

# Long-Term Care: *Is It a Risk Worth Insuring?*

**A**s we age, we are more likely to consider the status of our health and how we might financially meet our long-term care needs. Long-term care refers to a broad range of medical and personal services designed to provide ongoing care for people with chronic disabilities who have lost the ability to function independently. Long-term care services may be provided in a variety of settings, such as the home, community sites (for example, adult day care centers) or nursing homes.

The need for care arises when physical or mental impairments prevent one from performing certain basic activities of daily living (ADLs), such as bathing, continence, dressing, eating, toileting, and transferring. Normally, benefits from a long-term care policy are triggered when an insured is no longer able to perform two or three ADLs. According to a 1991 study in *The New England Journal of Medicine*, the probability that men and women who have reached 65 years of age will spend some time in a nursing home is 33% and 52%, respectively. This does not reflect the probability that an individual will need in-home health care, assisted living, or other community-based long-term care services, or that medical advancements will likely allow people to live longer.

## Probability that a 65 year old will be in a nursing home at some time during the rest of his/her life

<i>Nursing Home Stay of:</i>	<i>Chances for Men</i>	<i>Chances for Women</i>
0-3 months	11%	11%
3-12 months	8%	10%
1-5 years	10%	18%
More than 5 years	4%	13%
<b>Of any duration</b>	<b>33%</b>	<b>52%</b>

Source: *The New England Journal of Medicine*, February 1991

## Costs of Care

The costs of long-term care add up quickly. In Massachusetts, a private pay patient's daily charge in a skilled nursing home averaged \$210 in 2000, while the average length of stay is 321 days. At \$210 per day, the average annual cost is more than \$76,000. This type of expense can quickly drain your retirement savings that took years to build. Home health care costs can also add up. According to the Massachusetts Division of Insurance, "if you received 2 hours of personal care from a home health aide in your home, three times a week throughout the year, the annual cost could have been approximately \$9,360, or an average of \$60 per day of care [2000 data]."

## 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. However, according to the Massachusetts Department of Insurance, "most long-term care is paid for from: (1) an individual's own resources, (2) his or her family's resources or (3) Medicaid, the federal-state government program designed to cover the health care costs of a mostly indigent population. Contrary to popular belief, traditional health insurance and Medicare usually provide little or no coverage for long-term care. Currently, most people who need long-term care services must pay for it on their own unless (a) they have long-term care insurance policies with benefits for the services they need or (b) they are or become eligible for Medicaid or other government assistance."

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, which varies by state. The most common cap on assets is \$87,000, which excludes a home that a spouse or dependent or disabled children are occupying. Those who might consider transferring assets for the purpose of qualifying for Medicaid should realize that legal restrictions exist. Recently, the budget crunch has caused several states, including Massachusetts, to consider changes to eligibility requirements. According to a recent article in the *Boston Herald*, current regulations state "for every \$6,420 transferred to a relative or trusted friend, a [Massachusetts] senior is ineligible for Medicaid for one month, accumulating to as much as 36 months if they transfer \$231,120 or more. Ineligibility can extend longer for transfers to trust funds."

## Options

You work a lifetime to build your assets and nest egg—incorporating long-term care insurance into your financial plan as an asset protection strategy may make sense. This is especially true for those with investment assets between \$150,000 to \$1.5 million (this excludes the value of your primary residence), or those with more than \$1.5 million who want to be sure to leave assets to their heirs.

Long-term care insurance contractually pays a selected dollar amount per day for a stated period of time for

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skilled, intermediate, or custodial care in nursing homes and other settings, such as home health care. In Massachusetts, two types of long-term care insurance are sold: a policy covering both nursing home and in-home health care and a policy solely for in-home health care. Other services may be included, such as adult day care, adult foster care, chore care, home-maker 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.

Potential long-term care needs should be evaluated ideally around age 50, when it is likely that retirement resources can be reasonably estimated. But whenever you consider long-term care insurance, you need to be insurable and determine

whether the premiums will be affordable, especially during your retirement years. Premiums vary depending on many factors, including your age at the time of the policy's purchase (the younger your age at the policy's initiation, the lower the premium), your health, length of benefit period (for example, 3 years, 5 years, or lifetime benefits), the dollar amount of the daily benefit provided, and whether the policy includes some form of inflation protection (an inflation rider). If you purchase a tax qualified policy, as defined by federal law, you may be able to deduct the portion of the premium greater than 7.5% of your adjusted gross income (a cap is placed on the amount of the deduction depending upon your age). If benefits are paid, you receive them tax-free.

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If you would like to investigate your needs for long-term care insurance, please contact us and we would be pleased to put you in touch with a long-term care insurance advisor.

