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American Institute of Certified Public Accountants. ElderCare Services Task Force

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ASSURANCE SERVICES ALERTS

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

CPA ElderCare Services—1999

Notice To Readers

This Assurance Services Alert is intended to provide practitioners with an overview of developments in the emerging practice area of ElderCare Services. This document has been prepared by the AICPA staff. It has not been approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA.

Robert Durak
Technical Manager
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The staff of the AICPA is grateful to the members of the Assurance Services Team, especially Ann Elizabeth Sammon, and the ElderCare Services Task Force for their contributions to this document. Task Force members are Louise Anderson, Karen Stevenson Brown, Robert L. Burton, Michael Epp, Mitchell Freedman, W. (Bill) A. M. Hyde, George A. Lewis (Chair), Kelly G. Lohn, Jay H. Kaplan, Armand Ostroff, Paul Pethick, and JoAnne Rowning.

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About This Alert

This Alert serves as an introduction to those who are unfamiliar with CPA ElderCare Services, as well as an important information source for those who have expanded their practices to include ElderCare engagements. Since the AICPA's Special Committee on Assurance Services (SCAS) identified ElderCare Services as an assurance service that could be provided by CPAs, a significant level of interest has developed in this emerging practice area. To address this interest, the Accounting and Auditing Publications Team is introducing this Assurance Services Alert on CPA ElderCare Services.

ElderCare services offer great potential for practitioners by building on the CPA's reputation for independence, objectivity, and integrity. CPAs can offer a valuable service to the elderly, their children, and other concerned relatives, by providing assurance that care goals are achieved for those who are no longer able to be totally independent. The CPA, tapping into the expertise of other professionals, serves as the coordinator and assurer of service quality based on criteria and goals set by the client. The information provided in this Alert will assist you in ensuring your long-term professional growth by tapping into the full potential of the ElderCare engagement.

ElderCare in Demand

What are CPA ElderCare Services? Why should you offer this service?

A Big and Burgeoning Market for CPAs

The U.S. Census Bureau estimates that by the year 2000, 16.6 million people in the country will be seventy-five years of age or older. People age sixty-five and over are estimated to control between $11 trillion and $13 trillion of wealth. The percentage of

these people living by themselves is increasing steadily—and they need a wide variety of assistance to help them live decent lives. Given the aging population and the amount of wealth concentrated among the elderly, a significant demand for a reasonably priced, independent, and objective elder care assurance service will exist. The annual market for ElderCare Services is estimated to range from $2 billion to $7 billion! Practitioners' average fees are estimated to range from $300 to $1,500 per month, per client, depending on the level of service provided.

This expanding elder segment of our population requires care and assistance in living in their own homes or in institutional care homes. Less of that care and assistance is being provided by the younger generation due to various reasons, including time constraints and geographic distances between grown children and their parents or older relatives. In addition, governmental agencies cannot provide the care and assistance needed by elderly people, as it is not the role of government to fulfill those responsibilities.

As a CPA, you are ideally suited to provide ElderCare Services, and in fact some CPAs are already providing some part of this service. Your training to bring independence and objectivity to problems is a tremendous asset.

Competition

Yes, competition for providing ElderCare Services does exist, but the traditional service providers—home health care agencies, welfare agencies, geriatric specialists, trust officers, lawyers, and others—have not demonstrated the ability or willingness to become the focal point of coordination and assurance of ElderCare service quality.

Expanding Assurance Engagements

The AICPA's Special Committee on Assurance Services, whose charge was to assess the economics of auditing and its likely future, concluded that financial statement auditing is no longer a growth industry. This committee suggested that a wider variety of assurance engagements could be offered by CPAs to the public. These assurance services are defined as independent professional services

that improve the quality of information or its context for decision makers. The information can be financial, nonfinancial, historical, or prospective. Among the assurance services suggested by the special committee is CPA ElderCare Services.

Defining CPA ElderCare Services

> ...A service designed to provide assurance to family members that care goals are achieved for elderly family members no longer able to be totally independent. The service will rely on the expertise of other professionals, with the CPA serving as the coordinator and assurer of quality of services based on criteria and goals set by the client. The purpose of the service is to provide assurance in a professional, independent, and objective manner to third parties (children, family members or other concerned parties) that the needs of the elderly person to whom they are attached are being met.
>
> *—from the AICPA Special Committee on Assurance Services Report*

The Specifics

So what exactly do CPA ElderCare Services consist of?

ElderCare services can involve three kinds of services: direct services, assurance services, and consulting services. Direct services entail the more traditional aspects of accounting and financial services. Assurance services involve the measuring and reporting on prescribed goals against stated criteria. Consulting services include planning and evaluation of client needs.

Listed below are some of the potential services under each of the three categories.

Direct Services

Financial services can include the following:

- Receive, deposit, and account for client receipts
- Ensure expected revenues are received
- Make appropriate disbursements

- Submit claims to insurance companies
- Confirm accuracy of provider bills and appropriate reimbursements
- Protect elderly from predators by controlling checkbook and other assets
- Income tax planning and preparation
- Gift tax return preparation
- Preparation of employment tax returns for caregivers and household help

Nonfinancial services can include the following:

- Help arrange for transportation, housekeeping, and other services
- Manage real estate and other property
- Visit and report on elderly on behalf of children in distant locations

Assurance Services

Financial services can include the following:

- Review and report on financial transactions
- Test for asserters' adherence to established criteria
- Review investments and trust activity
- Audit third party calculations, such as pension, insurance, and annuity payments
- Review reports from fiduciaries

Nonfinancial services can include the following:

- Measure and report on care provider performance against established goals
- Evaluate and report on the performance of other outside parties, such as contractors

Consulting Services

ElderCare planning can include the following:

- Plan for housing and support service needs
- Plan for declining competency
- Plan for death or disability of one or both spouses
- Evaluate alternative costs of retirement communities and other housing
- Evaluate housing and care alternatives
- Provide inventory of services available in the community
- Estate planning

Planning for fiduciary needs can include the following:

- Financial power of attorney
- Healthcare power of attorney
- Guardianship
- Trusteeship
- Living wills
- Advanced medical directives

Evaluation of financing options can include the following:

- Medicare and Medicaid
- Long-term care insurance
- Medigap insurance
- HMOs
- Annuities
- Viatical insurance settlements
- Reverse mortgages
- Sale or leaseback of home

- Flexible spending accounts

Family facilitation can include the following:

- Mediate or arbitrate family disputes
- Provide objectivity for highly emotional issues
- Act as intermediary between parent and child

Coordination of support and healthcare services can include the following:

- "Quarterback" team of healthcare, legal, and other professionals
- Other consulting services can include the following:
  - Help family monitor care
  - Establish standards of care expected
  - Communicate expectations to care providers
  - Establish performance measurement systems

Needing CPA ElderCare Services: A CPA's Initial Involvement

Now that we have defined what CPA ElderCare Services are, let's look at a brief illustration of how people come to identify a need for ElderCare Services and what steps a CPA would perform when initially engaged to render such services.

> John, an only child, traveled to Eldorado, Texas from Red River, New Mexico to visit his eighty-two-year-old father, Tom, for a week. Tom lived alone in the family home since his wife's death two years earlier. John last visited his father six months earlier, although he and his father spoke weekly on the telephone.
>
> As John arrived at his father's house, he noticed the grass had not been cut or watered for some time, and his father's car, usually parked in the garage, sat in the driveway with a flat tire.
>
> Tom was happy to see his son, and appeared alert to John. After conversing for a few minutes, John walked into the kitchen to brew some tea. The sight of dirty dishes everywhere troubled him.

He then surveyed the refrigerator and cupboards, finding a few canned goods. John wondered if his father was eating properly.

After making the tea, John began to realize that his father, although alert at times, often stopped talking and stared at the floor. Tom said he was tired and couldn't always cope with his daily chores, often putting them off until tomorrow—but tomorrow never seemed to come.

John repaired the flat tire, cleaned the house, and stocked the cabinets and refrigerator with groceries. He also read the mail that had been accumulating for some time, deposited his father's checks, and paid his father's bills (having his father sign the checks). At the end of the day, John retired fatigued and worried.

He did not know what to do or where to find help. John then remembered that his accountant in Red River had told him about the new ElderCare Services that CPAs were offering to elderly persons and their families. John called his accountant, who provided him with the name of a CPA firm in Eldorado offering CPA ElderCare Services.

John and his father, Tom, met with a CPA from the Eldorado firm at Tom's home. After a long talk, it was apparent that Tom was of sound mind, but was too tired to perform many everyday tasks. The CPA asked Tom and his father some questions, noted the problems in the house, and reviewed Tom's finances and will. She also learned that no power of attorney existed.

The CPA, in touch with a large database of caregivers in the area, arranged for Tom to meet with a geriatric care manager for an assessment, a doctor for a full physical examination, and a lawyer to review Tom's will and to prepare powers of attorney for medical and property related decisions. John and Tom agreed that Tom would obtain power of attorney. An engagement letter, outlining the services to be provided as part of the engagement and the various parties' responsibilities, was signed by John and Tom.

By week's end, the CPA arranged for regular visits by a geriatric care manager, housekeeping services, Meals-on-Wheels, and house maintenance services. A regular taxi service was also arranged for Tom, since he no longer wanted to drive but did need to get out once in a while.

The CPA was granted responsibility to handle financial matters and coordinate other services. She would report to John on a regular basis. John traveled back to Red River the next day, comforted by the fact that his father was being well cared for.

Skills and Knowledge You Will Need

Some of the skills and knowledge required to deliver this service are already part of the CPA's overall business knowledge and training—matters involving financial transactions, measurement, and reporting. However, you will need to develop skills that help you understand the needs, demands, and limitations of the elderly, particularly changes in mental attitudes and physical capabilities. Such skills can be acquired from continuing professional education (CPE) courses and seminars, and specialized college courses. See the "Training Courses" section of this Alert for CPE courses available to practitioners.

Before developing your CPA ElderCare Services practice, you should have a basic understanding of aging and old age. In addition, practitioners advising elderly clients and their families should familiarize themselves with the following areas.

Aging and the Aging Network

You should have extensive knowledge of the aging organizations, agencies, programs, service availabilities, and trends in your own community, as well as where individuals can seek other information or assistance. The success of your ElderCare practice depends, among other things, on your ability to access information, services, and resources for elderly clients. You should have ready access to information about potential care team members in your area, including elder law attorneys, geriatric care managers, and other professionals who are part of the aging network.

Medicare

You should have adequate, current knowledge of how Medicare operates, what is covered in its various component parts, how appeals are handled, and anticipated program changes.

Medicaid

Knowledge of how Medicaid operates, individual states' eligibility criteria for Medicaid health care coverage, community-based long-term care and nursing home coverage, and possible criminal penalties for abusive Medicaid planning activities will be important.

Social Security

You should have a working knowledge of qualifications and requirements for the Social Security program, and Social Security disability benefits.

Other Public Programs and Benefits

An ElderCare CPA should have a working knowledge of appropriate federal, state, and community programs and services available to elderly individuals, eligibility criteria, and application procedures.

Legal Issues

Knowledge of gift and estate tax laws to facilitate appropriate planning activities will be an important skill to possess. You should also have adequate knowledge of powers of attorney, living wills, the health care power of attorney, and other advance directives. In addition, you should have a working knowledge of the laws and implications of appointment and regulation of guardians and conservators.

Nursing Homes

The ElderCare CPA should have a general knowledge of the federal and state laws that regulate nursing homes and other care facilities. In addition, you will want to become well versed in the laws and policies related to admissions, discharge, quality of care, required services, documentation, and ombudsmen programs in your particular state.

Additional Areas

The CPA providing ElderCare Services should acquire additional knowledge of retirement plans and taxation, Social Security benefit taxation, and income taxation of estates and trusts. Also, as you join the increasing number of professionals who serve elderly indi-

viduals, you must develop an understanding of elder abuse, particularly as it relates to financial exploitation. The AICPA's ElderCare Services Task Force is in the process of developing a body of knowledge, competency model, and self-assessment tool to help practitioners identify ElderCare training needs.

