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Why Are We Hearing So Much About Long-Term Care?

Many of us grew up with them: David Lander, “Squiggy” on TV’s *Laverne & Shirley*; Mouseketeer Annette Funicello; comedian Richard Pryor; actor Michael J. Fox; and Superman himself, Christopher Reeve. All of these icons were struck down at an early age with a debilitating accident or illness. David Lander, Annette Funicello and Richard Pryor contracted multiple sclerosis. At age thirty, Michael J. Fox was diagnosed with Parkinson’s disease. Christopher Reeve’s accident at age forty-three left him paralyzed from the neck down. These events, and hundreds of thousands more just like them, underline a reality that many Americans have never faced. A long-term-care need can hit at any time, at any age. In fact, forty percent of people needing long-term care in this country are working-age adults between eighteen and sixty-four.¹

ment so severe that the individual needs constant supervision. When people consider the subject of long-term care, they often think about nursing homes, but long-term care has little to do with nursing homes. Understanding the difference can help you protect your family and finances.

Long-term care is a continuum of care services and housing you will need when you live a long life. Think you won’t live a long life? Remember twenty-five years ago: If you had a stroke or cancer, you died. Few had heard of Alzheimer’s—a disease that is now the leading cause for long-term care services. The longer you live, the more likely you will need care. Long-term care is a family issue. It really has very little to do with the individual. Families provide more than seventy percent of long-term care, with the majority of

Families provide more than seventy percent of long-term care, with the majority of such care being provided by the individual’s spouse, children and grandchildren.

Long-term care includes needing assistance with daily living (toileting, bathing, dressing, eating, moving about and continence).² It also includes cognitive impair-

such care being provided by the individual’s spouse, children and grandchildren.³ Long-term care rarely brings families together. It tears them apart because the

responsibility is not shared equally. The question is not who will take care of you, because your family will most often, but rather what happens to your family and finances.

We all know about saving for retirement, but how many of us plan for our care? While we have concerns about health as we age, or as we watch our parents age, most of us simply do not want to think about the issue. Few of us are planning for the eventual need for long-term health care. Most people put off long-term health care planning as long as they can because it is such an uncomfortable topic to discuss. It forces us to deal with difficult issues that we may not feel able to contemplate, i.e., the realities of aging, the decline of our health and the loss of independence. Yet through planning, we are able to place all these difficult questions on the table when we can best deal with them instead of waiting until it is too late.

Compounding this difficulty is that we are quickly becoming a “sandwiched generation” caring both for our children and parents at the same time. Pretty soon, we will begin to see two generations in retirement at the same time. The American female today is projected to spend more years taking care of aging family members than her own children.⁴ By 2005, thirty-seven percent of U.S. workers will be more concerned with caring for a parent than for children.⁵

At one time, long-term health care choices were limited. Your choices included living in your own home, moving in with your children or moving to a nursing home. In recent years there has been an explosion of new housing and care choices that makes the decision of what to do even more complicated. Today, long-term care can be received in your home, adult day care centers, assisted living facilities and nursing facilities. Compounding the challenge of where to live is how to pay for it.

Formal care is expensive, regardless of whether it is provided at home, in the community or in facilities. There are five primary sources that may be used to pay for some aspects of this care:

- Personal funds
- Health insurance and health maintenance organizations (HMOs)
- Medicare
- Medicaid
- Long-Term Care Insurance

Personal Funding Sources:

Simply put, you pay for your own care through personal savings, annuities, qualified retirement plans, life insurance, viatical settlements, home equity or reverse mortgages.

A 1996 Health Care Financing Administration survey estimated the annual cost of formal long-term care at \$108 billion. Patients and their families paid twenty-eight percent (\$30 billion). In effect, they self-insured their care. Many or most had not intended to do so, and their money did not go to its intended purpose, such as living expenses or a family legacy.

Most retirees scale their living standard in a way that does not require them to invade principal or, for that matter, touch income from investments. The sudden need for long-term care forces them to make an extremely difficult choice between living much more modestly, if not in effective poverty, or invading principal—something that most retirees do not want to do.

Even very wealthy individuals, who could easily self-insure the risk, often choose to transfer the risk through insurance, thus using pennies to protect dollars.

