

# Long-Term Care

## Plan Ahead to Protect Your Assets

by Chad Bodner

*As America's population ages, planning for the costs associated with long-term care is becoming an increasing concern.*

In fact, by 2030, there will be about 72.1 million people over age 65 (19% of the population), compared to 38.9 million in 2008.<sup>1</sup> Being unprepared can mean financial devastation for those without long-term care coverage.

### What is long-term care?

Long-term care includes the help needed when one can no longer perform the day-to-day activities normally associated with independent living as a result of chronic illness, disability, disease or simply the frailties of aging. This includes daily activities such as bathing, dressing and eating. Assistance can be provided in one's home, community or at an assisted living facility or nursing home but can also include help either from family or friends to supplement services from paid providers. This is because so much of the care needed is personal care, for example, help managing medications, or supervision for someone with a condition such as Alzheimer's disease.

### What are the costs?

It is estimated that 2/3 of seniors could potentially exhaust their entire savings paying for just 1 year of nursing home care.<sup>2</sup> The 2009 national average cost for a private room was \$219 per day (\$79,935 per year), while assisted living averaged nearly \$105 per day (\$3,131 per month). Home healthcare aides now charge an average of \$21 per hour; adult day services run \$67 per day. Alarming, but not surprisingly, these costs are on the rise. Private room costs in 2009 increased by 3.3% over those of the previous year.<sup>3</sup>

When planning for long-term care costs, it is also important to consider the typical length of stay in a nursing facility. A recent study by the Center for Retirement Research found that, in most cases, care is needed for an average of 3 years.<sup>4</sup> There are many individuals, however, who need care for a considerably longer period.

<i>Average National Rates</i>				
	Nursing Home Private Room	Assisted Living	Home Healthcare Aide	Adult Day Services
2009 Average	\$219/day \$79,935/year	\$3,131/month	\$21/hour	\$67/day
2008 Average	\$212/day \$77,380/year	\$3,031/month	\$20/hour	\$64/day
\$ Change from '08	+\$7/day	+\$100/month	+\$1/hour	+\$3/day
% Change from '08	+3.3%	+3.3%	+5.0%	+4.7%



### *2009 Average Regional Rates*

	Nursing Home Private Room	Assisted Living	Home Healthcare Aide	Adult Day Services
Nebraska	\$163/day \$59,495/year	\$2,655/month \$31,860/year	\$18/hour	\$52/day
Omaha	\$202/day \$73,730/year	\$2,837/month \$34,044/year	\$17/hour	\$31/day
Surrounding Areas in Nebraska	\$147/day \$53,655/year	\$2,393/month \$28,716/year	\$19/hour	\$56/day
Iowa	\$148/day \$54,020/year	\$2,756/month \$33,072/year	\$23/hour	\$49/day
South Dakota	\$175/day \$63,875/year	\$2,309/month \$27,708/year	\$19/hour	\$70/day



## Long-Term Care Myths and Facts

**Myth:** Long-term care is only for the elderly.

**Fact:** The need for long-term care can arise at any time in a person's life. While the majority of people who require long-term care are elderly, younger people can require it at anytime as the result of a traumatic accident, stroke or degenerative medical condition. In fact, 40% of the people in our country who need long-term care are under the age of 65.<sup>5</sup>

**Myth:** My family and I probably won't need long-term care.

**Fact:** According to a recent report, today a 65-year-old has a 70% chance of needing long-term care services at some point during his or her lifetime.<sup>6</sup> When you consider that people are living longer on average, the chance of needing long-term care is likely to increase in the future.

**Myth:** My family can't afford long-term care insurance.

**Fact:** Long-term care insurance is more affordable than you might think and it can be tailored to meet your needs as well as your budget. The costs of long-term care insurance can be managed by creating a retirement or financial plan that is right for you. In addition, the younger you are at purchase, the more affordable premiums are. Today's long-term care insurance offers great flexibility, as well as a variety of plans available to suit your lifestyle.

### Who pays for long-term care?

#### Health and Disability Insurance

Many people incorrectly believe that "other health insurance" will pay for long-term care. The truth is surprising; long-term care is not covered by other kinds of insurance, including health and long-term disability insurance. Only long-term care insurance typically purchased by an individual covers day-to-day personal care assistance when one is unable to perform everyday activities such as bathing and dressing.

#### Medicare

Medicare pays only a portion of healthcare costs for the first 100 days spent in a long-term care facility. The first 20 days of a patient's stay are paid 100% by Medicare. For days 21-100, the patient pays up to \$133.50 a day (as of 2009), while Medicare pays the remaining balance. The patient is responsible for paying 100% of costs for each day spent in a skilled nursing facility after day 100.

Private Medigap policies (policies sold to "fill in the gaps" that Medicare doesn't cover) may pay the \$133.50/day co-payment if a nursing home stay meets all other Medicare requirements.

Medicare-covered home healthcare is limited to necessary, part-time or intermittent skilled nursing care and home health aide services, as well as some therapies that are ordered by your doctor and provided by a Medicare-certified home health agency. Medicare does not pay for ongoing personal care or custodial care needs.

#### Medicaid

For those without long-term care insurance or other financial resources, Medicaid may be the only funding option available for long-term care. Although individual states control their own qualifying standards, as a general rule, applicants must have \$2,000 or less in assets and they must apply any income they receive, such as Social Security or pension income, toward paying for their care. Each state allows recipients to allocate a small, monthly amount toward personal use, generally \$30-\$50.