Achieving Success

A successful ElderCare engagement depends on four key factors:

1. The development of an appropriate care plan that addresses the level of care or services required
2. An inventory of local organizations from which the care or services will be provided
3. An understanding among members of the care team about who will provide the care or services
4. What resources are available to pay for the needed care and services

ElderCare Services challenge you to consider not only the elderly individual's financial needs, but, with the help of other specialized professionals, also his or her physical, psychosocial, and environmental needs and the needs and expectations of the individual's family. Providing CPA ElderCare Services broadens your abilities and offers you the opportunity to become an integral part of America's professional aging network and to develop associations with other disciplines, such as medicine, law, social work, and human services.

Demographics—Essential for a Profitable Future

What do current population studies indicate about the future for CPA ElderCare Services?

We Must Envision the Future

CPAs considering performing ElderCare engagements must have a vision of what future markets will look like and what the implications are for the type of services they provide. Advisors to many sophisticated entrepreneurs are often confounded by the lack of

consideration those entrepreneurs give to what markets will look like some years into the future—some businesspeople are even reluctant to commit to a sales forecast for the subsequent twelve months. It's like getting into a car to travel to an unknown distant location without the use of a roadmap. We must plan for the future if we are to be successful, and anyone involved in planning for the future needs to understand demographics.

Demography and the Age Variable

Demography is the study of human populations. It can reveal much about which services or products will be in demand in the near future. Businesspeople who fail to pay attention to demographics, may find that five years hence, they are in a very different business than they thought, meandering through an unfamiliar wilderness.

When it comes to predicting behavior, the most powerful demographic variable is the age composition of a population.

> For example, what is the market for equity mutual funds—teenage girls or middle-aged couples? Because age is so powerful a predictor of human behavior, the answer to this question is obvious.

If you know how many people of each age are around today, you can make reliable forecasts about how these people will behave tomorrow. The most basic demographic fact is...every year each person gets one year older.

A Graying Nation

North American demographics are unique. The population profile of this region contains a massive bulge representing the huge generation of "baby boomers," those born between 1947 and 1964. By comparison, the Depression and World War II generations that preceded the boomers are small, as is the "baby bust" that followed it. The most recently arrived group, consisting of boomer offspring, is comparatively large.

The population of the world is undergoing a historic change. The older population is growing at a dramatic rate and the balance of the world's young and old is shifting.

Demographic Facts and Future Markets

What does all of this mean in terms of future markets for CPA services? What will the future hold for a profession offering personal services? In North America—

- The percentage of people aged sixty-five and over will increase from 13 percent in 1996 to 20 percent in 2050.
- The majority of the elderly will be women, many of whom will be living alone.
- It has been estimated that between $11 trillion and $13 trillion is controlled by those sixty-five and over.
- There has been a massive shift from small communities to urban centers as children leave to establish careers; in 1995, 43 percent of the elderly lived more than sixty miles away from their nearest child.
- Many children of the elderly are in family situations where both spouses work and time is at a premium.

Markets in general, and those for professional services in particular, will undergo a substantial change over the next twenty-five years. Demographics are essential to charting a map to the future. Those who use them to blaze the trail will profit enormously; those who do not will become hopelessly lost.

Executive Summary—ElderCare in Demand

- CPA ElderCare Services is a service designed to provide assurance to family members that care goals are achieved for elderly family members no longer able to be totally independent.
- The service will rely on the expertise of other professionals, with the CPA serving as the coordinator and assurer of quality of services based on criteria and goals set by the client.
- CPAs are ideally suited to provide ElderCare Services, given their training to bring independence and objectivity to an engagement.
- CPA ElderCare Services can involve three kinds of services: direct services, assurance services, and consulting services.

- ElderCare practitioners should familiarize themselves with the aging network in their communities, Medicare, Medicaid, Social Security, legal issues such as gift and estate tax laws, nursing homes, elder abuse, retirement plans, and other public programs and benefits.

Feature Stories

Paying for a Nursing Home

How can the costs of long-term care be financed?

Because nursing home care is expensive (approximately $200 per day in many parts of the country) financing the cost of long-term care is a major concern of the elderly and their families. There are several ways that nursing home care can be financed, including—

- *Personal resources.* About half of all nursing home residents pay for long-term care costs out-of-pocket. As personal resources are spent, many people who remain in nursing homes for long periods of time eventually become eligible for Medicaid.
- *Long-term care insurance.* This is private insurance designed to cover long-term care costs.
- *Medicare.* Under certain conditions, Medicare pays some nursing home costs for those requiring skilled nursing or rehabilitation services. The individual must receive services from a Medicare-certified facility after a qualified hospital stay.
- *Medicaid.* Medicaid is a federal program administered by the states that pays most nursing home costs for people with limited income and assets. Eligibility varies from state to state. Medicaid pays only for nursing home care provided in Medicaid-certified facilities.

If your elderly client lives in a skilled facility, and has been paying the costs of long-term care out-of-pocket, what happens when his or her assets begin to dwindle? What are the alternatives? One would be to let family members pay the bill for the long-term care expenses. Another alternative would be to rely on Medicaid.

The process of changing from self-pay to Medicaid is called "Medicaid conversion."

If you want to protect your elderly client in the case of an eventual conversion to Medicaid, suggest that the nursing home that he or she selects is Medicaid-certified. If it is and if a Medicaid bed is available at the time of conversion, the elderly client should be able to remain in that facility. If a Medicaid bed is not available at the facility, or if the nursing home is not Medicaid-certified, your elderly client may not be able to remain in the same facility. Because Medicaid beds are hard to secure in many locations, the elderly person may be required to take the first bed available within a specific area (for example, within a fifty-mile radius of his or her home). Choices among nursing homes may become very limited, and available choices may only include nursing homes with inconvenient locations that are not the elderly person's or family's facility of choice.

Medicaid provides services for more than 10 million elderly persons and disabled individuals and pays for approximately 50 percent of all nursing care costs in America. Every state's Medicaid program is different and every state issues its own regulations. This makes it crucial that you understand the basics of the Medicaid program in your state. The choice of available nursing homes will often depend on whether your elderly client has long-term coverage, qualifies for Medicaid, or will pay out-of-pocket.

Spousal Impoverishment and Estate Recovery

The Medicaid program is designed so that one spouse does not need to become impoverished to pay for the other spouse's nursing home care. You should understand the spousal impoverishment provisions Congress enacted to ensure that spouses of people who enter nursing homes are not left in poverty. You should also understand your state's community resource allowance and minimum monthly maintenance allowance rules.

The 1993 Omnibus Budget Recovery Act (OBRA) requires every state to seek adjustment or recovery of amounts correctly paid by the state for certain Medicaid recipients. The state, at a minimum,

must seek recovery for services provided to a person in a nursing facility, intermediate care facility, or other medical institution. These estate recovery procedures are initiated only after the deaths of both the Medicaid beneficiary and spouse. The only exception is for states to waive recovery when an undue hardship would occur.

Chapter 3 of the AICPA's Practice Aid *CPA ElderCare: A Practitioner's Resource Guide* provides more detailed information on spousal impoverishment and estate recovery provisions.

Executive Summary—Paying for a Nursing Home

- Financing the cost of long-term care is a major concern of the elderly and their families.
- Nursing home costs can be financed through personal resources, long-term care insurance, Medicare, and Medicaid.
- It is difficult to secure Medicaid beds in many nursing homes, and choices are limited.
- Get to know the basics of the Medicaid program in your state and the spousal impoverishment provisions enacted by Congress to ensure that spouses of people who enter nursing homes are not left in poverty.
- Every state is required by law to seek adjustment or recovery of amounts correctly paid by the state for certain Medicaid recipients.

Geriatric Care Managers

What is a geriatric care manager?

CPA ElderCare Services rely on the expertise of other professionals, in addition to the expertise of the CPA. The private geriatric care manager (GCM) is one professional with whom you may have substantial interaction.

The GCM is a professional who is trained and experienced in the assessment, monitoring, and direct delivery of services to the elderly and their families. A GCM has attained, at a minimum, a bachelor's degree in the field of human services (for example, social work, psychology, gerontology, and nursing). Services provided by the private GCM might include some or all of the following:

- Assessment
- Counseling
- Home care assessment
- Home care implementation
- Home care monitoring
- Crisis intervention
- Placement
- Care management
- Entitlements
- Advocacy
- Psychotherapy
- Education
- Consultation
- Information and referral
- Conservatorship (guardianship assistance)

Normally, the private geriatric care manager receives referrals from families, attorneys, hospitals, physicians, trust departments of banks, community agencies, employee assistance programs, and the general public.

GCMs can affiliate with the professional organization for GCMs, known as the National Association of Professional GCMs (the Association). The Association was established in October 1986 and requires GCMs to comply with certain membership requirements. The Association consists of individual persons who fulfill the membership requirements and are current in their membership dues. All members must comply with all relevant state and professional licensing and certification guidelines.

Membership in the Association is granted as follows:

Associate—Baccalaureate degree in nursing, gerontology, psychology, social work, health and human services, or other related field of human service delivery; primarily engaged in direct practice, administration, or supervision of client-centered services to the elderly and their families; at least two years of supervised experience in gerontology.

Professional—Masters or doctorate degree in same disciplines as listed above.

Advanced Professional—Same as Professional, plus at least two years of supervised experience in gerontology.

Fellow—Same as Advanced Professional, plus credentialed as a certified GCM through a GCM board-approved program, has documented evidence of professional leadership, and has completed peer review process through the Association.

Affiliate—Does not meet any of the criteria listed above, but has an interest in gerontology.

The Association provides the following benefits to its membership:

- Professional development
- Legislation (support for GCM issues)
- Marketing and public relations
- Membership directory
- Regional and local chapters
- National conference (annually)
- GCM publications (*Inside GCM* and the *GCM Journal*)
- Information service
- Certification

The Association has established the following standards of practice for professional GCMs. GCMs should—

- Consider the elderly person as the primary client and all others affected by his or her care needs are to be considered part of the "client system."
- Foster self-determination in the elderly person.
- Respect the elderly person's right to privacy.
- Clearly define the GCM's role.
- Provide quality care using a flexible care plan.
- Ensure integrity of GCM and the client system.
- Discuss fees prior to initiation of service.
- Advertise in accordance with guidelines of professional management services.
- Avoid conflict-of-interest situations.
- Be familiar with laws relating to employment practices.
- Fully disclose relevant business, professional, or personal relationships.
- Participate in continuing education programs.
- Not exploit professional relationships with clients and families for personal gain.

Executive Summary—Geriatric Care Managers

- The geriatric care manager (GCM) is a professional who is trained and experienced in the assessment, monitoring, and direct delivery of services to the elderly and their families.
- GCM services include home care assessment, care management, psychotherapy, and conservatorship.
- The National Association of Professional GCMs is the professional organization for GCMs and establishes membership requirements and standards for practice. Asking about a GCM's membership level is a good way to determine his or her level of training and experience, since GCMs are not regulated.

Medicaid Estate Recovery Provisions

What are the implications of federal Medicaid regulations that require the recovery of certain benefits from a recipient's estate?

Under federal Medicaid regulations, a state must seek repayment from the recipient's estate of certain benefits received. Each state sets its own policies but be aware that a state can place a lien on a recipient's house if the recipient receives Medicaid benefits. The lien may be placed on the home while the recipient is in a nursing facility, but it would not be exercised until the recipient's death.

Beneficiaries are notified of the Medicaid estate recovery program during their initial application for Medicaid eligibility and annual redetermination process. Individuals in medical facilities (who do not return home) are sent a notice of action by their county Department of Social Services informing them of any intent to place a lien or claim on their real property. The notice also informs them of their appeal rights. Estate recovery procedures are initiated after the beneficiary's death.

