Long Term Care Insurance

What is Long-Term Care and are you likely to need it?
Should you consider Long-term care insurance?

What exactly is long-term care?
You may be wondering, what exactly is long-term care, and many people are confused about what is involved. A working definition used by health care providers for long-term care: any ongoing services and support needed due to a medical condition, chronic illness, injury, or disability. In order to quality for long-term care, someone must require assistance with at least two of what are called the Activities of Daily Living: such as bathing, dressing, eating, mobility, using the bathroom, getting in and out of bed, etc. The term covers a wide array of care, including

1) Home care: this can mean anything from having a household worker come into your home to help with cooking and cleaning, to having a home health aide come to your house to help you with bathing, dressing, or using the bathroom, to having a licensed nurse care for you at home and provide complex nursing care.
2) Adult day health care: this usually involves living alone or with family members, but several days a week being taken to an adult day health care center during the day to be cared for by nursing assistants and nurses. This is an alternative for two types of people: those who can manage to live alone but do need a lot of care, or those who have family members who can care for them at night, but who need care during the day while relatives are at work or unavailable.
3) Care in assisted living facilities: “Assisted living” is a very confusing term, because assisted living facilities vary wildly in what they provide for residents. Some include independent living in an apartment, with housecleaning and three meals a day provided, while others include a room rather than an apartment, and provide some nursing care and supervision as well as housecleaning and meals. As a result of these differences, the cost can vary considerably.
4) Nursing home/skilled nursing care: Nursing homes or skilled nursing facilities are extremely expensive because they provide a room, meals, and round the clock nursing care by nursing assistants and licensed nurses. Unlike assisted living facilities, skilled nursing facilities are highly regulated by the state and have much more standardized care required by their state licensure.
5) Continuing Care Retirement Communities: There are many senior living complexes that include independent living apartments for seniors, but which also have an assisted living wing or building and a skilled nursing facility. This allows seniors to live independently but have the availability of assisted living or a nursing home when and if they need it.

Long-Term Care Insurance: What is it?
Long-term care insurance is a supplemental form of health insurance that pays for various types of long-term health care which are not covered by most health insurance plans. Just as you would pay monthly premiums to any health insurance company for health coverage, you can pay monthly premiums to another company for long-term care insurance. The goal is similar: you pay Kaiser every month so you can feel reasonably assured that in the event of illness, injury, or other hospitalization, most of your medical care will be paid for. With long-term care insurance, you pay premiums every month. If you have a disabling injury, develop dementia, or have a chronic illness or disability, that policy will cover a significant portion of the cost of long-term care, whether in a nursing home, assisted living facility, adult day health care center, rehab facility, or custodial or nursing care in your home.

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Why would you need long-term care insurance?
Many people only become aware of the need for long-term care insurance when they become elderly and discover that their health insurance does not cover long-term care. Some people are aware the all the health insurance giants such as Blue Cross/Blue Shield, Anthem, and Health Net do not cover long-term care. These companies cover only what is called “acute care,” care resulting from a one-time, episodic, or short-term illness or injury, including doctor's appointments, medications, lab tests, and hospitalization. However, most people mistakenly believe that Medicare will cover the costs of a nursing home and other long-term care. In fact, Medicare only covers what is sometimes called “short-term long-term care,” an Orwellian twist of language that means they will only cover long-term care for a short time, and it must be connected with an acute illness or injury.

What does Medicare, Medi-Cal, and regular health insurance cover?
For instance, if you need a hip replacement and you are hospitalized for a week, Medicare and most health insurance companies cover most of the cost of the surgery, hospitalization, and physical therapy while you are in the hospital. However, once you are not sick enough to stay in the hospital, you are likely to be discharged to a nursing home or rehab facility for a couple of weeks, because you are not well enough to go home and take care of yourself. Medicare or your regular health insurance policy will cover most of the cost of the facility, and of physical therapy and other care. Here's the catch: Medicare and other health insurance policies will only pay for this long-term care for a short time: Medicare will pay the full amount for 20 days of nursing home care, then from 21 to 100 days will pay less than half the cost of care, then pays nothing after 100 days. This first 100 days is called “rehab,” because all the care is focused on getting you strong enough to be able to manage at home. If in fact you are too disabled or ill to return home and take care of yourself without help, then it is called “custodial care,” and Medicare and other insurance will not cover it. What is custodial care? This means you need help with some or all of the activities of daily living, such as bathing, dressing, preparing and eating meals, getting to the bathroom, etc. For instance, if you fall and break a hip and become permanently disabled, once you are past the acute injury, Medicare will not pay because that is considered custodial care.