Health Insurance and HMOs:

The bottom line is that health insurance and HMOs do not pay for any type of custodial care, and thus cannot be considered as a source of funding long-term health care costs.

Medicare:

Since 1965, Medicare has been the federal insurance plan for people age sixty-five and older. Medicare Part A covers hospital charges and expenses. Part B primarily covers doctor's charges, outpatient services and other related expenses.⁶

Medicare was not designed to cover long-term care expenses. It pays for some skilled nursing facility expenses and some home health care expenses; however, the skilled nursing facility coverage is limited. To qualify for coverage, you are required to spend three or more days in a hospital and have a skilled medical need. If these criteria are met, you are allowed twenty nursing home days. If the skilled medical need continues after the twentieth day, you are responsible for the first \$109.50 per day (2004), and then Medicare pays the balance. After one hundred days, you are responsible for one hundred percent of the daily cost. On average, Medicare only pays for twenty-three days in a nursing facility. Home health care covered by Medicare includes skilled services only, and is of a restorative nature only.

Medicaid:

Medicaid is a federal-state health insurance program for the poor. In order to qualify for long-term care coverage, you must divest yourself of your assets, which means spending down your assets to the poverty level. Many people start out as private pay but then exhaust their financial resources as a stay continues, and then qualify for Medicaid. In most states, in order to receive Medicaid benefits, you need to be in a nursing home, the one place most individuals do not want to be. The option for home care or assisted living is eliminated because most Medicaid programs pay very little for these settings.

Long-Term Care Insurance:

Insurance policies designed to help cover the costs of long-term care became available only about twenty years ago. They

were developed in response to a rapidly increasing number of people needing care at the very time that fewer family members could provide it. In the early years, policies were called Nursing Home Insurance and were very restrictive in what services were covered. Today, long-term care insurance has evolved to meet the complicated needs of modern families. The best policies provide an array of choices and options that allow you to tailor your coverage to your individual needs. Many consumers now view these policies as insurance to help keep them out of a nurs-

ing home. Most policies sold today provide comprehensive coverage in the home, adult day-care facilities, assisted living facilities and nursing facilities.

With so many policies today being issued to people in their forties and fifties, the financial viability of the carrier is of paramount importance.

Long-term care insurance is “life insurance” for your retirement portfolio. During your working years, you generally purchase life and other forms of insurance to protect your assets, such as your house, your cars, your family and your income. But what protects your retirement portfolio from the real risk of having to pay for long-term care because you live a long life? Long-term care insurance helps protect your portfolio and your retirement. Otherwise, you may have to divert retirement income and eventually invade principal to provide for your care.

What to Look for in a Long-term Care Policy

Insurance Company Financial Strength:

Long-term care is one of the fastest growing segments of the insurance industry, and as a result, well over one hundred

companies offer coverage. Many of these companies may have two, three or four different policies to choose from. How do you decide what is best for you with literally hundreds of choices?

It can be said that the best long-term care policy is the one that pays benefits at the time of a claim. With so many policies today being issued to people in their forties and fifties, the financial viability of the carrier is of paramount importance. Claim time may not be for thirty or forty years. You should strongly consider using carri-

ers with an A, A-plus or better ratings from A.M. Best, as well as assets in the many billions of dollars.

Choosing a Daily Benefit:

The daily benefit is the maximum amount that a policy will pay for long-term care services per day. Most policies allow you to choose a daily benefit ranging from \$50 to \$350 per day. To determine what this amount should be, you need to ascertain the cost of nursing facility care where you plan to live in retirement. You can choose to self-insure a portion of this cost if you will have ongoing income from investment assets, Social Security benefits, pensions or retirement funds. By factoring this discretionary income, the daily benefit may be reduced, saving on the insurance premium. In addition, co-insuring the cost of care is necessary only if you need the most expensive care, typically a nursing facility. Few people end up in nursing homes, with the vast majority of care being delivered in the community.⁷ Thus, a contribution from you may never be needed because the policy’s daily benefit will likely cover the cost of home care, adult day care and assisted living facilities.

