

Insuring for Long-Term Care

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- ▶ As the article highlights, costs associated with long-term care can quickly deplete your assets, thereby jeopardizing your financial security.
- ▶ However, long-term care insurance can be purchased to help defray potential long-term care costs.

Long-term care costs can be one of the biggest risks to a retiree's nest egg. Long-term care refers to a broad range of services designed to provide ongoing care for people with chronic challenges who have lost the ability to function independently. The need for care arises when physical or mental impairments prevent an individual from performing certain basic activities (called ADLs), such as bathing, continence, dressing, eating, toileting, and transferring. Long-term care services may be provided in a variety of settings, such as the home, adult day care centers, assisted living facilities, or nursing homes.

Probability and Duration of Care

Based on data originally published in 2004 by the National Bureau of Economic Research, roughly two-thirds of 65-year olds will enter a nursing home. Twelve percent of men and 22 percent of women will have a stay of greater than three years, while one in eight women will actually reside in a nursing home for more than five years. These figures do not reflect the probability that an individual may need in-home health care, assisted living, or other community-based, long-term care services.

Costs of Care

The costs of long-term care add up quickly. According to the Genworth 2010 Cost of Care Survey, in Massachusetts the median daily rate was \$321 for a private room in a skilled nursing home or \$117,000 per year. This type of expense can quickly drain your retirement savings that took years to build. Home health care can be costly too. According to the same survey, the median hourly rate was \$24 for a licensed home health aide in Massachusetts or \$70,000 per year with eight hours of coverage each day.

Medicare and Medicaid

A common misconception exists that these costs are paid for by Medicare, the federal medical insurance program designed for people at least 65

years of age or the disabled. Medicare will only pay up to 100 days in a nursing home if you qualify at all, and will only cover certain types of skilled care in your home. In addition, if you purchase a Medicare Supplemental (Medigap) plan or participate in a Medicare HMO plan, these plans will typically not cover long-term care services that are not paid by Medicare.

On the other hand, Medicaid does cover long-term care, but it is a welfare program. To qualify, patients must have limited assets and those who might consider transferring assets for the purpose of qualifying for Medicaid should realize that legal restrictions exist.

Long-Term Care Insurance

You work a lifetime to build your assets—incorporating long-term care insurance (LTCI) into your retirement plan as an asset protection strategy may make sense.

LTCI contractually pays a selected dollar amount per day for a stated period of time for care in nursing homes and other settings, such as home health care. Other services may be included, such as adult day care, adult foster care, chore care, homemaker services, and respite care. Services will be covered if they are either medically necessary or if the policyholder needs assistance with at least two or three ADLs.

LTCI can be costly for individuals who are insurable. Depending on your age at application and the coverage selected, annual premiums can range from \$1,000 to \$10,000 or more. Despite the cost of annual premiums, LTCI should be a consideration for many individuals to help protect their wealth from potential and significant long-term care costs.