Medi-Cal/Medicaid is better than Medicare in some ways and in other ways is worse. In order to qualify for Medi-Cal you must be “medically indigent,” which is defined as having less than $2000 in assets and having an extremely low monthly income. If you are destitute enough to qualify for Medi-Cal, they will pay for 49% of long-term care but only in a nursing home/skilled nursing facility. Medi-Cal does not cover any assisted living facility or in-home care. Under some circumstances, Medi-Cal will cover some care in adult day health care centers. If you own a home, you will not qualify for Medi-Cal and would be forced to sell your home and spend the proceeds on nursing home care until you exhaust your funds and become impoverished enough to qualify for Medi-Cal. Some people attempt to avoid this by deeding their homes over to their children. However, most do not succeed in qualifying for Medi-Cal because you it must relinquish this asset 100 months before you actually apply for Medi-Cal. So this means giving up ownership and control of your home over eight years before you think you may need nursing home care, which is nearly impossible to predict.

“Sticker shock” of the costs of care
Many people have chosen to buy long-term care insurance so as to avoid the “sticker shock” of having to pay up to $9000 a month for long-term care in a skilled nursing facility, which provides 24-hour a day nursing care. A 2011 national study done by the National Clearinghouse for Long-Term Care Information showed the average cost of nursing home care at $74,820 for a year of care, over $6000 a month. California nursing homes are the highest in the nation, ranging from $6000 to $9000 a month. The cost is expected to increase at least 3% a year, so depending on your current age, you can predict that it will cost significantly more by the time you need it.

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Nursing care at home can sometimes cost even more, if nursing assistants or licensed nurses are needed many hours a day. Assisted living can cost anywhere from $2500 to $6000 per month, depending on what services are provided, but none of it is usually covered by Medicare, Medi-Cal, or regular health insurance.

How can you decide whether you will need long-term care in the future?
It is very difficult to guess whether you are likely to need long-term care at some point in the future, and hard to decide whether buying long-term care is a good investment or a waste of money. Here are a few statistics that may help you make a more educated guess about this important decision. Depending on whose statistics you believe, 10%-20% of all Americans over the age of 65 currently need and are currently receiving some amount of long-term care, and at least 50% of all Americans 85 years old or older currently are receiving long-term care.

Women are at higher risk than men for needing long-term care
The vast majority of people who need long-term care are women, and all the statistics seem to agree on this point. This is partly because men tend to die at a younger age than women. But even more importantly, men tend to die more quickly regardless of what age they are, since they are much more likely to die from heart attacks, falls, auto accidents, and suicide, which kill them too quickly for them to need long-term care. Women tend to live longer, and tend to develop disabling conditions that require months or years of long-term care: strokes, diabetes, chronic respiratory illness, cancer, osteoporosis, and blindness.

Another factor: when men do develop cancer, strokes, or other illnesses that require long-term care, their wives generally take care of them at home, providing the long-term care themselves. However, when women need long-term care, usually they are already widows living alone so there is no one to take care of them. If there is a husband in the house, he is much more likely to place his wife in a nursing home than provide the care himself.

So if you are female, your chances of needing long-term care are much higher. In fact, some experts suggest that if you are a heterosexual married couple considering buying long-term care insurance, you should prioritize buying it for the woman, as she is much more likely to live long enough and become disabled enough to need it than the man. However, other experts predict that the current crop of Baby Boomer males are likely to live longer than their male forebears, since many are taking better care of themselves through exercise, healthier diets, moderating their drinking, and quitting smoking. So it remains to be seen if the current age gap between men and women and their death rates will change considerably in the coming decade, and more and more elderly men may need long-term care.