Sometimes you must "spend down" (or exhaust) your personal resources before you qualify for Medicaid. As of January 1, 1997, it is a crime to improperly transfer assets to qualify for Medicaid. Transfer rules must be closely followed or Medicaid will consider the transferred asset to be part of an applicant's financial resources. Additionally, the transfer rules include a look-back period. If, during the 60 months before

<sup>1</sup> "A Profile of Older Americans: 2009," Administration on Aging website, 2009, accessed at [www.aoa.gov/AoARoot/Aging\\_Statistics/Profile/2009/docs/2009profile\\_508.pdf](http://www.aoa.gov/AoARoot/Aging_Statistics/Profile/2009/docs/2009profile_508.pdf)

<sup>2</sup> "The Distribution of Assets in the Elderly Population Living in the Community," the Kaiser Family Foundation website, June 2005, accessed at [www.kff.org/medicaid/upload/The-Distribution-of-Assets-in-the-Elderly-Population-Living-in-the-Community-Issue-Paper.pdf](http://www.kff.org/medicaid/upload/The-Distribution-of-Assets-in-the-Elderly-Population-Living-in-the-Community-Issue-Paper.pdf)

<sup>3</sup> "2009 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs," MetLife website, October 2009, accessed at [www.metlife.com/assets/cao/mmi/publications/studies/mmi-market-survey-nursing-home-assisted-living.pdf](http://www.metlife.com/assets/cao/mmi/publications/studies/mmi-market-survey-nursing-home-assisted-living.pdf)

<sup>4</sup> "How Can We Improve Long-Term Care Financing" by Howard Gleckman, Center for Retirement Research at Boston College website, June 2008, accessed at [http://crr.bc.edu/briefs/how\\_can\\_we\\_improve\\_long-term\\_care\\_financing\\_\\_3.html](http://crr.bc.edu/briefs/how_can_we_improve_long-term_care_financing__3.html)

<sup>5</sup> "Who Needs Long-Term Care?" Georgetown University website, May 2003, accessed at <http://lrc.georgetown.edu/pdfs/whois.pdf>

<sup>6</sup> Kemper, P., Komisar, H. and Alecxih, L. "Long-Term Care Over an Uncertain Future: What Can Current Retirees Expect?" Inquiry. 42: 335-350, Winter 2005/2006



## Healthcare Reform CLASS Provisions

The Patient Protection and Affordable Care Act, as signed into law in March 2010, includes the Community Living Assistance Services and Supports (CLASS) provisions. While the details of the CLASS provisions must still be developed by the Department of Health and Human Services, we can provide the terms set in the statute.

While this has been characterized as a long-term care program, it is primarily designed as a program to provide assistance to the working disabled. The CLASS provisions create a voluntary government program under which participants will be offered coverage through their employers, and will be automatically covered unless they opt out. Enrollees will pay a monthly premium and will be covered on a guaranteed-issue basis. The monthly premium, through payroll deduction, has yet to be determined but, according to estimates from the chief actuary of the U.S. Centers for Medicare and Medicaid Services, the average monthly premium may be in the range of \$240. Premiums can be adjusted annually by the Secretary of HHS to ensure the program's solvency.

Once enrolled, participants must pay premiums for 5 years and must have worked 3 of those 5 years. After this time, they will be eligible to receive modest benefits for their long-term support and service needs. To be eligible, participants must also earn a certain level of wages at the time of enrollment. This income level has yet to be determined. In order to qualify for benefits, the participant must have a functional impairment expected to last more than 90 days and require substantial assistance with 2 or 3 activities of daily living, or have substantial cognitive impairment. Although the exact benefits are yet to be determined, Senate Democrats recently estimated the average benefit to be approximately \$75 per day. This is a fraction of the current nursing facility costs, which averaged \$219 per day in 2009.

Now that the bill has been signed into law, it will go to the Department of Health and Human Services where the terms of the program will be worked through. From there, it will be 2 years before the program goes into effect, and another five years from that point before anyone is eligible for benefits.

Due to the highly limited nature of the long-term care benefits that will be offered under CLASS, and the potential for very high premiums (due to adverse selection), at this time we recommend that all private long-term care insurance policyholders retain their current policies. We would also recommend that employers that are not currently offering a long-term care policy review the options that are available in the marketplace. It will be important for consumers to understand all of the coverage options available to them, as coverage outside of the government program may provide a better benefit at a more competitive cost.

applying for Medicaid, a transfer of property was made, it can result in a penalty period, during which time Medicaid will not pay for care.

### *Private pay*

Paying from personal savings is another way to cover long-term care expenses. However, one should carefully consider the cost of long-term care services before relying on this method.

To avoid depleting personal finances, it is important to consider the option of purchasing a long-term care insurance policy.

### *Long-term care partnership plans*

With President Bush's signing of the Deficit Reduction Act of 2005 (DRA) in February 2006, the federal government has taken steps to encourage Americans to take more personal responsibility for covering the cost of long-term care. One provision in the DRA allows states to establish Qualified State Long-Term Care (LTC) Insurance Partnership Programs. These programs offer Medicaid Asset Protection to consumers who buy LTC insurance, enabling them to protect an additional dollar amount of personal assets and still remain eligible to apply for Medicaid coverage through LTC services, if needed.

Medicaid Asset Protection shelters a portion of assets that a person would otherwise have to utilize, or spend down, in order to determine eligibility for Medicaid benefits. A partnership-qualified policy enables policyholders to protect one dollar of personal assets for every dollar the policy pays out in benefits. The amount of an individual's Medicaid Asset Protection is equal to the sum of all benefits paid under the partnership-qualified policy when he/she seeks to qualify for Medicaid. For example, if an individual's qualified LTC insurance pays out \$250,000 in benefits, \$250,000 of the insured's personal assets are exempt from consideration when determining the asset spend-down amount for Medicaid qualification.

### *Protect your assets*

The unpredictability of health makes long-term care insurance an important purchase to consider. Taking into account the gaps within standard policies and the rising costs associated with long-term care, ignoring this coverage can involve tremendous financial risk.