OBRA defines estate and requires each state to seek adjustment or recovery of amounts correctly paid by the state for certain Medicaid beneficiaries.

> For individuals age fifty-five or older, states are required to seek recovery of payments from the individual's estate for nursing facility services, home and community-based services, and related hospital and prescription drug services. States have the option of recovering payments for all other Medicaid services provided to these individuals.

You should also know that states that had state plans approved after May 14, 1993, that disregarded assets or resources of persons with long-term care insurance policies must recover all Medicaid costs for nursing facility and other long-term care services from the estates of persons who had such policies.

California, Connecticut, Indiana, Iowa, and New York had state plans approved as of May 14, 1993, and therefore are exempt from

seeking adjustment or recovery from estates of individuals who had long-term care insurance policies. For all other individuals, these states are required to comply with the estate recovery provisions as specified above.

All states are required to establish procedures for waiving estate recovery when recovery would cause an undue hardship. Check with your state Medicaid office for more information regarding estate recovery provisions in your state.

Executive Summary—Medicaid Estate Recovery Provisions

- Medicaid beneficiaries are notified of a state's Medicaid estate recovery program during their initial application for Medicaid.
- States are required to seek recovery of payments from the individual's estate for nursing facility services, and other Medicaid services provided to these individuals.
- Estate recovery procedures are initiated after the beneficiary's death.
- All states are required to establish procedures for waiving estate recovery when recovery would cause an undue hardship.

Long-Term Care Insurance

What should you know about long-term care insurance?

According to the *New England Journal of Medicine*, 43 percent of Americans at least sixty-five years old will spend some time during their lives in a nursing facility. Most ordinary insurance coverage offers little assistance in paying for long-term care (LTC), and while Medicaid can pay for some LTC services, a recipient must first spend most of his or her assets to be eligible. According to a 1996 *Kiplinger* article—

> Average annual nursing-home costs are edging past $40,000 nationwide, and full-time home care can cost even more.

It's easy to see that a serious illness or accident can spell serious financial trouble. Accordingly, a thorough understanding of this area is critical for you to succeed in ElderCare.

Long-term care insurance can protect against this problem, but costs are substantial—premiums are typically around $2,000 a year at age sixty-five, and $4,000 to $5,000 a year at age seventy-five.

This level of cost means that long-term care insurance isn't for everyone—

> If the insured's assets are less than $100,000, the cost of premiums would most likely be prohibitively expensive; and, the ability to qualify for Medicaid in a very short time may make the coverage unnecessary.

It's also wise to try to predict the likelihood that long-term care will be needed. The fact that 43 percent of sixty-five-year-olds will need care means that 57 percent won't spend a single day in a care facility; and, statistics show that of those who do, almost half will stay less than a year. Consider family and personal health history to try to determine the odds that long-term care will be needed.

In purchasing a long-term policy, a number of alternatives exist. The types of policies include tax-qualified, nonqualified, and, in some states, partnership programs. Tax-qualified and nonqualified policies are discussed below; partnership programs are discussed in the section of this Alert titled "Medicaid Special Programs."

Tax-qualified policies qualify for tax breaks, although few will probably be able to take advantage of this feature. Benefits in a tax-qualified plan are more limited. To receive benefits, a doctor must certify that the insured suffers severe cognitive impairment or will be unable to perform two of the top five identified normal activities of daily living (ADLs) for at least ninety days. (The top five ADLs are bathing or showering, getting in or out of bed or chair, dressing, using the toilet, and eating.) This requirement limits the insured's ability to qualify for coverage, but it's also likely that a qualified policy will cost less than other policies with similar coverage.

Nonqualified policies do not offer tax breaks, but they typically don't require a doctor's confirmation to begin benefits.

Other variables in long-term care policies include the daily benefit, which ranges between $50 and $250, and how long one waits for the benefit period to begin.

As you would guess, the higher the benefit chosen, the higher the premium. It's important to research actual care costs in the insured's community to determine a reasonable level of coverage. Coverage is also selected for a period of time. Studies suggest that four to five years of coverage is probably reasonable; and that among those who live to age sixty-five, one in four will spend one year or more in a nursing home, and only about one in eleven will spend five years or more in a nursing home.

Women's risk of needing care is more than triple the risk of men: 13 percent of women, compared to 4 percent of men, are projected to spend five or more years in a nursing home.

Another consideration is the threat of inflation making future benefits too low to offer reasonable protection. Since benefits will probably not begin for a number of years, some inflation protection should be included in the policy purchased. Also, since long-term care insurance is aimed at protecting family wealth, you should consider only very strong insurers when comparing policies in the marketplace.

Executive Summary—Long-Term Care Insurance

- Most ordinary insurance coverage offers little assistance in paying for long-term care, and while Medicaid can pay for some long-term care services, a recipient must first spend most of his or her assets to be eligible.
- Long-term care insurance can protect against this problem, but costs are substantial. If the insured's assets are less than $100,000, the cost of the premiums would most likely be prohibitively expensive.
- Studies suggest that four to five years of coverage is probably reasonable.
- Women's risk of needing care is more than triple the risk of men.

Practice Issues

Professional Standards You Need to Follow

What professional standards apply to ElderCare engagements?

Since ElderCare involves a range of services, from consulting to attestation (assurance) to direct provision of services, you need to

follow the appropriate professional standards for the type of service being rendered. Regardless of the level of service, you are bound by the AICPA Code of Professional Conduct. These ethical standards are what set the CPA profession apart from other professions and are the basis upon which CPA ElderCare Services are being developed.

Independence

Among the standards included in the Code of Professional Conduct are those relating to independence. Independence is the hallmark of the CPA profession. In cases where the ElderCare service being provided is an *assurance* service (an attestation or agreed-upon procedures engagement) independence is required. A lack of independence would preclude you from providing such assurance services. Interpretation 101-11 (AICPA, *Professional Standards*, vol. 2, ET sec. 101.13) provides guidance for attestation engagements where the report will be restricted to identified parties.

The Interpretation assesses matters such as—

- The impact on independence of situations involving nondependent close relatives.
- Material financial interest in or significant influence with the responsible party (the person or entity responsible for the assertion).
- Contribution to the development of the subject matter of the engagement.
- Direct financial gain from the outcome of the engagement.
- Situations described in Interpretation 101-1 (AICPA, *Professional Standards*, vol. 2, ET sec. 101.02), and other issues.

If you are assessing independence issues in ElderCare engagements, you should refer to the full text of this Interpretation. Also, you can get help with independence, or other ethics-related questions, by calling the AICPA Ethics Hotline at (888) 777-7077. The *Code of Professional Conduct* can be ordered by calling the AICPA Order Department at the same phone number.

Compilation. If compiled financial statements, as defined in Interpretation 15, "Differentiating a Financial Statement Presentation From a Trial Balance," of Statement on Standards for Accounting and Review Services (SSARS) 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 9100.54), are issued, independence is not required, but any lack of independence must be disclosed in your compilation report.

Consulting. If the ElderCare Service is a consulting engagement that has no assurance component (it is not performed under the Statements on Standards for Attestation Engagements [SSAEs] or under Statement on Auditing Standards [SAS] No. 75, E*ngagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* [AICPA, *Professional Standards*, vol. 1, AU sec. 622]) you are not required to be independent. Nevertheless, a conflict of interest may exist, as described in rule 102 and its Interpretations of the *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 102). If you believe that the professional service can be performed with objectivity, and the relationship is disclosed to and consent is obtained from the client, or other appropriate parties, the rule will not prohibit the performance of the professional service. When making the disclosure, you should consider Rule 301, *Confidential Client Information*, of the *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 301).

Conflicts of Interest

Interpretation 102-2 under rule 102 of the Code of Professional Conduct defines conflicts of interest in part:

> A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a relationship with another person, entity, product, or service that could, in the member's professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the member's objectivity.

Example. If you refer your elderly client to a doctor who is a tax client of yours, this may or may not be a conflict of interest. If the doctor is only a tax client, a conflict of interest would probably not exist. If however the doctor owns several businesses, which

are also your clients and generate significant fees for you, a conflict of interest may very well exist. That relationship could impair your objectivity, if other doctors are available in the community with similar abilities.

What To Do If a Conflict of Interest Occurs. If a conflict of interest occurs, decide whether or not you can perform the service with objectivity. If you cannot, then do not perform the service. If you decide you can, then disclose the relationship to and get consent from the client, and other appropriate parties.

Recipient of Residual Estate. You should not allow yourself, or your representative, to be named as a recipient of some or all of the your elderly client's residual estate. Moreover, you and your staff should not accept loans or gifts from clients. You see, it is quite possible that an elderly client may change his or her will to include the ElderCare CPA, as a result of the close relationship that evolved between the client and the practitioner. If practitioners became recipients of the residual estates of their elderly clients—to the detriment of family members or other heirs—people may look unfavorably upon the CPA profession.

To avoid this situation—

1. Your engagement letter should include language specifying actions that will be taken (such as notification of the responsible family member, refusal to accept, and so on) if the elderly person attempts to change his or her will to include you.
2. You should obtain written confirmation from staff assigned to the ElderCare engagement that they will abide by the same provisions concerning residual estates.

Other Standards

In addition to the AICPA Code of Professional Conduct, you need to be familiar with, and follow, the provisions of the following standards, depending on the type of CPA ElderCare Service provided:

- Statements on Standards for Consulting Services (SSCSs). Applicable to consulting engagements.

- SSARSs. Applicable in any engagement where financial statements are issued as a part of the service, for instance, statements of cash receipts and disbursements.
- SSAE No. 3, Compliance Attestation, and SSAE No. 4, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*, vol. 1, AT sec. 500). Applicable when assurance is being rendered on assertions by third parties.
- SAS No. 75 may also apply in rare cases. However, since most of the assurance in ElderCare is on other than elements of a financial statement, such applicability would be unusual.

ElderCare Services designated as "direct service provision" would fall outside of the standards for auditing and attestation, although some of the services might fall under the SSARSs. Otherwise, practitioners providing direct services should concentrate on the Code of Professional Conduct.

Since ElderCare engagements may encompass a broad range of professional services, you should carefully consider the circumstances of every engagement to identify all professional standards that might be applicable.

Executive Summary—Professional Standards You Need to Follow

- CPAs performing ElderCare Services are bound by the AICPA's Code of Professional Conduct.
- In cases where the ElderCare Service being performed is an assurance-type service (attestation, agreed-upon procedures), independence is required.
- Interpretation 101-11 of the Code of Professional Conduct provides guidance for attestation engagements where the report will be restricted to identified parties.
- When issuing compiled financial statements, if a lack of independence exists, it must be disclosed in your compilation report.
- Interpretation 102-2 of rule 102 of the Code of Professional Conduct defines conflicts of interest. If a conflict of interest occurs, you must decide whether or not you can perform the service with objectivity. If you can, then disclose the relationship to and get consent from the client and other appropriate parties.

- You should not allow yourself or your representatives to be named as a recipient of a client's residual estate, and you and your staff should not accept loans or gifts from clients.
- In addition to the Code of Professional Conduct, you need to be familiar with other standards, such as Statements on Standards for Consulting Services, Statements on Standards for Accounting and Review Services, Statement on Standards for Attestation Engagements No. 3 and No. 4, and Statement on Auditing Standards No. 75.
- You should carefully consider the circumstances of every engagement to identify all professional standards that might be applicable.

Setting Up Your ElderCare Practice as a Separate Entity

What should be considered when setting up an ElderCare practice?

How to structure your ElderCare practice is both a business and legal issue. It's an issue that deserves careful consideration, taking into account the business plan of your ElderCare practice, liability issues, and perhaps other professional and governmental considerations. Additionally, these issues and considerations may vary from country to country, state to state, province to province, and practitioner to practitioner. Accordingly, you should consider obtaining legal and other counsel before deciding how to structure your ElderCare practice.

