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Long-Term Care: everything you will need to know

By Don See

"Every day 6,000 Americans turn age 65, and 40 percent of those will spend an average of 4.4 years in a nursing home, at a cost today of \$150,000.

For several years, the healthcare industry has used this statistical statement to promote its products. As a former actuary, I feel compelled to clarify these statistics for accuracy.

The current average age at which an individual qualifies for LTC benefits is 79 years, usually in a nursing home setting. The industry accounts for inflation in costs with riders that increase at 5% per year. At that rate the actual cost 14 years from now, at age 79 of a 4.4 year stay will be over \$470,000.

Many of you know a Medicare recipient who has had major surgery, was discharged from the hospital after the three days that Medicare normally covers, and immediately entered a nursing home for rehabilitation and physical therapy. These patients stay in the nursing home for between four and eight weeks, and are included in the 4.4 year statistic. How long did someone else live under nursing care to balance the eight-week stay? The answer is eight years, four months. With the emergence of home health care services and assisted living facilities, the average length of some types of care will increase, and so will the cost.

Questions and Answers

What does the future hold for long-term care clients and providers?

Some day we'll see the end of nursing homes as we know them. They are being replaced by "resort retirement communities" that offer homes or apartments with all the amenities, including on-call nursing assistance if needed. As the resident ages and becomes less independent, the level of care from medical professionals will increase and some of the furniture will change, but the residents will stay in their homes. Nurses will arrive periodically to administer medications and other therapy, and over time they will provide more consistent care. This will lower the daily cost of care in the early years, but possibly extend the length of time the care is utilized.

Why should I consider Long-Term Care Insurance?

* To be assured that you will be able to choose the care option that will allow you to maintain dignity, freedom of lifestyle and access to the best living and care situations at the time of need.

* To protect key family assets from possible liquidation to pay for nursing care.

* To pay for unpredictable nursing care expenses with predictable premiums over a long period of time, instead of waiting to find out what it will cost and if you will have the cash when needed.

What are the alternatives?

* Medicare covers up to 100 days of nursing care if preceded by certain medical treatments.

* Medicaid pays for skilled care (think nursing home) if you have assets of less than \$2,000 and monthly income below \$1,590. Simply stated, any transfer of assets made to qualify for Medicaid needs to be completed at least three years before a claim is made for nursing care coverage.

* Self-insurance is certainly an option, and is currently the choice by default of most Americans. It may be the best option for you, depending on family medical history and assets.

What coverage is best?

* For most of our clients, the *home health care* and *assisted living provisions* will be critical and should be covered without a prerequisite of hospitalization or nursing home admission. This allows the most flexibility and choice.

* A *lifetime benefit* with the longest waiting period (deductible) allowed for a tax-deductible plan prevents catastrophic financial loss, while keeping premiums at a reasonable level.

* For those under age 70, a benefit escalator is mandatory, or you could find yourself in the very predicament you wanted to prevent – too little money for the living and care situation that you prefer. Most carriers offer a 5% annual increase in the benefit, and include it in the initial premium.

When is the best time to buy it?

* This is a tough one. For most people with no unusual family medical problems, somewhere between age 50 and 60 is a good time to review the issue because the premiums are still relatively low. Many of our clients convert their individual disability income insurance to LTC after age 60. Some families have experienced first-hand the devastation of lost dignity and assets with a loved one. They opt to acquire this coverage in their 30s or 40s. Each individual situation needs to be evaluated.

How much does it cost?

* The premiums are directly related to your age when you purchase the coverage, and cannot be raised because of your age or medical experience after purchase. Most carriers reserve the right to increase all premiums for a given geographical area if necessary. The best bet is to choose a carrier that has been involved in long-term care insurance since it was introduced in the early '80s, as they will have the most accurate claims experience on which to base their premiums.

* Some plans can be prepaid in 10 or 20 years, which is appealing for a business owner prior to retirement, but the prepaid amount is lost if death occurs before benefits are collected.

What are the tax implications?

In late '97, the law was clarified to include long-term care insurance as a tax-free plan, under certain conditions. If the plan meets federal guidelines for amount and waiting period, the benefits will be received tax-free, and that's what is most important. The premiums are deductible in three categories.

1. For individuals who itemize, they are included to the extent that they exceed the 7.5 % floor for all medical expenses.
2. For companies that operate as sole proprietorships, or "S" corporations, the premiums are deductible as an employee benefit on an increasing scale, 70% this year and 100% thereafter.
3. For "C" corporations and all partnerships (LLC, LLP, etc.) they are fully deductible and can be structured as a benefit plan for key employees.

Call us for input on your situation. Whether you self-insure or re-insure, your decision will have a serious impact on your quality of life in later years, so the time it takes to review this issue will be time well spent.

Don See, CLU, specializes in the design and funding of estate plans for business owners and retired executives. His company, Pass It On, Inc. serves over 200 family-owned companies throughout the United States.