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CONSIDER A CCRC

by William Starnes, Hockessin, DE

Selecting where to live later in retirement is a big decision that involves one new major consideration: our health care. We are faced with tremendous uncertainty because we don't know how long we will live, how much care we will need, what type of care we will need, or how our medical decline will unfold. The big question is: Will we each make the last housing decision on our own and ahead of time, or will we have a non-choice thrust upon us when a health crisis hits?

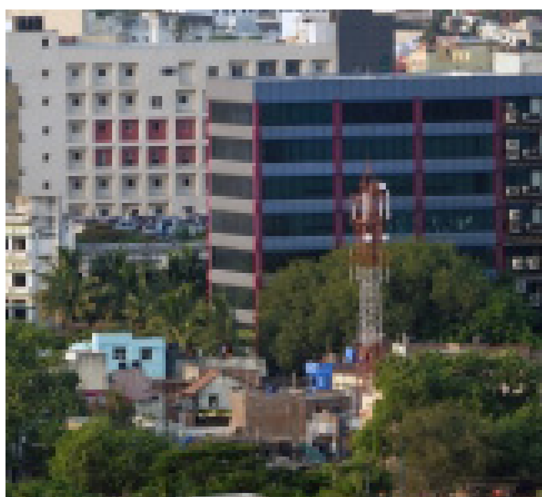

photo by Arvind Balaraman

There are a variety of long-term care options, and with all of them there are many uncertainties regarding the future cost, quality of care, ongoing changes, potential disruptions, trust issues, bill paying, Medicare, etc. These options include in-home care, living with relatives, assisted living facilities, nursing homes, or a Continuing Care Retirement Community (CCRC).

For example, if we elect to remain in our existing personal residence, this will eventually require the hiring of caregivers and/or nurses. While this is a good choice for some, it does create some complexities. The biggest concern is finding, retaining, and eventually replacing qualified help (of differing skills) with people you can trust—and doing so on an ongoing basis. This help may start out with meal delivery, move on to hiring a visiting certified nursing assistant, then to a day nurse, and finally to full round-the-clock coverage. This must all be managed and paid for, with someone also strongly advocating for the resident. In addition, the house must be kept up, and eventually a move to a nursing facility may be required. Finally, remaining at home can result in far less social support than some of the other options.

However, there is one option that does the best at minimizing these uncertainties and complexities, yet also maximizes a solid social support system. This is the "all-inclusive" Continuing Care Retirement Community (CCRC). These are also known as Life-Care Communities, Type A, or Extensive Life-Care Contracts.

Thinking about our eventual housing and medical care is particularly important today. With increased longevity, family dispersion, busy children, and a better, yet more unpredictable, health care environment, long-term care cannot be ignored.

What is a CCRC?

Think of a CCRC as a college campus for older folks! However, there is less emphasis on education (and beer) and more on medical care (and prescription drugs). The CCRC provides housing, health care, meals, and recreational/social activities under a contractual agreement. You are guaranteed access to a continuum of care and living arrangements—all on one "campus." Living arrangements include apartments or single-family homes for new and independent seniors, to assisted living and nursing facilities. Because CCRCs offer many services on the same campus, you receive the level of care you need while remaining in a familiar community near friends and family.

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THINGS I WISH I HAD SAID

by Mike Ryan, Hendersonville, TN

In 1980, I was a captain in Uncle Sam's Air Force stationed on a base near Columbus, MS. I was serving as an instructor pilot, and I had saved a little money. One of my good friends and fellow pilots had separated from service a few months earlier and had started working for J. C. Bradford, a regional brokerage firm. He was trying to make a living, so I invested in an oil and gas partnership J. C. Bradford was encouraging him to sell. It proved to be a very good tax deduction, but never actually produced much oil or gas. I eventually received one distribution check for about $30, and after the lawyers got through with it a few years later, I received a settlement check for $0.86. I kept the check. That remains the single worst investment I have ever made. Here are a few things I wished I had said before writing that check.

◆ **I don't really understand this investment.** Some investments and financial products are quite complex and opaque; thus we may feel uneducated and reluctant to admit that we simply do not understand how an investment works. In our desire to appear financially savvy, we may go ahead and write the check simply to avoid appearing ignorant. But most of the financial products that we need are fairly straight forward and easily understood. If you feel uncomfortable with a product you are being asked to buy, either ask a lot more questions or walk away. In 1980, I knew a good deal about flying airplanes, but almost nothing about how an "oil and gas partnership" worked or what would have to happen for me to realize a profit. I should have walked away.