CPA ElderCare Services have been created and sponsored by the CPA profession. The services fall under the umbrella of assurance services, which could include consultation, write-up work, estate planning, financial planning, risk management, and investment planning, among other services. Therefore, it would seem to be appropriate (subject to the caveats in the preceding paragraph) for such services to be included within the service offerings of the licensed CPA firm, just like tax, personal financial planning, and valuation services. However, a separate entity structure may be appropriate in the rare instances where the CPA firm is hiring caregivers for the elderly client or has staff personnel such as geriatric care managers, housekeepers, drivers, sitters, or maintenance workers that serve the client. Additionally, you should consider establishing a separate entity for your

ElderCare Service if you bring nonlicensed equity holders into your firm. The following scenario may be helpful in understanding this issue.

Case Study

Matt Decker, a partner in a CPA firm, decided that his firm should offer CPA Eldercare Services to its clients and to other potential clients. Matt plans for his firm's accounting staff to handle all the financial and reporting work while other individuals will handle the balance of the services. Accordingly, he intends for his firm to employ caregivers to provide sitter and transportation services, cook meals, and perform housekeeping chores for the elderly clients. Paramedical issues will be managed by contracting with a geriatric care manager. Matt will ensure that all caregivers' employment and personal references are verified.

Matt's partners think that the CPA ElderCare Services idea has merit. However, they have a concern that the "hands on" nature of CPA Eldercare Services increases the risk of professional liability claims. Even though their insurance carrier confirmed they are covered for claims relating to the financial and consulting aspects of the service under the firm's present errors and omissions policy, the number of possible claims with ElderCare Services may be greater than in the more traditional accounting and tax areas. Furthermore, they are concerned that their firm's insurance premiums may increase, due to additional coverages and the perception of higher risk, from providing CPA ElderCare Services.

Matt feels that his partners are overreacting. However, as a compromise, he suggests that the firm create a limited liability company (or other entity) that will be owned either by the accounting partnership or in the same ownership interests separate and apart from the CPA firm. All CPA ElderCare Services will be contracted through the separate entity. Therefore, the CPA firm's assets and the personal assets of the CPA firm's partners may be insulated from liability. Moreover, the separate entity structure would facilitate a partnering arrangement with a geriatric care manager or other caregiver. Matt's partners agreed with him and a separate CPA Eldercare Services entity was created.

Executive Summary—Setting Up Your ElderCare Practice as a Separate Entity

- When deciding how to structure your ElderCare practice, you should take into account your business plan, liability issues, and other professional and governmental considerations.
- Consider obtaining legal and other counsel before deciding how to structure your practice.
- A separate entity structure may be appropriate if your CPA firm is hiring caregivers for your elderly clients or has staff personnel such as geriatric care managers.
- Consider establishing a separate entity if you bring nonlicensed equity holders into your firm.

In-the-Know

Adult Day Care

The demand for adult day care centers is increasing dramatically and is expected to become greater in the future. In response, the number of adult day care centers has grown rapidly over the last few years. This great demand is largely attributable to the desire for community-based alternatives to nursing homes. Many families, especially those with two wage earners, need help in caring for elderly relatives. Access to an adult day care center allows the family to drop the elderly relative off at the center in the morning and pick the relative up at the end of the day. Adult day care centers provide social activities, health services, and care for elderly people with impairments. They are a less expensive alternative to home care and nursing homes.

You should be aware of the availability of adult day care services in your community and be able to knowledgeably inform your clients of this caregiving option.

A Grave Matter

One of the most expensive purchases your elderly clients may have to make is paying for a funeral and burial (average costs exceed $8,000). Unfortunately, unethical business practices, and people taking advantage of the elderly, exists in the funeral indus-

try. Newspapers, magazines, and television often showcase stories of elderly people being overcharged and cheated by funeral services businesses. Remember these points if you need to advise your clients on funeral and burial arrangements.

- *Comparison-shop to get the best funeral price.* Markups on funeral services can be tremendous and large variances may exist between funeral homes. So, call ten or more mortuaries and find out what the best prices are. Some churches and synagogues purchase group plots as a service to their congregants; call around and see if you can get a reasonable deal for your client.
- *Don't purchase pre-pay plans to cover the costs of funeral and burial services.* These plans are normally too expensive and are nonrefundable. Instead, use other methods to save for funeral costs such as a certificate of deposit or a designated savings account.
- *Avoid being talked into buying a protective sealed casket*—this is one of the biggest scams going. Sealed caskets don't protect the body. Instead they result in horrible bodily decay.
- *Obtain a detailed price list from the funeral home*, listing individual charges for such items as the casket, use of facilities, funeral director services, and so on.

Medicaid Special Programs

The federal government is frequently testing different programs, to enhance Medicaid benefits, or to diversify the care locations, or merely to save costs. Many times these programs are only available in certain states (typically those with a high elderly population), and may only be available to certain individuals in those states. Until these programs are implemented nationally, be careful about relying too much on the benefits offered—they may not last!

One test program currently in existence is a partnership between long-term care insurance and Medicaid. Generally, if individuals

purchase long-term care insurance (which meets certain criteria), they may be able to retain all their assets, and still receive Medicaid benefits if their long-term care needs exceed the period covered by the insurance policy. This program is offered in only four states at this time: New York, Connecticut, California, and Indiana.

Another test program is a Medicaid waiver program, to prevent nursing home placement by allowing elders to remain at home in the community. Under this program, eligible individuals receive full Medicaid coverage and additional services to prevent institutionalization. Again, the benefits and eligibility requirements vary between the states that offer this, and not all states will have this program.

Contact your state Medicaid office to find out what programs are available to meet the needs of your client.

This Old House

Elderly people often live in older homes that are in need of repair or modification. Modifications may be necessary due to disabilities (for example, needing ramps for wheelchairs), physical difficulties (for example, difficulty in getting in and out of a bath tub), or other reasons. Repairs may be essential to improve the living environment and to prevent accidents. If your ElderCare engagement encompasses such activities, you, your elderly clients, or their families should determine the need for home repairs and modifications, with the assistance of qualified professionals. (See the "Hardware Department" section of this Alert for a checklist you can use on-site at your client's home to identify problems in need of immediate attention.)

Elderly people are often prime targets for home repair scams. Avoid, and advise your elderly clients to avoid, doing business with uninvited door-to-door salespeople who offer to perform repair work. Rather, choose a licensed and bonded contractor based on recommendations (if possible) from trusted people, and check out references from previous customers. Try to get a few estimates from different contractors as well. Be sure to get an understandable, comprehensive, and detailed contract for the work in writing.

Eligible elderly people can take advantage of various programs that exist to help pay for home repairs and modifications. For information on financial assistance programs, try contacting the local community development department, the local Area Agency on Aging, local banks, and the state Agency on Aging. See chapter 6 of the AICPA's Practice Aid *CPA ElderCare: A Practitioner's Resource Guide* for listings of state agencies, offices, and other organizations for the elderly.

The Family and Medical Leave Act

As an ElderCare CPA, you may find it necessary to inform family members of your elderly clients about the provisions of the Family and Medical Leave Act of 1993 (FMLA). This act is the only federal legislation that supports caregivers. Since those family members may be caregivers to your elderly clients, they should know that FMLA entitles them to take up to twelve weeks of unpaid, job-protected leave in a twelve-month period to care for an immediate family member with a serious health condition.

In caring for a seriously ill family member the FMLA leave time does not have to be taken all at once, but can be taken intermittently (for example, a few hours per week), whenever medically necessary to care for the family member. Be sure to check the individual employer's policy, however, since some will require the employee to deplete all available paid time off before making use of FMLA time.

When the caregiver returns to work after the FMLA leave, he or she must be restored to the previous job, or to an equivalent job with equivalent pay and benefits. Certain requirements and restrictions apply. For example, FMLA only applies to employers who employed fifty or more employees in twenty or more workweeks in the current or preceding calendar year. For further information on FMLA, contact the nearest office of the Wage and Hour Division of the Department of Labor (check U.S. Government, Department of Labor in the phone book or visit their Web site at http://www.dol.gov).

The Preventive Care Defense

One of the best known methods of preventing early death and serious illnesses is to receive regular preventive care from a doctor. Recent studies show that many elderly people are not receiving adequate preventive care.

If such kinds of activities are part of your ElderCare engagement, you may want to advise your elderly client to ask his or her doctor about the following preventive care techniques:

- Diabetic blood sugar monitoring
- Routine eye exams and glaucoma tests
- Colorectal cancer screening tests
- Flu vaccines
- Mammograms

These important preventive care techniques are normally inexpensive, and their benefits could be key to the well-being of your elderly client.

Entitlements Watch

Social Security and Medicare Alert

What are the 1999 Social Security and Medicare changes?

Current Social Security and Medicare information for 1999, obtained from the Social Security Administration, is presented below. For a more in-depth discussion of Social Security and Medicare, refer to chapter 3 of the AICPA's Practice Aid *CPA ElderCare: A Practitioner's Resource Guide*.

Based on the increase in the Consumer Price Index (CPI-W) from the third quarter of 1997 through the third quarter of 1998, Social Security beneficiaries and Supplemental Security Income (SSI) recipients received a 1.3 percent cost-of-living adjustment (COLA) for 1999.

Information for People Who Are Working

Social Security and Medicare taxes are as follows:

	1998	*1999*
Employee and employer (each)	7.65% up to $68,400	7.65% up to $72,600
Self-employed	15.3% up to $68,400	15.3% up to $72,600

The 7.65-percent tax rate is the combined rate for Social Security and Medicare. The Social Security portion (OASDI) is 6.2 percent on earnings up to the applicable maximum taxable amount. The Medicare portion (HI) is 1.45 percent on all earnings. Extra Medicare taxes may be required if an individual earns more than $72,600; the person continues to pay the Medicare portion of those taxes as follows:

	1998	*1999*
Employee and employer (each)	1.45% above $68,400	1.45% above $72,600
Self-employed	2.9% above $68,400	2.9% above $72,600

Individuals need work credits to be eligible for Social Security benefits. The number of credits needed depends on the person's age and type of benefit claimed. Individuals can earn a maximum of four credits every year. Most people need forty credits to qualify for retirement benefits. In 1999, a person receives one Social Security credit for each $740 of earnings.

Information for Social Security Beneficiaries

Social Security beneficiaries receive benefits with the following limits:

	1998	*1999*
Age 70 or older	No limit on earnings	No limit on earnings
Age 65-69	$14,500/year For every $3 over the limit, $1 is withheld from benefits	$15,500/year For every $3 over the limit, $1 is withheld from benefits

	1998	*1999*
Under age 65	$9,120/year For every $2 over the limit, $1 is withheld from benefits	$9,600/year For every $2 over the limit, $1 is withheld from benefits
Disabled individual	$500 per month	$500 per month

The estimated average monthly Social Security benefit, before and after the 1999 1.3-percent COLA, is as follows:

	Before 1.3% COLA	*After 1.3% COLA*
All retired workers	$770	$780
Elderly couple, both receiving benefits	$1,293	$1,310
Widowed mother with two children	$1,534	$1,554
Elderly widow(er) alone	$740	$749
Disabled worker, spouse and one or more children	$1,202	$1,217
All disabled workers	$724	$733

Information for Supplemental Security Income Recipients

The following amounts are paid to recipients of SSI benefits:

	1998	*1999*
Individual	$494	$500
Couple	$741	$751

Monthly income limits for SSI benefits are as follows:

	1998	*1999*
Individual whose income is only from wages	$1,073	$1,085
Individual whose income is not from wages	$514	$520
Couple whose income is only from wages	$1,567	$1,587
Couple whose income is not from wages	$761	$771

Information for Medicare Recipients

Presented here is deductible information for Medicare hospital insurance, and deductible and premium information for Medicare medical insurance. Most individuals who qualify for Social Security do not pay a premium for Medicare hospital insurance.

