

The *Tax Benefits* of the Lifecare Advantage

If your loved one is considering Edgehill, the community setting the standard for Lifecare senior living in Connecticut, it will come as great news to learn there are tax benefits associated with Edgehill's Lifecare Advantage. As always, a tax or financial advisor is the best person to guide you through the details of potential deductions, but we would like to present a few clarifying points.

- 1** With the Lifecare Advantage at Edgehill, the payment of a one-time 90% refundable entrance fee and a monthly service fee guarantees you unlimited lifetime access to a full continuum of on-site care, at predictable, substantially reduced rates for the rest of your life, regardless of the level of care that may be needed.
- 2** Because of the financial arrangements under which these services are provided, the Lifecare package has advantages from a tax standpoint. Several rulings by the United States Internal Revenue Service (*see below for one such ruling*) have established that a portion of the entrance fee and monthly fees are deductible as a pre-paid medical expense.
- 3** Because these fees are considered a pre-paid medical expense, your loved one can take advantage of the tax benefits even while living independently at a Lifecare community and requiring little or no care.
- 4** These health care tax deductions are available at communities that offer Lifecare, such as Edgehill.
- 5** As a resident of Edgehill, your loved one will receive an annual computed summary from our auditors indicating the percentage of the one-time entrance fee and recurring monthly fee the IRS will allow as a deduction. All computations, of course, will be subject to IRS rulings.
- 6** Once again, consult a financial or tax advisor for answers to all your financial questions.

A Tax Court Decision

Delbert L. and Margaret J. Baker v. Commissioner of Internal Revenue

A United States Tax Court Decision (Docket No. 448-02 — Filed February 19, 2004)

The Bakers lived in a two-bedroom, two-bath independent-living residence at an upscale California Lifecare community, with access to medical services from the community's on-site health center.

The Bakers claimed medical deductions equal to about 27% of their upfront entrance fee and about 40% of their monthly fees for two later years that were audited by the Internal Revenue Service (IRS). These percentages were calculated by a committee of residents at their community, based on financial data supplied by the community's management company.

When the IRS audited the Bakers' returns, they allowed deductions equal to only about 19% of the monthly fees. The Bakers decided to take their case to Tax Court. Their only losing argument was an attempt to claim medical deductions for expenses allocated to the community's

swimming pool, spa and fitness center. (These types of expenses are not deductible if taking advantage of the amenities is simply beneficial to your overall health, as opposed to treatment for a specific medical condition.)

The Tax Court's 2004 decision confirms that a resident of a Lifecare community can treat, as pre-paid medical expenses, a significant percentage of the one-time entrance fee and recurring monthly charges. These amounts don't in any way depend on the level of health care services actually received by the resident during the year in question. They depend only on the Lifecare community's aggregate medical expenditures in relation to overall expenses or overall revenue from fees paid by the residents.

This Tax Court Decision was summarized by Bill Bischoff for SmartMoney.com, May 6, 2005, and is reviewed here with permission from SmartMoney.com.

Selecting a Retirement Community — Your Options

Continuing care retirement communities (CCRCs) are designed to provide an active, fulfilling lifestyle, along with peace of mind for the future. While all CCRCs offer residential housing and amenities, the range and cost of on-site services may vary. We offer the following summary to help you make the most informed decision.

Type A – Lifecare

A Lifecare community is a CCRC that offers full access to not only full-service housing and a wide range of amenities and services, but also complete on-site long-term health care. Through a one-time entrance fee and monthly service fee, your loved one is guaranteed lifetime occupancy. If assisted living or skilled nursing care is required, they may transfer to the appropriate level of care at a predetermined, substantially discounted monthly rate for as long as care is needed. In simplest terms, Type A Lifecare communities promise to care for residents for the rest of their lives without significantly increasing their monthly fees.

Type B – Modified CCRC

These communities provide housing, services and amenities, with assisted living and skilled nursing care typically provided in one of two ways: either a limited number of free days included as part of the entrance fee with additional care billed at per diem market rates, or an ongoing, minimally discounted rate for care services. Health care services may be available on or off site, and two monthly fees may be incurred if couples require different levels of care.

Type C – Fee-for-Service

In a fee-for-service community, housing, services and amenities are provided under the resident agreement. Access to long-term health care, as needed, is typically guaranteed but charged at fee-for-service market rates. If care becomes needed on a short-term basis, in order to maintain the independent living residence, your loved one would be required to pay your monthly fee on that residence, plus the costs of housing and health care received in the assisted living or skilled nursing residence.



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