◆ **What can go wrong with this investment? What is the downside?** In 1980, the memory of the oil embargo of the '70s was still very fresh, and everyone naturally assumed that oil prices would continue straight up. I assumed anyone with enough oil drilling equipment could punch enough holes in the West Texas landscape to make plenty of money for their "partners." I was wrong. Oil drillers could still hit plenty of dry holes, and the price of oil did not go straight up. Plenty of things could, and did, go wrong with this investment.

◆ **I don't really need this investment.** In 1980, I knew very little about the concepts of diversification or portfolio allocation. I did not realize at that point in my life that a good, inexpensive mutual fund would have given me the diversification and exposure to growth stocks that would have proven a far better investment than the one I chose. If I had simply invested that money in one of the large diversified oil companies and held on, I would have likely multiplied my money six or seven times by now.

◆ **I am going to think about this a little longer.** If you feel that nagging doubt about an investment you are considering, you should probably think about it a bit longer. You should probably do a bit of homework. It may be that the salesman needs to sell the investment more than you need to buy it. Don't ignore your "gut" feeling; at the same time, don't completely rely on it either. Do the research and then make an informed decision.

◆ **The fact that you are my good friend and fellow pilot does not obligate me to buy anything from you.** I remain good friends with the gentleman who sold this investment to me to this day. He is a fine person, and I cherish his friendship. He truly believed that this was a good investment. He was not trying to scam me. In fact, he lost money along with me. But the fact that he was my good friend probably influenced me more than it should have.

◆ **No.** That is what I should have said to this investment back then. Of course, other "oil and gas partnerships" proved profitable, but at that time I had neither the expertise nor the time to determine which ones were worthy of my money. This experience proved once again that hindsight is 20/20, but that lesson does not make the loss of that money any less annoying.

I learned a number of investing lessons from my oil and gas experience. One lesson I learned was that ultimately it is more satisfying to safely hit singles and doubles than to swing for the fences and miss. I learned that it is important to diversify; I learned to avoid complicated investments; and I learned that some investments are better left for others. I have been tempted by other speculative investments over the years, but while considering them, the memory of this bad investment always reappeared to give me pause. It may well be that this investment loss has proven to be a net positive for me. I have also learned that, though far from the most important thing, money matters.

THE HOME OFFICE DEDUCTION

by Robert Roy Reed, PhD, CFP®, Columbus, OH

What is a home office?

Your claim to the home office deduction depends on passing two tests. The first test requires that a home office is regularly and exclusively used for business. By *regularly* the IRS means that a home office must be used on a continuing basis, not incidentally or occasionally. By *exclusively* the IRS means the office in your home is used only for business. You cannot claim the dining room as a home office just because you regularly do your business accounts there. If the family TV is in your office, the area is not used exclusively for business and you get no deduction. (There are two exceptions to the exclusive use rule: home day care and areas used to store inventory. If either of these apply, consult a professional. The rules are strict and detailed.)

The second test refers to who uses the home office: a self-employed person or an employee. If you are self-employed, you must meet one of the following requirements:

1. You meet clients at your home office in the normal course of business.

2. If the area is a separate structure (a converted garage), you only need to use it "in connection" with your business (a much looser requirement).

3. You use this area as your principal place of business. The *principal place of business* requirement allows people who work outside their home to take the home office deduction if they use a home office for administration and management activities. For example, a plumber works in his clients' homes. He can still claim a home office deduction if he uses an area at home regularly and exclusively for business calls and paperwork, and if he does not have another fixed location where he does these same activities.

If you are an employee, you must meet one of the above requirements and have documentation that your home office is for the "convenience" of your employer. This documentation is a letter from your employer (on company letterhead) stating that "due to the duties of your position and for our convenience, we request that you maintain an office in your home, for which we are unable to provide reimbursement." I suggest you still run it by a tax advisor to be sure.

How much is the deduction?

First, you must determine how much of your home is used as an office. Then you calculate the cost of maintaining that area. That is your deduction.

The IRS form says you measure the square footage of your house (not including hallways, closets, bathrooms, and unfinished basements) and the square footage of your office. Then divide the office footage by the home footage. This gives you the percentage of your home used for business. You are not limited to this method, however. The IRS instructions say you can use "any other reasonable method if it accurately figures your business percentage." For example, if the rooms in your home are fairly equal, you can divide your office (1) by the total rooms in your home (6, for example). This would give you a business percentage of 16.7%. Remember, though, you must be reasonable.