Hospital Insurance (Part A)	*1998*	*1999*
For first 60 days in a hospital, patient pays	$764	$768
For 61 through 90 days in a hospital, patient pays	$191/day	$192/day
Beyond 90 days in a hospital, patient pays (for up to 60 more days)	$382/day	$384/day
For first 20 days in a skilled nursing facility, patient pays	$0	$0
For 21 through 100 days in a skilled nursing facility, patient pays	$95.5/day	$96/day

Medical Insurance (Part B)	*1998*	*1999*
Premium	$43.8/month	$45.5/month
Deductible	$100/year	$100/year
	After the patient has paid the deductible, Part B pays for 80% of covered services.	

New Medicare Program

What should you know about the changes in Medicare options?

Congress has enacted significant changes to the Medicare program. Chief among those changes is the introduction of Medicare + Choice (or Medicare Part C). Medicare + Choice offers beneficiaries new health plan options. The original Medicare fee-for-service program still exists. Even though Medicare + Choice offers new options, a beneficiary is not required to change one's existing Medicare plan.

Eligibility

To be eligible for these new health plan options, a beneficiary—

- Must have Medicare Part A (hospital insurance) and Medicare Part B (medical insurance).
- Must not have end-stage renal disease.
- Must live in the service area of a health plan. (The *service area* is the geographic area where the plan accepts enrollees. For

plans that require one to use their doctors and hospitals, it is also the area where services are provided.)

Health Plan Options

Based on the Medicare + Choice guidelines, the following health plan options are available for Medicare beneficiaries.

Original Medicare Plan. The traditional fee-for-service Medicare plan is always available to beneficiaries. This includes Parts A and B. Medicare pays its share of medical bills and the beneficiary pays the Part B premium, Part A and Part B deductibles, and the coinsurance. The beneficiary can use any health care provider that accepts Medicare. See chapter 3 of the AICPA Practice Aid *CPA ElderCare: A Practitioner's Resource Guide* for further information regarding Medicare coverage, including details on premiums, deductibles, and coinsurance.

Original Medicare Plan With a Supplemental Insurance Policy. This option includes the original Medicare plan, and one of ten standard supplemental insurance policies (Medigap or Medicare SELECT) that the beneficiary may purchase. These supplemental policies provide extra benefits—some policies help pay Medicare's coinsurance amounts and deductibles. Beneficiaries pay the Part B premium and an additional monthly premium for the supplemental policy.

Medicare Managed Care Plans. These plans include the following:

- Health maintenance organizations (HMOs)
- HMOs with point-of-service (POS) option
- Provider sponsored organizations (PSOs)
- Preferred provider organizations (PPOs)

A managed care plan involves a group of doctors, hospitals, and other health care providers who have agreed to provide care to Medicare beneficiaries in exchange for a fixed amount of money from Medicare every month. Some plans limit the beneficiary's choice of doctors and hospitals. HMOs and PSOs are usually more restrictive. PPOs and HMOs with POS options are gener-

ally less restrictive, allowing beneficiaries to use health care providers outside of the plan for an additional cost.

The managed care plans offer all the traditional Medicare covered services. In addition, many plans offer additional benefits, such as prescription drug coverage. Coverage details are complicated, so it is important to look carefully at any plan a beneficiary may be considering.

Beneficiaries pay the Part B premium. Some plans charge an extra monthly premium. Beneficiaries may also pay a copayment per visit or service.

Private Fee-for-Service Plans. Under this arrangement, a beneficiary chooses a private insurance plan that accepts Medicare. The beneficiary can use any doctor or hospital. The insurance company, rather than the Medicare program, reimburses the health care provider. In addition to the basic Medicare coverage, beneficiaries may also receive additional benefits, depending on the insurance company. Costs to the beneficiary include the Part B premium, an additional premium charged by the insurance company, and a copayment per visit or service. Also, beneficiaries are responsible for paying the health care providers any amounts billed in excess of what the insurance company is willing to cover.

Medicare Medical Savings Account (MSA) Plans. This is a complicated and experimental program for 390,000 eligible Medicare beneficiaries. The beneficiary chooses a Medicare MSA plan—a health insurance policy with a high deductible ($6,000 in 1999). Medicare pays the premium for the Medicare MSA plan and makes a deposit to a special savings account (MSA) that the beneficiary establishes. The beneficiary uses the money deposited in his or her Medicare MSA to pay for medical expenses. If the beneficiary doesn't use all the money in the Medicare MSA, the unused portion is eligible to carry over, and next year's deposit will be added to the balance. Money can be withdrawn from a Medicare MSA for non-medical expenses, but that money will be taxed.

Religious Fraternal Benefit Society Plans. These plans are offered by religious and fraternal organizations for members of the society, and only members may enroll. The society must meet Inter-

nal Revenue Service (IRS) and Medicare requirements for this type of organization.

Making a Decision

Unfortunately, the regular Medicare program does not cover all medical expenses. For instance, outpatient prescription drugs are not covered by the traditional Medicare plan. Prescription drugs can be extremely expensive and are usually needed by elderly people. Getting coverage for prescription medication is therefore an important extra benefit.

To get more coverage a beneficiary needs to look into purchasing supplemental insurance policies, or enrolling in one of the Medicare managed care plans.

In deciding what kind of Medicare plan to enroll in, you need to gather as much information as possible, decide what current benefits your elderly client needs or is likely to need in the future, decide what costs are acceptable, and then choose a plan based on those factors.

Given the many different plans and options available to beneficiaries, it's no surprise that pages and pages of Medicare information exist. Medicare and other organizations will be generating much more information on Medicare + Choice in the near future. You should read the AICPA's Practice Aid *CPA ElderCare: A Practitioner's Resource Guide* and view the Medicare Web site at www.medicare.gov to learn more about Medicare + Choice. You can also call the automated Medicare Special Information number at (800) 318-2596 or TTY: (877) 486-2048.

Executive Summary—New Medicare Program

- Medicare + Choice has been added to the Medicare program, significantly changing health care options. The traditional Medicare program remains in place.
- The new Medicare options offer beneficiaries a variety of managed care plans to choose from, including health maintenance organizations (HMOs), HMOs with point-of-service (POS) option, provider sponsored organizations (PSOs), and preferred provider organizations (PPOs).

- HMOs and PSOs are usually more restrictive.
- Coverage details for the offered plans are complicated, requiring a careful review.
- Other Medicare options include private fee-for-service plans, Medicare medical savings account (MSA) plans, and religious fraternal benefit society plans.
- Since the traditional Medicare program does not cover all medical expenses (for example, prescription drugs), a beneficiary needs to obtain supplemental insurance or enroll in one of the Medicare managed care plans to receive more coverage.

The Financial Beat

Reverse Mortgages

What are reverse mortgages, and how do they work?

The demand for innovative ways of legally obtaining money has helped create the reverse mortgage. Reverse mortgages (RMs) are a means of getting the equity out of your residence. It is a type of home equity loan; however, instead of the homeowner making monthly mortgage payments, the lender pays the homeowner. Unlike conventional home mortgages, most RMs do not require any repayment of principal, interest or servicing fees for as long as the homeowner lives in the home. Instead the interest and servicing fees are added to the principal balance, until such time as the RM is due. The funds from a RM may be used for any purpose.

Under a reverse mortgage, the borrower still maintains title to the home, and is responsible for property taxes, insurance, repairs, and so on. At the time of death, or if the borrower moves, the borrower or heirs must pay back the loan, but the payback amount is limited by the value of the home at the time the loan is repaid. Any remaining proceeds from a sale may be distributed to the borrower or heirs.

To protect the value of their investment, many lenders will require periodic inspections of the property to insure that it is being maintained properly. An annual appraisal may also be required.

Okay Great, Now Who's Eligible?

To be eligible for an RM, the borrower must meet the following criteria:

- All owners must be borrowers.
- All borrowers must be at least sixty-two years old.
- Owners must occupy the home as a principal residence (at least half the year).
- The residence must be a single-family one-unit dwelling. (Some programs also accept two-to-four-unit owner-occupied dwellings, along with some condominiums and manufactured homes. Mobile homes and cooperatives are not eligible properties.)
- The property must be debt-free. If there is debt on the home, the borrower may use an immediate cash advance from the RM to pay it off.

Reverse mortgages are available in forty-nine states (all except Texas), plus the District of Columbia and Puerto Rico.

Three Kinds of Reverse Mortgages

There are three kinds of reverse mortgages—FHA-insured, lender-insured, and uninsured. These vary according to their costs and terms. A synopsis of each program follows.

FHA-Insured. The most widely federally insured reverse mortgage is offered under a national pilot program known as the home equity conversion mortgage (HECM). This program permits the U.S. Department of Housing and Urban Development (HUD) to insure 50,000 RMs nationwide until September 30, 2000.

Under the HECM, there are five payment options:

- *Term mortgage,* which is a fixed monthly payment amount for a fixed period of time
- *Tenure mortgage,* which is a fixed monthly payment amount for as long as one borrower remains in the home

- *Line of credit*, which is a maximum amount of cash available in amounts as needed
- *Modified term*, which is a term mortgage with a line of credit available
- *Modified tenure*, which is a tenure mortgage with a line of credit available

There are no income or other asset limitations to participate in the HECM, and repayment is not due until the last surviving borrower dies, sells, or moves from the property.

The cash available to a borrower is based on HUD's maximum claim amount (MCA). The MCA is the lesser of the appraised value or a geographic maximum mortgage insurance limit (ranging between $81,548 and $160,950). Depending on their age, borrowers can receive approximately 30 percent to 80 percent of the MCA.

Costs associated with the HECM include an insurance premium, which is 2 percent of the MCA plus 0.5 percent charged annually on the increasing loan balance.

Another federally insured reverse mortgage available is the Fannie Mae *Home Keeper*. Eligibility rules are similar to the HECM and the borrower must attend a consumer education session approved by Fannie Mae. The Home Keeper mortgages provide either a credit line or monthly advances.

Loan fees on the Home Keeper include standard closing costs, a 2-percent origination fee and 1-percent points fee, based on the full home value up to the Fannie Mae limit of $214,600, and a monthly servicing fee.

Lender Insured. These RMs offer monthly loan advances or monthly advances with a credit line feature. Loan advances from a lender-insured plan may be larger than those provided by the federally insured plans. However, the costs associated with the loans may be greater.

Uninsured. These RMs provide monthly cash payments for a pre-determined length of time (usually three to ten years), which

is selected by the borrower. Repayment is required at the end of the payment time. These RMs are presently offered in Arizona, California, Massachusetts, Minnesota, New York, and New Jersey.

Effect on Social Security, Medicare, Medicaid, and Taxes

Social Security and Medicare benefits are not affected by reverse mortgages. However, *loan advances may affect your eligibility for Medicaid benefits.* If you spend the loan advances during the month in which you receive them, then generally there is no effect. If, however, a loan advance is kept, then it will count as a "liquid asset," and may put the borrower over the Medicaid asset limits.

Generally speaking, loan advances are not considered taxable income. However, the interest charged on the loan is not deductible until actually paid.

Ask for the Total Annual Loan Costs

Costs can vary greatly between the programs as well. Ask for the total annual loan costs (TALCs) for the program you are reviewing. Lenders don't have to show this to you until *after* you apply, so be sure to ask for it during your evaluations. Also, TALC rates assume all borrowers are single females—so if your client is not, be sure to ask for the TALC based on the situation. TALCs are *not* the same as annual percentage rates (APRs). TALCs include all costs associated with the loan.

There Are Two Kinds of Credit Lines Available

With a *flat* credit line, the amount of the credit line does not change. With a *growing* credit line, the available credit grows larger at a given rate.