Choosing a Benefit Period:

The total amount of money that is available in most policies is determined by multiplying the daily benefit by the number of years in the benefit period. For example, a policy that pays \$100/day, with a three year benefit period, has a total pool of \$109,500 ($\$100 \times 1095 \text{ days} = \$109,500$). Many insurance companies offer benefit periods of two, three, four, five or six years, or for a lifetime.

How long should the benefits last? The answer directly affects the premium cost. It also creates a dilemma. The simple answer is to select the longest benefit period that you can afford and with which you feel comfortable. The dilemma is that the suggested daily benefit may be so high that the longest benefit period will make the policy unaffordable.

For example, let’s assume that a daily benefit amount of \$150 per day is appropriate. To give you peace of mind, you desire an unlimited lifetime benefit period. When the premium amount is calculated, it is well above your budget. To lower the premium you can reduce the daily benefit and/or lower the benefit period from lifetime to a certain number of years, such as four years. What is the right answer? If you desire little or no co-payment, a higher daily benefit for a shorter period of time makes sense. You may never use the entire benefit period; however, you definitely will have to produce private funds every month to cover the shortfall created by an inadequate daily benefit.

If you have a family history of Alzheimer’s disease or other hereditary degenerative diseases that can run for many years, you may be best served by a policy with a long or unlimited benefit period. Again, this must be balanced against the cost.

Choosing an Elimination Period:

The elimination period (sometimes called a waiting period) is the number of days that you pay for your long-term care before the insurance kicks in. The elimination period typically ranges between zero and 180 days. The longer the elimination period, the smaller the premium. A

ninety-day elimination period is the option most often selected.⁸

Choosing Inflation Protection:

Inflation protection is one of the most important decisions when designing a long-term care insurance policy. No one will argue that the cost of providing care is only going to rise over the coming years. Most policies offer a set five percent inflation factor. If you are under age sixty-seven, five percent compound inflation is recommended because your need for care may come much later, when the cost is likely to be far greater.⁹

If you are between the ages of sixty-seven and seventy-five, you should consider including five percent simple inflation in your policy because you may need care within only a few years. If you are older than age seventy-five, a higher daily benefit without any inflation protection in your policy may make the most sense.

Some policies, especially group policies, offer a future-purchase option. This allows you to buy extra coverage at certain intervals (i.e., every one, two or three years). Initially, the premiums may be considerably lower as compared to policies with compound or simple inflation built in because the additional coverage is priced at the attained age the additional coverage is purchased. However, accepting the future purchase option increases the premium substantially, especially in the later years. If you decline the future purchase option one or more times, it may not be offered again. When this happens, your policy's daily benefit is locked in and the amount you will be at risk to self-insure increases as health care costs inflate.

Who Should Buy Long-term Care Insurance?

Anyone who can afford long-term insurance, is healthy enough to get it and has assets to protect, should. There is no magic formula for what age to buy, but many people today are beginning to start looking for coverage in their forties. Because health can be unpredictable, and




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many insurance companies are becoming increasingly stringent with underwriting, there are compelling reasons to put a plan in place as soon as you can afford the premiums. However, if you are in poor health or advanced in age, you may not be able to get a policy for any reasonable amount of money. If your income is extremely limited, or if you have trouble making ends meet, then long-term care insurance is probably not best.

Two reasons to purchase long-term care insurance relate to your family, or lack of one. Family members provide seventy to eighty percent of all long-term care. If you have no immediate family, you will likely have to pay for your care sooner than if you have immediate family. Because you have immediate family is no guarantee that they will provide care for you. The stress of caregiving can take a toll on the physical and psychological health of the family member providing the care. Long-term care insurance does not replace your family in providing care; it just makes it much easier for them to do it better and for a longer period of time. 

Endnotes:

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- 4 Ken Dychtwald, PhD, *AgePower*, Penguin Putnam, Inc. Publishers (1999).
- 5 The Conference Board (1997) / *Business Insurance* (1996); (www.conference-board.org).
- 6 *2003 Guide to Health Insurance for People With Medicare*, National Association of Insurance Commissioners. (Also, the Department of Health and Human Services publishes a new guideline each year on Medicare coverage for various healthcare services.)
- 7 *The National Nursing Home Survey: 1999 Summary*, Table 25, p.28, National Center for Health Statistics (www.cdc.gov/nchs).
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