The IRS distinguishes between direct and indirect maintenance costs. Direct costs are expenses you can trace directly and exclusively to your home office (e.g., the cost of painting your office). Indirect costs are expenses paid for your entire home, but also apply to your office (utilities or mortgage payments). Since indirect expenses are not exclusive to your home office, you apply the percentage you figured above.

Example: Say your home office is 130 square feet and your house is 1,000 square feet (including office). The office is 13% of your home. If it cost you $50 to paint your office, mortgage interest is $8,100, and utilities $2,400, then your home office deduction would be:

$ 1,365	Indirect expenses (8,100 + 2,400 = 10,500 x 0.13 = 1,365)
$ 50	Direct expenses (cost of painting the office)
$ 1,410	Maximum home office deduction

Note the word 'maximum' above. You cannot use a home office deduction to create a business loss, but you can reduce your taxable business profit by $1,410. If you are in a 25% tax bracket, then your home office just saved you $352.50 in taxes.

The new (Lazy) method

For many people, the problem with taking the home office deduction is tracking every expense. Direct costs are easy, but tracking indirect costs can get involved. Some indirect costs are obvious (rent/mortgage, utilities, insurance), but what about your bundled cable bill? What if the bundle includes your internet (which you use for business)? Many people just throw up their hands and forget it.

Starting in 2013 the IRS allows a new way to calculate your deduction. The math is simple: Multiply your office area by $5. That is it. The person above with the 130 square foot office would receive a $450 deduction. That looks a lot less generous but some of that 'lost' deduction you can take other places on your tax return (e.g., mortgage interest and property taxes can be deducted on a Schedule A).

And if you weren't taking the deduction before because it was just too much trouble, well now it isn't: measure the room, multiple by five, and that $450 deduction saves you $112.50 in taxes. Less than the traditional method, but more than you were saving before (which was zero!). There are some strings attached (e.g., $1,500 maximum deduction) so it makes sense to visit the IRS website and search "home office" or download a free copy of IRS Publication 587 *Business Use of Your Home.*

CONSIDER A CCRC . . . (continued from page 1)

All inclusive CCRCs promise to provide whatever care you may require in a setting appropriate for that level of care. You don't have to worry about what comes next. You don't need a close family advocate. Couples have the comfort of living "together" even as one spouse needs more care than the other.

Most of the all-inclusive CCRCs are nonprofits (82%), and many (50%) are faith-based with a benevolence clause. This means that even if you run out of money, they will still take care of you. Most new residents are age 75-80 and are of middle- to upper-income levels.

In Delaware and Pennsylvania, a few all-inclusive CCRCs include Cokesbury Village (Hockessin), Kendal-Crosslands (Chadds Ford), and Country House (Wilmington).

The social support that is available at a CCRC cannot be emphasized enough. By moving into a CCRC where you find a good social "fit," and while you are still physically active (say age 75-80), you will develop a strong social support that will provide emotional support when you need it most (i.e., visits when you are sick).

How much does this cost?

An all-inclusive CCRC is an insurance product where you are paying for guaranteed, unlimited, as-needed medical care (whether you end up using it or not). While not cheap, they are certainly affordable (for our typical client). Fees, which may be partially or wholly deductible, comprise an upfront entrance fee and an ongoing monthly fee.

Entrance fees run from $100,000-$500,000 depending on the type of initial housing unit desired and if an entrance fee refund option is selected. Most retirees have a home that is paid off, and therefore upon a sale, have the funds to pay this type of entrance fee. Residents don't own their housing unit, but instead have the right to live in the community for the rest of their lives. Monthly fees range from $2,000-$7,000, also depending on the housing being used. The fees remain the same (although they are generally adjusted for inflation) regardless of the level of care needed. They also may cover (depending on the community) dining, social, laundry, fitness/recreational facilities, transportation, housekeeping, and utilities.

When should you consider a move?

Most of us think of ourselves as about fifteen years younger than we actually are! Therefore, it is easy to put off a move to a CCRC until it is too late. You will not be eligible for entry if you (or BOTH of you) can't live independently, or can't pass a mental competency test. The other strong reason to go in early are the benefits of making new friendships early on, and for the rest of your life. Finally, some CCRCs have waiting lists that can be years.

Conclusion

With a CCRC, your costs are quite predictable. You know where you are going, you know what you are getting, and your community remains with you regardless of your health or financial situation. There is peace of mind, certainty, and support in selecting an all-inclusive CCRC.

Quotable Quotes

"We have two classes of economic forecasters:
those who don't know and those who don't know they don't know."
John Kenneth Galbraith

"Live in such a way that you would not be ashamed
to sell your parrot to the town gossip."
Will Rogers