> *Example*: If you have a growing credit line (8 percent every year) and take out $10,000 from a $50,000 credit line, and then come back for an additional draw in three years, over $50,000 would be available. The $40,000 remaining balance after the first year draw has grown at 8 percent per annum, for a total available credit line of $50,388. Also, look for annual limits on the line of credit draws.

Other Practical Tips

- Typically, it's best if RMs are started when the homeowners are in their seventies or eighties, so they do not outlive the value in the home. It can be ideal for those with no close heirs, or no interest in the home.
- The amount of cash available under the three different types of RMs can be substantially different. If your client has a home valued over $160,950, the amount available under the federally insured programs will be less, as they have a maximum loan amount. Be sure to consider all three alternatives.
- Keep in mind that the loan value or repayment amount cannot be larger than the value of the home at the date of repayment. So if the home depreciates, or appreciates less than the interest rates charged, your clients may end up paying back *less* than they borrowed.
- The biggest drawback to the RMs may be your clients' unwillingness to sacrifice their home. Many clients have an emotional attachment to their home, and want to leave it intact for their heirs. Be sure to discuss this with them before pursuing this option.
- Beware of low appraisal values. Some lenders set the appraisal value low to protect themselves, but others do it in hopes of acquiring the property back at well below actual value. Beware of lenders who look to take over the property.
- To get an idea of how much cash may be available for your client, visit the National Center for Home Equity Conversion Web site at www.reverse.org for its "Calculator," a quick calculation of available cash using RMs.

Executive Summary—Reverse Mortgages

- A reverse mortgage allows individuals who meet certain criteria (including that the individual is at least sixty-two and the related principal residence is debt-free) to borrow money based on the value of the individual's home.

- The three types of reverse mortgages (FHA-insured, lender-insured, and uninsured) can vary substantially according to their costs, cash available, and terms. Ask for the total annual loan costs (TALCs) for the program you are reviewing.
- Social Security and Medicare benefits are unaffected by reverse mortgages. Loan advances may affect Medicaid eligibility.
- Visit the National Center for Home Equity Conversion Web site at www.reverse.org.

Using Roth IRAs in ElderCare Planning

What are the benefits of Roth IRAs?

If your elderly client is in good health, expects to live a long time, and has sufficient assets to meet expected living expenses, consideration should be given to the establishment of a Roth IRA as an estate planning technique.

The Roth IRA can be a useful tool in ElderCare planning. This new retirement vehicle provides for *tax-free accumulation of assets and income.* The maximum contribution of $2,000 (or the amount of earned income if less) can be made by individuals filing single or head of household who have adjusted gross income (AGI) of up to $95,000 or who are married filing jointly with AGI of up to $150,000. The allowable contribution phases out at AGI of $110,000 for single or head of household filers and $160,000 for married taxpayers filing jointly.

The Roth IRA can provide enhanced cash flow to those who qualify for it. A traditional IRA permits a taxpayer, who otherwise qualifies, to take a tax deduction for the payment into the IRA and when drawing-down funds pay ordinary income tax on the withdrawal. The Roth IRA, by contrast, permits the taxpayer to put *after-tax* money into the IRA. In other words, no tax deduction is permitted for the deposit. However, all withdrawals (when made in accordance with specified circumstances, including a five-year holding period and that the taxpayer has reached age 59 1/2) both of principal and earnings, are tax-free. The amount that can be contributed in any one year to a tradi-

tional IRA or a Roth IRA (or a combination of the two) is limited to a maximum of $2,000.

Additional benefits of a Roth IRA are that the taxpayer is not required to withdraw funds beginning at age 70 1/2 and the account value is not income in respect of a decedent (IRD) when the taxpayer dies. While the value of the Roth IRA will be includible in the decedent's estate, unlike a traditional IRA the value of the Roth IRA will not also be taxed as income to the beneficiary(ies) when distributed.

> Thus, when a taxpayer has sufficient cash flow and assets to meet living needs, the assets in his or her Roth IRA can continue to compound and grow tax-free, providing a benefit to the heirs.

Rollovers Into a Roth IRA

Another planning opportunity is the ability to roll over the assets in an existing qualified retirement plan or traditional IRA into a Roth IRA. Such a rollover will provide the same benefits as initial contributions. In order to qualify for the rollover, AGI cannot exceed $100,000 in the year of rollover (not including the rolled-over amount) and one cannot be married filing a separate return. Thus, the amount in the Roth IRA can continue to accumulate tax-free. Note, however, that ordinary taxes on the amount rolled over must be paid for the year of the rollover.

Executive Summary—Using Roth IRAs in ElderCare Planning

- The Roth IRA is a new retirement vehicle that allows tax-free accumulation of assets and income. A maximum contribution of $2,000 can be made per year; however, certain earnings restrictions apply.
- Unlike a traditional IRA, after-tax money is invested in the Roth IRA. Consequently, all withdrawals, both of principal and earnings, are tax-free.
- Rollovers of assets in existing qualified retirement plans and traditional IRAs are allowed into a Roth IRA. Note, however that taxes on the amount must be paid for the year of the rollover.

Deducting Medical and Dental Expenses

What should you know about the deductibility of medical and dental expenses for tax purposes?

Information about the rules that apply to the deductibility of medical and dental expenses on one's tax return is important knowledge for the ElderCare CPA.

An individual can deduct those qualified medical and dental expenses which exceed 7.5 percent of adjusted gross income. If an individual and spouse live in a non-community property state and file separate returns, they can deduct only the medical expenses actually paid. Any medical expenses paid out of a joint checking account, in which the individual and spouse have the same interest, are considered to have been paid equally by each spouse, unless otherwise shown. If an individual and spouse live in a community property state and file separate returns, any funds paid out of community funds are divided equally (that is, each spouse should include half the expenses). If one of the spouses pays medical expenses out of separate funds only the spouse paying the medical expenses can deduct them.

Timing of Medical Expenses

Only expenses actually paid during the year can be deducted without regard to when the service was provided. Payment by check is determined by the day one mails or delivers the check.

If one uses a credit card to pay medical expenses, the date of payment is the day the charge is made. The date of payment of the charge is not determinative of the date of deductibility.

When using pay-by-phone or online methods to pay expenses, the date of payment is the date reported by the financial institution as the date the payment was made.

Whose Medical Expenses Can Be Deducted?

Deductible expenses include those medical expenses paid for oneself and for one's spouse (the taxpayer and the spouse must be mar-

ried at the time the spouse received the services, or at the time the expense was paid).

Deductible expenses also include those medical expenses one pays for a dependent (as long as the person was a dependent at the time the services were performed or at the time the expense was paid).

> One can deduct the medical expenses of anyone who is one's dependent, even if one cannot claim an exemption for that person on one's return because of a disqualifying condition preventing exemption status for a dependent.

Medical expenses are deductible only by the taxpayer who actually pays them. One should not give the dependent the money to pay the expense, but should instead directly pay the provider or supplier, to be able to take the deduction. In addition, amounts paid directly to medical providers are not taxable transfers, which could potentially be subject to gift taxes.

Multiple Support Arrangements. In multiple support arrangements, only the person granted the dependency exemption may deduct the medical expenses he or she paid for the dependent. In the case of a child of a divorced or separated parent, each parent can deduct the expense paid by him or her for the child, even if the other parent claims an exemption.

What Expenses Can Be Deducted?

Expenses that are generally deductible are amounts paid for—

1. The diagnosis, cure, mitigation, treatment, or prevention of disease or for a purpose affecting the body's structure or function.
2. Transportation primarily for and essential to medical care.
3. Qualified long-term care services.
4. Insurance for medical care or any qualified long-term care insurance contract.

Property Improvements. Oftentimes, individuals are required to make permanent improvements or betterments to their homes, to

accommodate an individual's medical needs. The deduction for these capital expenditures would be limited to the extent the costs exceed the increase in the home's value. If the capital expenditure qualifies as a medical expense, then the operating costs and upkeep also qualify—as long as the medical requirement continues. An example of a qualifying improvement may be a motorized wheelchair lift to move the taxpayer to the upper floor in his residence.

Generally, adaptation of a handicapped taxpayer's residence to accommodate improvements such as ramps, enlarged doorways, and modified stairs will be deductible, since they generally do not increase the value of the residence. Any aesthetic improvements would not be deductible.

Other Capital Expenditures. The following are examples of other capital expenditures made for medical reasons that may be deductible:

- Seeing-eye dogs and hearing-aid animals
- Autoettes (three-wheeled vehicles for the disabled)
- Special equipment to accommodate wheelchair passengers
- Crutches
- Oxygen equipment for breathing difficulty
- Reclining chair (cardiac patients)
- Telephone and television equipment for the deaf
- Visual alert system for the hearing impaired

Long-Term Care Services. Expenses paid for long-term care services are deductible if they are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, or rehabilitative services that are required by a chronically ill individual and are provided pursuant to a plan of care prescribed by a licensed health care practitioner. Most facilities will provide a breakdown of expenses to help one identify the deductible and nondeductible portions of one's expenses. Note that retirement community fees or lifetime care fees can be allocated as to the medical care portion and deducted as a medical expense.

Private Duty Nurses. Many elderly employ private duty nurses (registered or unregistered) to provide in-home services as an alternate to moving into a nursing home. Wages paid to these nurses, including payroll taxes, will be deductible to the extent of the nursing services they perform. Any household or personal services would be allocated on the basis of time spent and not deducted as medical expenses.

Medical Care Insurance. The portion of the premium paid for "medical care expenses" under a medical care insurance policy is deductible. If a policy provides coverage for loss of limb, life, or sight, in addition to medical care expenses, the portion for medical care expenses must be separately stated and reasonable in relation to the total premium. Medicare Part B premiums withheld from Social Security payments are deductible. Medicare Part A payments made voluntarily by people sixty-five and over, and not covered by Social Security, are also deductible.

Long-Term Care Insurance. Payments for qualified long-term care insurance are deductible as medical expenses within the following limits per person:

Age on December 31, 1998	*Age-Based Maximum*
Age 40 or under	$210
41-50	$380
51-60	$770
61-70	$2,050
Over 70	$2,570

A husband and wife over seventy could deduct a total of $5,140 on a joint return. These age-based premiums are adjusted annually for inflation.

To qualify, the underlying policy must provide coverage for expenses that are necessary for diagnostic and preventive care as well as therapy, rehabilitation, and treatment. Also included are maintenance and personal care for the chronically ill, if the services are prescribed by a licensed health care practitioner. It would be wise to contact your client's long-term care insurer to be assured the existing policy meets the criteria of a qualifying long-term care policy.

Employer Deductions. Employers are also entitled to deduct, as expenses, the payment of employee health insurance payments made under sickness, accident, medical, and similar group plans by the employer for the benefit of employees as ordinary and necessary business expenses.

Payments made outside of a group plan are also deductible under Internal Revenue Code Section 162 if—

1. The employer is not directly or indirectly a beneficiary under the policy.
2. The premiums are paid in consideration for personal services actually rendered by the employee.
3. The total amount paid the employee including the premiums was not unreasonable compensation.

These payments outside of a plan could allow for extra coverage being paid for select employees with the premium not being included in the employees' compensation and deductible by the employer. This allows for discrimination between employees as to health benefits paid by employers.

Executive Summary—Deducting Medical and Dental Expenses

- An individual can deduct those qualified medical and dental expenses which exceed 7.5 percent of adjusted gross income. Only expenses actually paid during the year can be deducted, without regard to when the service was provided.
- Deductible medical expenses include those medical expenses paid for oneself, one's spouse, and one's dependent.
- Deductible expenses generally include amounts paid for the diagnosis and treatment (or prevention) of disease, transportation related to medical care, qualified long-term care services, and insurance for medical and long-term care. However certain limits do apply.
- Property improvements made for medical reasons are often deductible expenses.
- Employers are entitled to deduct the payment of employee health insurance payments as ordinary and necessary business expenses.

Viatical Settlements

What are viatical settlements?

