-year annual growth rate of 4.19 percent, according to the [Genworth Cost-of-Care study](#). [Genworth data](#) suggests the average long-term care claim is about three years, during which time a room in a nursing home would cost an average \$260,000; in-home care by a home health aid would cost an average of \$136,000.

But the trajectory of Alzheimer's can change that math significantly - and unpredictably. "It can take a number of years to go from early to late - on average, people live from three to eight years with Alzheimer's," says Ruth Drew, director of family and information services at the Alzheimer's Association. "But it can go on for 15 to 20 years. The financial plan needs to be informed by the trajectory and what the needs will be along the way."

Advisers can play a valuable role assisting clients beyond the math. "Who will take over managing your affairs

when you get to a point when you can't take care of that yourself," says McClanahan. "What can I do as a planner if I see you starting to make bad financial decisions?"

RESOURCES

- The Alzheimer's Association has a page devoted to financial and legal aspects of [planning for Alzheimer's](#). The association also has a help line (800.272.3900) staffed with master's level caregivers and social workers who can provide guidance.
 - The Medicare Rights Center has extensive information on coverage rules and options at its [Medicare Interactive](#) website.
 - Genworth's annual [cost-of-care survey](#) provides detailed state-by-state breakouts of long-term care costs, including nursing homes, assisted living and home health care providers.
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Planners can serve as an early warning system for clients and their families, says Deborah L. Jacobs, author of [Estate Planning Smarts](#). "They can offer the perspective of someone outside the family, who maybe doesn't see mom as often as you do and can provide a reality check." But that role comes with privacy considerations. McClanahan asks her clients to sign letters authorizing them to work with their family members if cognitive decline starts to get in the way of an effective working relationship.

The key problem is that cognitive slippage can be gradual and inconsistent.

"A person might just need a little help today, but that is not where things will stay," says Drew. "It's important to understand what the early, middle and

late stages look like and what the trajectory can be.

The key documents on Jacobs' checklist are a durable power of attorney and a revocable living trust with a trusted person signing as co-trustee, usually a family member. "Some people can get away just with a durable power of attorney, but for most, it's best to have a living trust as well," she says. "If the client gets to a point where she feels she isn't able to handle her finances, the co-trustee can step in and manage those things."

In the case of an Alzheimer's diagnosis, it's important to talk with your client and make plans as early as possible, says Drew. "It's terribly important to ask the right questions while a person is in the early stage of the disease - that allows the person to have a voice in the plan, and express his or her wishes so that they can be carried out."

MANAGING THE COST

The uncertain duration of Alzheimer's adds complexity to the task of mitigating risk of needing long-term care. Wealthier families may be able to self-insure, although [experts say that you would need](#) about \$500,000 to \$750,000 to have a 95% assurance of having what you might need. Moreover, even if a client has set aside that amount, she may be reluctant to spend it on care.

Long-term care insurance policies are an option, but they must be purchased while clients are in good health. Prices for these policies have [continued to jump](#) at rates much higher than general inflation, and there is risk that premiums can increase following purchase.

Planners also can play an important role helping clients and their families

navigate key Medicare choices that can help keep costs down.

Medicare coverage of nursing home costs is limited to 100 days in a skilled nursing facility - and it must follow a three-day hospitalization. But other aspects of Medicare coverage are critically important for any major chronic disease, and Alzheimer's is no different.

A key decision is whether your client should use traditional Medicare or Medicare Advantage, the fast-growing managed care alternative to fee-for-service coverage. Traditional Medicare offers the greatest choice of providers, but beneficiaries pay 20 percent co-insurance charges, and often more for separate prescription drug coverage and out-of-pocket costs; many also add Medigap supplemental plans that plug the co-insurance gap and cap out-of-pocket expenses for hospitalization. Advantage plans roll all the parts of Medicare into a single offering, capping out-of-pocket expenses.

Advantage is bound by law to match the coverage of traditional Medicare, and it can be a viable option for a patient with Alzheimer's, says Frederic Riccardi, director of client services for the Medicare Rights Center, a nonprofit consumer and advocacy group. But it's important to scrutinize the plan's network. "If your preferred facilities and specialists are in the network, it can work," he says.

If Advantage doesn't suit your client's needs, [switching back to traditional Medicare](#) can be done during the annual enrollment period (October 15 to December 7) or during the annual special enrollment period. But you will

want your client to add a Medigap plan to protect against high out-of-pocket expenses—and there's the rub.

Medigap insurers are required to sell a policy with guaranteed issue, and at the best available price, during a six-month open enrollment period that begins the month a client turns 65 and enrolls in Medicare Part B. [Buying a Medigap policy](#) at a later point (and with a pre-existing condition like Alzheimer's) depends on state-level regulation. In some states, insurers don't have to sell to buyers with pre-existing conditions; in other cases, premiums will be much higher. Check with the agency in your state that regulates health insurance to determine the local rules.

Prescription drug coverage is another important area to monitor - whether it is offered through your client's Advantage coverage or as a standalone Part D plan. Alzheimer's medications can be expensive, so it's important to confirm that your client's drugs are covered and under what terms. A plan's drug coverage can change annually, so work with your client's family to [review plan coverage](#) during the annual enrollment period, and shop for new coverage if needed drugs no longer are covered - or if new medications on your client's list aren't covered.

Medicare may also pay for skilled care and physical therapy delivered in the home if your client is considered home-bound, and it also covers hospice care.