A comprehensive review of Long-Term Care

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Planning for Independence and Freedom

There's nothing like a critical change in health to catapult an entire family into the complex and costly considerations surrounding long-term care.

We tend to assume we won't need long-term care until we are older; however, while it's true most people who need long-term care are older than 65, a person can need long-term care at any age. In fact, about 40 percent of people currently receiving long-term care are adults aged 18 to 64 years old.[1]

Knowledge is power. Know the facts about long-term care so that you can make solid decisions about protecting your assets, your loved ones and your financial security.

The hidden costs of waiting

The need for long-term care is unpredictable. It can be needed at any age due to illness, injury or disability. It's important to realize that long-term care services don't just mean ongoing nursing home care; it could be home health care after a car accident, for example. When thinking about conditions that can affect anyone regardless of age, bone and joint fractures/disorders/replacements come first to mind, then there's fibromyalgia, diabetes, depression, stroke, COPD and cancer.

Planning for the future is more than planning for your assets after you die, it's planning for the unknown as well. Long-term care may be needed due to a terminal condition, disability, illness, injury, or the growing infirmity of old age.

Long-term care can be a huge financial burden on your family, particularly if a family member has to leave his or her job to provide care for you. Knowing the range of possible financing arrangements for long-term care ahead of time lets you avoid the stress of having to make critical life-changing decisions suddenly, with possibly disastrous consequences for both you and your family.

There are only three things that matter in long-term care: planning, planning and planning!

The growing importance of long-term care

According to the Administration on Aging, the older population – persons 65 years or older – numbered 40.3 million in 2010 (the latest year for which data is available). They represented 13 percent of the U.S. population, about one in every eight Americans. By 2030, there will be about 72.1 million older persons, more than twice their number in 2000. People 65+ represented 12.4% of the population in the year 2000 but are expected to grow to be 19% of the population by 2030.

[1] US Department of Health and Human Services

The statistics are what they are

More importantly, the number of older Americans needing long-term care services now is growing exponentially, and is projected to increase to 12 million by 2020. Nearly 70 percent of Americans over the age of 65 will have a long-term care need[2] before they die. Depending on the type of care needed, over an average 3-year period, the price of care in the Northeast U.S. can cost upward of $360,000 to $600,000. Factors that increase that risk include:

Age – the risk generally increases as people age

Marital status – Single people are more likely to need care from a paid provider

Gender – Women are at higher risk than men, primarily because they tend to live longer

Lifestyle – Poor diet and exercise habits can increase risk

Health and Family History – also impacts risk

Research shows most care is received at home and not in a facility. At $19 per hour, the cost of a home health aide providing part-time care could cost more than the price of care in a facility.[3] These costs are based on today's rates and surely those rates will continue to rise in the future.

A significant part of retirement planning encompasses protecting and preserving wealth, income and legacy assets. With the costs and probability of care as high as they are, care insurance is an important component to retirement planning. Without it, most, if not all, expenses would be paid out-of-pocket.

Long-term care defined

Long-term care is defined as a variety of health care services that are required to meet personal or health care needs for an extended period of time by individuals with a chronic illness or disability who are unable to fully execute Activities of Daily Living (ADL). The illness or disability could include some kind of cognitive impairment such as memory loss, confusion or disorientations as a result from conditions such as Alzheimer's disease or dementia.

Most long-term care is non-skilled personal care assistance, such as help performing everyday ADLs, which include:

- Bathing
- Dressing
- Using the toilet
- Transferring to or from bed or chair
- Caring for incontinence
- Eating

The goal of long-term care services is to help individuals maximize their independence and function at a time when they are unable to be fully independent.

[2] US Department of Health and Human Services
[3] Genworth 2014 Cost of Care Survey

Qualifying for long-term care assistance

Individuals can qualify for LTC coverage when he or she can no longer perform at least two of the six ADLs, or is cognitively impaired.

The role of long-term care insurance

Long-term care insurance funds retirement plans with pennies on the dollar plus tax-free benefits. Asset-based long-term care allows idle assets to be moved into a plan to leverage those funds; a death benefit is provided if no care is ever needed and includes a Return of Premium option, if the owner decides they want their money back.

Advance planning also enables individuals to assess their financial assets. It takes into account many issues that outline health care preferences. Additionally, they have control over the type of care options they'll receive if/when assistance is needed. It also identifies whom their family is going to call if/when care is needed; care coordination provides a case manager to help families through the process and removes the burden from them.

Making plans about future care lifts the burden of crisis planning from families. And, even though everyone's situation is different, there are options.

Tax incentives for purchasing long-term care insurance

The Internal Revenue Service views LTC as a qualified health care expense. Individuals can deduct their premiums up to an age-eligible amount, if their health care expenses exceed 7.5 percent of their adjusted gross income. Business owners may be able to take a much more substantial deduction based on the structure of their business.

The importance of choosing the right insurance company

Individuals should carefully choose an LTC insurance company. The quality of the company and their financial strength can have an impact on future benefits and premiums. Most LTC insurance contracts are guaranteed renewable, which means the insurance company is required to keep the coverage in force, however, they do reserve the right to increase premiums by class. Some insurance companies have raised premiums on their policyholders while other companies have never increased premiums on their policyholders.