A viatical settlement, available for someone who is terminally ill, is the sale of a life insurance policy for a lump sum cash payment. The terminally ill person assigns his or her life insurance policy over to a viatical settlement company for a percentage of the policy's face value. The viatical settlement company then becomes the beneficiary of the policy, continues to pay the premium, and collects the benefits when the original policyholder dies. The settlements are complex transactions, and may take up to four months to complete.

Requirements

A viatical settlement company is a private enterprise, and is not considered an insurance company. Every company sets its own rules regarding payments, but generally most require that—

- The policy was owned for at least two years.
- The current beneficiary signs a waiver or release.
- The person is terminally ill (life expectancy usually two years or less, but some will accept four years).
- The settlement company gets access to medical records.

Tax Implications

The receipt of a viatical settlement may have tax implications for your client. Proceeds of a viatical settlement are exempt from federal income tax, if life expectancy is less than two years and the settlement company is licensed (if appropriate in your state). Proceeds may, however, be taxable for state income tax purposes.

Medicaid Eligibility Effects

The proceeds of a settlement may affect eligibility for Medicaid. Any money received from the sale of a policy is considered income for Medicaid purposes, and may make your client ineligible for Medicaid assistance.

Alternative to Viatical Settlements

Instead of viatical settlements, your client may want to consider taking accelerated benefits under his or her life insurance policy. Accelerated benefits are the payment of life insurance proceeds paid by the insurer to policyholders before they die. This option is usually available as a rider or attachment to the policy.

A Few Considerations

When reviewing these alternatives for clients, here are a few things to do or consider:

- Check with your state insurance company to see if viatical settlement companies are required to be licensed. If so, check the status of the company you are considering using.
- Be sure that the company has the money for the payout available. Small settlement companies may have to sell the policy to a third party, which could delay the payout time.
- Insist that the company sets up an escrow account before it sends the offer papers for your client's signature. Then you can be sure that the funds are available for payout.

Executive Summary—Viatical Settlements

- Under a viatical settlement, a terminally ill person assigns his or her life insurance policy over to a viatical settlement company for a percentage of the policy's face value.
- Proceeds from a viatical settlement are exempt from federal income tax, if life expectancy is less than two years and the settlement company is licensed. The proceeds from the settlement may affect Medicaid eligibility.
- As an alternative to viatical settlements, a client may be able to receive accelerated benefits under a life insurance policy.

Income Tax Reminders

Are there special matters to consider in ElderCare tax planning?

Presented below are certain income tax matters that tend to affect elderly taxpayers more than others. They have been excerpted from

Internal Revenue Service (IRS) Publication 554, *Older American's Tax Guide.* This publication can be obtained by contacting the IRS through its Web site at http://www.irs.ustreas.gov, or by calling (800) 829-3676. These matters are presented as a reminder and convenience to practitioners.

Income Sources

Social Security Benefits. Social Security benefits include monthly survivor and disability benefits. They do not include Supplemental Security Income (SSI) payments which are not taxable. If your client received these benefits during the year, he or she should have received a Form SSA-1099, showing the amount. If the only income your elderly client received during the year was Social Security benefits, those benefits are generally not taxable. If your client has income in addition to his or her benefits, *some of the Social Security benefits may be taxable, depending upon the amount of other income.* See IRS Publication 554 for the steps to perform in determining whether Social Security benefits are taxable.

Accident and Health Insurance Policies. Generally, amounts received for disability through an accident or health insurance plan that is paid for by an employer must be reported as income. Benefits an elderly client receives under an accident or health insurance policy are not taxable if the client had to include the policy premiums in his or her gross income, regardless of whether the premiums were paid by an employer.

Long-Term Care Insurance Contracts. Long-term care insurance contracts are generally treated as accident and health insurance contracts. Amounts an elderly client receives from them (other than policyholder dividends or premium refunds) generally are excludable from income as amounts received for personal injury or sickness. Long-term care insurance contracts are discussed in more detail in IRS Publication 525.

Military Retirement Pay. Military retirement pay based on age or length of service is taxable and must be included in gross income as a pension. However, certain military and government

disability pensions that are based on a percentage of disability from active service in the armed forces of any country are generally not taxable. Veterans' benefits and insurance are discussed in IRS Publication 525.

Life Insurance Proceeds. Life insurance proceeds paid to your client because of the death of the insured person are not taxable unless the policy was turned over to your client for a price. Life insurance proceeds can be paid in a lump sum or in installments. If the proceeds are paid in a lump sum, he or she should include in gross income the benefits that are more than the amount payable at the time of the insured person's death. If the proceeds are paid in installments, divide the amount held by the insurance company (generally, the total lump sum payable at the death of the insured person) by the number of installments to be paid. Include any proceeds received over this amount in income as interest. If your client's spouse died before October 23, 1986, and insurance proceeds are paid to your client in installments, he or she can generally exclude up to $1,000 a year of the interest included in the installments.

Public Assistance. Your elderly client should not include in his or her income benefit payments from a public welfare fund, such as payments due to blindness.

Credit for the Elderly or Disabled

The maximum available credit for the elderly or disabled is $1,125. Your client can take this tax credit if he or she—

1. Is a U.S. citizen or resident at the end of the tax year, and is either (a) age 65 or older, or (b) under age 65, retired on permanent and total disability, receiving taxable disability income, and did not reach mandatory retirement age during the tax year.

2. Meets two income limits: (a) an adjusted gross income limit, and (b) a limit on the amount of nontaxable Social Security or other nontaxable pensions. These limits are enumerated in the following table.

Client's filing status is	*AND client's adjusted gross income is equal to or more than*	*OR client's nontaxable pension(s) is (are) equal to or more than*
Single, head of household, or qualifying widow(er) with dependent child	$17,500	$5,000
Married filing a joint return and both spouses qualify under (1) above	$25,000	$7,500
Married filling a joint return and only one spouse qualifies under (1) above	$20,000	$5,000
Married filing a separate return and did not live with spouse at any time during the year	$12,500	$3,750

Clients with adjusted gross income or nontaxable pensions equal to or more than the income limits cannot take the credit.

To figure the credit, Schedule R of IRS Form 1040 or Schedule 3 of IRS Form 1040A must be filled out. Refer to IRS Publication 554 for more detailed information about the tax credit for the elderly or the disabled.

Executive Summary—Income Tax Reminders

- Social Security benefits are generally not taxable, unless your client receives a certain level of income in addition to the Social Security benefits. Also, public welfare income is not taxable.
- Income received from accident and health insurance policies may or may not be taxable, depending upon who paid the premiums.
- Military retirement pay is taxable; however, certain disability pensions may not be taxable.
- Life insurance proceeds are generally not taxable. If proceeds received exceed the amount payable under the life insurance contract, then that excess amount is taxable.
- Elderly people and certain retired, disabled people can take a tax credit ($1,125) if they meet certain income limits.

The Pro Shop

Publications

What books can you turn to for reliable ElderCare resource information?

CPA ElderCare: A Practitioner's Resource Guide is your best guide to preparing for the successful delivery of assurance services to the elderly and their families. One of the latest publications in the AICPA's Practice Aid series of titles, it is presented in a looseleaf format to accommodate future updates and resource materials. The guidebook answers your questions about many issues in CPA ElderCare Services and presents the nuts and bolts of getting started in this area. This user-friendly resource is packed with unique features such as—

- Two free PowerPoint presentations that can be customized to fit your needs, including speaker notes to help your discussions with potential clients and your staff.
- Sample documents, including a sample marketing brochure, letters, press release, and assessment forms.
- State-specific information, including phone numbers of state Medicare, Medicaid, Social Security offices, and client referral sources.
- Broad coverage of vital areas, with such topics as choosing a nursing home, long-term care insurance, and federal and state programs for the elderly.

Equip yourself with the knowledge of key concepts, specialized techniques, and extensive lists of resources—and get yourself on AICPA's list for supplements and update services. Call the AICPA at (888) 777-7077 and ask for product number 022504TL.

Reminder: The AICPA publishes a variety of books devoted to topics that may be relevant to your ElderCare engagement, including retirement planning, personal financial planning, Social Security and

disability issues, IRAs, estate planning, and so on. Refer to your latest AICPA catalog, or visit the AICPA Web site at http://www.aicpa.org, for descriptions and ordering information.

Training Courses

What training courses are available to CPAs interested in ElderCare Services?

The AICPA ElderCare Services Task Force has worked with the AICPA's Professional Development Team to develop a series of training courses designed to fulfill the multidisciplinary needs of the CPA ElderCare Services practitioner. Five seminar courses (also available in self-study) are currently in development or currently available, to meet your training needs.

- *Developing an ElderCare Practice* (product no. 730070TL) is currently available through the state societies, and will be available in summer 1999 in a self-study version. This course provides you with an overview of the service, and introduces you to the various disciplines with which you need to be familiar in order to competently provide CPA ElderCare Services.
- *ElderCare: The Medical and Psychosocial Issues of Aging* (product no. 731403TL) is currently in development for summer 1999 availability. This course gives you a working knowledge of the most common physical and psychosocial effects of aging, as well as showing you how to improve your communications with the elderly client.
- *ElderCare: Practice Management and Practice Development Issues in CPA ElderCare Services* (product no. 731402TL) addresses the practice issues unique to CPA ElderCare Services. The course topics range from engagement letters to quality control for the practitioner, with practice aids and checklists designed by the AICPA ElderCare Task Force specifically for this service. This course will be available in summer 1999.
- *ElderCare: The Financial Issues of Aging* (product no. 731400TL) addresses the planning needs and financial con-

cerns of aging, including planning for the costs of long-term care. This course will be available through the state societies in summer 1999.

- *ElderCare: The Legal Issues of Aging* (product no. 731401TL) covers powers of attorney, living wills and other legal issues related to the elderly. It also discusses how some of these legal issues affect the CPA ElderCare practitioner. This course is in development for summer 1999 availability.

In addition, you can gain valuable training from the following highly recommended continuing professional education (CPE) courses:

- *Assurance Services: ElderCare* (product no. 732032TL). This introductory CPE course focuses on how to establish the engagement, how to report on it, and how to deal with special client requests. Materials include suggested practice aids to assist you in moving into this emerging practice area.
- *Professional Ethics for CPAs* (product no. 731593TL). This CPE course reviews the AICPA's Code of Professional Conduct and its application in practice. It explains the reasoning and application of the Code and explains the fundamentals, definitions, implementation, and authoritative bases of the Code.
- *Meeting the Older Client's Needs: Tax, Health Care and Asset Protection Planning* (product no. 732070TL). This practical CPE course provides ideal training for the practitioner who has or expects to have elderly clients. It shows you how to leverage basic tax and financial information into a wide range of custom value-added services, provides you with ready-to-use analytical tools, and prepares you to meet your clients' unique needs.

Call the AICPA at (888) 777-7077 to order these valuable training courses.

CPA ElderCare Marketing Toolkit

The AICPA contracted with the advertising firm of Hill, Holiday, Connors & Cosmopoulos to develop an ElderCare Marketing

Toolkit for practitioners offering CPA ElderCare Services or for those who wish to develop a practice in this area. The AICPA ElderCare Services Task Force oversaw the development of this kit. The advertising kit contains two direct mail letters, four brochures, and sixteen advertisements suitable for your local market. Letters are targeted directly to the elderly and also targeted directly toward their children.

All letters and forms come in electronic form, and can be customized for your firm by taking the CD-ROM to a print shop, or by using Quark Xpress or Adobe Photoshop. The advertisements were professionally produced by our advertising firm for your use. The kit is available to AICPA members for $59 plus shipping and handling. To order, call (888) 777-7077 and ask for product number 022508TL.

Help Desk

Where can you get answers to your ElderCare questions?

Ask the AICPA

Listed below are responses to questions commonly asked by practitioners who are considering offering CPA ElderCare Services.

Why Would a Potential Client Hire a CPA to Perform CPA ElderCare Services? While many other service providers are available, the CPA can bring another level of assurance or comfort to the elderly person (and family members). CPA ElderCare Services use the CPA's reputation for independence, objectivity, and integrity to provide a service which is in the public interest.

The CPA's ability to apply attitudes of independence and objectivity to problems will allow decisions and recommendations to be made which are in the best interests of the client. The CPA will be at the hub of a wheel of providers, conducting ongoing, continuous, and objective review of the performance of each of the service providers. Those providers not meeting goals, objectives, and criteria for performance will be quickly weeded out; other providers will strive to improve their level of service delivery.

Do I Need to Have Any Specific Experience Already? You are not expected to have prior experience, since CPA ElderCare Services are a new market for CPAs. Many services are outside the traditional arena of CPA duties. As these services are developing, the AICPA is addressing the education and skill requirements. You should have some knowledge of geriatric health issues and terminology, even though the CPA will rely on other health care professionals in the direct provision of these services. The CPA should also have general financial planning and management skills. Communication skills, particularly with the elderly, as well as mediation techniques and facilitation skills, will be more important in this arena than perhaps in other client services.

What Do I Need to Get Started in ElderCare? As a minimum, a practitioner should attend the seminar course *Developing An ElderCare Practice*, which is available through the state societies or as a self-study course. (See the "Training Courses" section above for the complete list of AICPA seminars, self-study, and CPE courses.) Practitioners should also obtain from the AICPA the Practice Aid *CPA ElderCare: A Practitioner's Resource Guide.*

The practitioner should also put together an inventory of services available in his or her community for older clients and should identify and contact other professionals (geriatric care managers, doctors, elder law attorneys, and so on) who can assist the practitioner in providing services to older clients.

Refer to the "CPA ElderCare Marketing Toolkit" section above for details on a ready-to-use kit you can order now.

Will CPA ElderCare Services Be Subject to Peer Review? At the present time, ElderCare engagements (other than any portion of the engagement involving the preparation of financial statements or reports prepared under the Statements on Standards for Attestation Engagements) are not subject to peer review.

Professional Advice

The ElderCare Services Task Force welcomes your comments and questions about the emerging practice area of CPA ElderCare Services. The following table provides contact information.

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Internet Counter

Which Web sites will give you the best information about ElderCare issues?

The following Web sites are useful places for the ElderCare practitioner to conduct research about ElderCare topics. These sites all provide numerous links to other sites related to aging and the aged. For a more comprehensive list of organizations related to aging and the elderly, see chapter 6 of AICPA's Practice Aid *CPA ElderCare: A Practitioner's Resource Guide.*

Name of Site	*Content*	*Internet Address*
Access America for Seniors	This brand new site allows seniors to request government documents on-line, provides resource information about programs for seniors, and provides links to other senior sites.	www.seniors.gov
Accountant's Home Page	Resources for accountants, financial, and business professionals.	www.computercpa.com
Administration on Aging	This site contains information on many issues affecting the elderly and their families. It is a great starting point for research and includes numerous Internet links, as well as a comprehensive resource directory for elderly people.	www.aoa.gov

(continued)

Name of Site	*Content*	*Internet Address*
American Association of Homes and Services for the Aging	Information on Continuing Care Retirement Communities and on the Continuing Care Accreditation Commission.	www.aahsa.org
American Geriatrics Society	Information on issues affecting the aged.	www.american geriatrics.org
American Institute of CPAs	Extensive discussion of assurance services and the recent activity of related committees and task forces.	www.aicpa.org
Careguide—ElderCare Resource Center	Although there is some corporate advertising on this site and it appears to be a for-profit enterprise, there is a wealth of information for both the elderly and their caregivers on this site.	www.careguide.net
Elderweb Online	Site has numerous links to Web resources for ElderCare professionals and consumers.	www.elderweb.com
HealthCare Financing Administration	Information on the Medicare and Medicaid programs for consumers and providers.	www.hcfa.gov
Health Insurance Association of America	Information on Medigap policies and long-term care insurance.	www.hiaa.org
National Association of Area Agencies on Aging	Information about local area agencies on aging, including numerous links to local agencies and national associations.	www.n4a.org
National Association of Social Workers	Information about social workers and links to other organizations.	www.socialworkers.org
National Resource and Policy Center on Housing and Long-Term Care	Site for the Home Modification Assistance Program, which provides support for builders and others to make alterations to homes to allow for independent living.	www.usc.edu/go/hmap
Social Security Administration	Social Security information.	www.ssa.gov
U.S. Census Bureau	Demographic information on the U.S. population. Formidable research capabilities.	www.census.gov
U.S. Tax Code Online	A complete text of the U.S. Tax Code.	www.fourmilab.ch/ ustax/ustax.html
Visiting Nurse Associations of America	Links to local visiting nurse associations.	www.vnaa.org

Information on Illness, Medication, Medical Advice, etc.	*Content*	*Internet Address*
IntelliHealth	Advice about numerous medical conditions.	www.intellihealth.com

Information on Illness, Medication, Medical Advice, etc.	*Content*	*Internet Address*
CancerGuide	Question and answer help for cancer patients.	www.cancerguide.org
HealthAtoZ	Good search engine for medical sites.	www.healthatoz.com
RxList	Information on many medicines (including side effects).	www.rxlist.com

Hardware Department

How can you identify safety concerns in your ElderCare client's home?

The following checklist is a diagnostic tool for identifying unsafe conditions in your elderly client's home. Either you, your client, or the client's family can use this handy checklist to assess current conditions and identify what changes are necessary to create a safe environment for your client.

Checklist for Assessing Home Safety

Falling and Trips	*Yes*	*No*	*N/A*	*Comments*
Are physical obstacles to easy movement removed?	____	____	____	____________
Are bathtubs and showers equipped with non-skid mats, abrasive strips, or surfaces that are not slippery?	____	____	____	____________
Do bathtubs and showers have at least one grab bar?	____	____	____	____________
Are throw rugs, runners, and mats that tend to slide removed?	____	____	____	____________
Are lamp, extension, and telephone cords placed out of the flow of traffic?	____	____	____	____________
Is a light switch located near the entrance to the bathroom?	____	____	____	____________
Are staircases, and other heavy traffic areas well lit?	____	____	____	____________
Are lamps or light switches within reach of each bed?	____	____	____	____________
Have loose floorboards been repaired?	____	____	____	____________
Are light switches located at both the top and bottom of staircases?	____	____	____	____________
Do steps allow secure footing?	____	____	____	____________

(continued)

Falling and Trips (continued)	*Yes*	*No*	*N/A*	*Comments*
Are steps even and of the same size and height?	____	____	____	____________
Are the coverings on steps in good condition?	____	____	____	____________
Can you clearly see the edges of the steps?	____	____	____	____________
Are stairways cleared of objects?	____	____	____	____________

Fire and Electrocution Safety	*Yes*	*No*	*N/A*	*Comments*
Is at least one smoke alarm placed on every floor of the house?	____	____	____	____________
Are smoke alarms placed near bedrooms and away from air vents?	____	____	____	____________
Are smoke alarms working properly, are they tested once a month, and are batteries changed once a year?	____	____	____	____________
Do electrical outlets contain a safe number of plugs?	____	____	____	____________
Are cords out from beneath furniture, rugs, and carpeting?	____	____	____	____________
Are damaged or frayed electrical cords replaced?	____	____	____	____________
Are electrical cords attached to walls or baseboards in a safe manner (without using nails or staples)?	____	____	____	____________
Are extension cords being used within recommended rated loads?	____	____	____	____________
Have you checked that outlets and switches are not unusually warm or hot to the touch?	____	____	____	____________
Do all outlets and switches have cover plates, so that no wiring is exposed?	____	____	____	____________
Are light bulbs the appropriate size and type for lamps and fixtures?	____	____	____	____________
Are appliances, heaters, and other items that come with a 3-prong plug being used in a 3-hole outlet or with a properly attached adapter?	____	____	____	____________
Are small stoves and heaters placed where they cannot be knocked over, and away from furnishings and flammable materials?	____	____	____	____________
Is space heating equipment being used in accordance with the installation and operating instructions?	____	____	____	____________

Fire and Electrocution Safety (continued)	*Yes*	*No*	*N/A*	*Comments*
Is there an emergency exit plan and an alternate emergency exit plan in case of a fire?	___	___	___	___
Are towels, curtains, and other items that might catch fire located away from the kitchen range?	___	___	___	___
Do your clients wear short or close-fitting sleeves while they are cooking?	___	___	___	___
Are all extension cords and appliance cords located away from sinks and the kitchen range?	___	___	___	___
Does good, even lighting exist over the stove area?	___	___	___	___
Are exits and passageways kept clear?	___	___	___	___
Are small electrical appliances such as hair dryers and shavers unplugged when not in use?	___	___	___	___
Are ash trays, smoking materials, or other fire sources located away from beds or bedding?	___	___	___	___
If electric blankets are used, are they uncovered when in use?	___	___	___	___
Are electric blankets draped loosely on the bed when in use?	___	___	___	___
Are heating pads turned off when the client goes to bed?	___	___	___	___
Are fuses the correct size for the circuit?	___	___	___	___
Are the grounding features on any 3-prong plug intact (not defeated by removal of the grounding pin or by improperly using an adapter)?	___	___	___	___
Are gasoline, paints, solvents, or other products that give off vapors or fumes stored away from ignition sources?	___	___	___	___
Do TVs and stereos have space around them to prevent overheating?	___	___	___	___
Are areas near the furnace or heater clear of clutter?	___	___	___	___
Are propane, liquefied petroleum, and kerosene stored outside?	___	___	___	___
Are electrical outlets near sinks and other water sources protected by a ground fault circuit interrupter?	___	___	___	___

(continued)

Fire and Electrocution Safety (continued)	*Yes*	*No*	*N/A*	*Comments*
Do wood stoves sit on a non-combustible or on a code-specified or listed floor?	____	____	____	____________
Is only proper fuel used in wood stoves and heaters?	____	____	____	____________
Are heaters only used in well-ventilated rooms?	____	____	____	____________
Are heaters turned off while sleeping and never left operating unattended?	____	____	____	____________
Is the storage area above the stove free of flammable material?	____	____	____	____________
Do your clients refrain from smoking in bed?	____	____	____	____________
Does the house contain a fire extinguisher?	____	____	____	____________

General Safety	*Yes*	*No*	*N/A*	*Comments*
Are emergency numbers posted on or near the telephone?	____	____	____	____________
Is at least one telephone located where it would be accessible in the event of an accident which left your client unable to stand?	____	____	____	____________
Is there a telephone close to the bed?	____	____	____	____________
Are kitchen ventilation systems or range exhausts functioning properly?	____	____	____	____________
Are step stools stable and in good repair?	____	____	____	____________
Are chimneys clear from accumulations of leaves and other debris?	____	____	____	____________
Has the chimney been cleaned within the past year?	____	____	____	____________
Is a working flashlight easily accessible?	____	____	____	____________
Are there a sufficient number of carbon monoxide detectors in use?	____	____	____	____________
Is the water temperature 120 degrees or lower?	____	____	____	____________
Are all medicines stored in the containers that they came in and clearly marked?	____	____	____	____________
Are work areas, especially where power tools are used, well lit?	____	____	____	____________
Are power tool guards in place?	____	____	____	____________
Are containers of volatile liquids tightly capped?	____	____	____	____________

Security	*Yes*	*No*	*N/A*	*Comments*
Do all doors and windows have strong locks?	____	____	____	______________
Has consideration been given to obtaining a security system?	____	____	____	______________

The Assurance Services Alert *CPA ElderCare Services* will be published annually. As you encounter practice issues that you believe warrant discussion in next year's Alert, please feel free to share those with us. Any other comments that you have about the Alert would also be greatly appreciated. You may email these comments to rdurak@aicpa.org or write to:

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