Other LTC options

Other options for LTC include:

Option 1 – Self-insuring

If an individual is financially independent, they often feel they can self-insure the risk of long-term care. However, this might not be the most prudent funding strategy.

Cost is only one aspect of LTC that needs to be addressed. Often, we forget the emotional side of the equation. Without a plan in place how will caregivers know which assets to liquidate? What level of care should individuals get? Who makes the decisions? Today, children are often spread out all over the United States and it seems the children living the farthest away tend to have the most to say about their parents' care. Having a proper plan in place will help reduce stress at a time when stress levels are high.

Additionally, self-insuring might not be appropriate for preserving the individual's assets for their heirs; assets they currently own are frequently not liquid assets and self-insuring could create tax consequences the individual did not consider.

Many people decide to self-insure without really understanding he impact a long-term care event could have on their assets. For example, if the current cost of care is $300 per day and we assume inflation will increase that amount by 5 percent annually, a five-year care event 30 years from now could easily cost more than $2 million, and seriously jeopardize any legacy planning you might have in place.

Option 2 – Medicare

Medicare covers skilled care with a maximum 100-day coverage period and must meet the following requirements before receiving Medicare services:

- Must be three days of hospital admission
- Must go directly to the nursing home from the hospital
- Co-pay: First 20 days are paid in full, then client co-pays up to 100 days
- Must be deemed rehabilitative to qualify (going to get better)

Medicare is designed to pay for short-term, acute illness only. Medicare pays only 2 percent of all skilled nursing care expenses in the United States today, and nothing for custodial or intermediate care, which is the type of care most people require.

Option 3 – Medicaid

Medicaid requires individuals to spend down their assets so they have no more than $2,000 in controllable assets[4], after which the program will begin to pay for care. Each state has different requirements for Medicaid. Additionally, LTC options within Medicaid are quite limited. In 2006 the Deficit Reduction Act severely limited many techniques being used to protect assets from Medicaid spend down.

The consumer pays for long-term care out of pocket until his or her assets are exhausted, at which time Medicaid (not Medicare) kicks in. This is basically a welfare program -- and it feels like it. Those on Medicaid generally wind up in nursing homes.

Option 4 – Health insurance

Most forms of health insurance focus on medical expenses such as hospital stays and physician visits, not the ongoing personal care and nonmedical services associated with long-term care.

[4] Kiplingler - November 2014

Long-term care insurance policy choices

Long-term care insurance policies have five basic components:

1. **Daily or monthly benefit amount**

   The daily of monthly benefit amount is chosen at the time of purchase. This amount is the maximum amount the policy will pay per day or month for the benefits the policy provides, This amount is usually indicative of local long-term costs, however, many individuals will choose amounts lower or higher, depending on what type of care they envision for themselves.

2. **How benefits are paid**

   There are three basic types of LTC policies:

   - **Reimbursement –** a reimbursement policy will reimburse individuals' actual covered costs up to the daily or monthly benefit amount. This type of policy is generally the least expensive because of its limitation on paying actual expenses incurred.
   - **Daily indemnity –** a daily indemnity policy will pay the full daily benefit amount per day as long as at least one covered service was incurred that day. This type of coverage is more flexible for future unknown care, since any additional dollars paid out each day could take care of non-covered care costs.
   - **Cash –** A cash policy is the most expensive type LTC insurance available. This type of policy requires no proof of care incurred, thus it could pay for any type of care including care from family and friends or the dollars could be used to offset loss income or any other need the individual had.

3. **How long term care benefits will be paid**

   The benefit period determines how long benefits will be paid. LTC insurance companies generally offer anything from a benefit period of two to three years all the way up to lifetime unlimited benefits.

   Lifetime benefits are the most expensive because life expectancies are increasing and creating a great risk of needed LTC services. Historically, the average claim from a long-term care insurance policy has been anywhere from 2 ½ to 4 years. The industry claims experience, thus far, is somewhat misleading as a good proportion of the policy claims were on older "nursing home only" type of policies and specifically excluded home health care. It's unclear how many of the claims for nursing home care would have been for home health care or assisted living facilities first. Most of today's long-term care insurance policies cover a much broader array of care services.

4. **Elimination period**

   An elimination period can be viewed as a deductible. This is the period of time the individual will have to pay out of pocket for care before an insurance company begins to provide coverage. The most common elimination period is 90 days, but it can be as low as zero days or as high as 180.

5. Inflation protection

The most common inflation option is a 3 percent compound increase. With the compound increase feature, the policy would have equal buying power in the future if LTC costs increase at the same rate; for example, in 20 years a $166 benefit would inflate to $300. Another option is simple inflation protection, which adds 5 percent to the daily benefit amount each year; for example, $300 becomes $450 in the tenth year, $600 in the twentieth year, and $750 in the thirtieth year. The last option is no inflation protection and is the most expensive option to increase coverage in the future.

Taking the next step

Awareness is only the first step. Learn the facts and understand all the options, then protect your retirement plan from the risk of long-term care. Long-term care insurance is a viable solution for planning for retirement years. By working with an insurance professional who represents a multitude of insurance companies, an individual can be assured they will not only receive care someday on their terms, but also their family's needs will be covered with the right insurance protection.