What are the other risk factors to consider?
There are a number of other factors that dramatically increase the likelihood that you will need long-term care sometime in the future. For instance, if you already have a chronic illness or disability, such as diabetes, high blood pressure, macular degeneration or other low-vision condition, arthritis, obesity, COPD, HIV, or osteoporosis, you are at much higher risk than the average person of becoming ill or disabled enough in the future to need long-term care. If you are a cigarette smoker, or a heavy drinker, or have any other serious drug habits, you are also at high risk for the kind of chronic health conditions and degenerative illnesses that are likely to require long-term care. While smoking, drinking, and drug use do shorten your lifespan, they usually are very slow killers and create disabling long-term health problems that require long-term care.

Another important factor to consider is your community and whether there are people in your life who may be available and willing to provide long-term care if you do need it in the future. While many people believe that their children will take care of them in their old age, studies show a very different reality. Some people are

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lucky enough to have good relationships with their adult children and have at least one of their kids living nearby. However, most adult children have full-time jobs and their own families to care for, and cannot quit their jobs or leave their spouses and kids to provide full-time or even part-time care for aging parents. And of course many families are spread out across the country and no adult children or grandchildren live close enough to be of much help.

In past generations, the majority of women worked full-time in the home, caring for homes and families, rather than in the paid labor force. As a result, adult daughters were pressed into service to provide care for ill and disabled family members, such as elderly parents or in-laws. Now, the vast majority of women are full-time wage earners outside the home, and do not have flexible schedules or the time to care for elderly family members. As a result, there is usually no family member available to provide long-term care. And the Baby Boomer generation is the first generation of women in history that had access to reliable birth control, and as a result this is the first generation in history with millions of women who chose not to have children. This group of women cannot even share the delusion of their peers that their children will take care of them in their old age, since they have no kids.

So who else will be available to provide long-term care if you need it? For most of us, prospects are slim. If you have a spouse, they may predecease you, or they are likely to be as elderly as you are and not be able-bodied enough to provide much care for you. Most of your friends are likely to be in your age group, and are just as likely to be needing care themselves, rather than being able to assist you. Even if you have younger able-bodied friends, if they are available at all, they are more likely to be providing care for their own parents or elderly relatives. As a result, it is fairly likely that you will need to pay for long-term care out of pocket or buy long-term care insurance to cover the cost. Statistics show that most people pay for this care out of pocket, but more and more people are now buying long-term care insurance to cover the cost.

Is it more cost-effective to buy Long-term care insurance or just put money away in the bank every month to create your own fund for care if you need it?
Many people have puzzled over this question: Is it a better deal economically to buy long-term insurance and pay a premium every month, or instead to start a savings plan and put money away every month to “self-insure” by having plenty of money in the bank to pay for care if you need it in the future?

Most experts agree that if you end up needing long-term care for six months or more, it will pay off to have long-term care insurance. Statistics show that on average, people who need long-term care need it for one to two years. Many people need it for much longer, and a few need it for less, but between one to two years is the average. Looking at your own risk factors, if you predict that you are likely to need long-term care at all, you are probably better off buying long-term care insurance than putting the money away yourself. The amount of money you would have to save every month is so high that it is unlikely for most people to have that amount of discretionary income to save. For instance, the average person would have to start saving at least $5,000 a year for a period of at least 20 years to be able to pay for even one year of long-term care.

This calculation is based on buying long-term care insurance when you are young enough to get a reasonable monthly premium, generally defined as being 55 years old or younger at the time you purchase the policy. Like life insurance, long-term care insurance is much cheaper to buy when you are young and healthy, since you sound like a better risk since you have not yet developed any disabling conditions and because you will be paying the premiums for more years before the need for care is likely to arise. So if you wait until after age 55 to buy long-term care insurance, your premiums are likely to be high enough that it may make more sense to put money away on your own, as long as you are able to save a significant amount of money each month.

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Three experts I spoke to about long-term care insurance agreed on one thing: it is most important for working-class and middle-income people who own a home or who have other assets which they would lose if they needed long-term care and had to pay for it out of pocket. Having long-term care insurance can prevent you from losing your home, IRA's, and other assets as the insurance would pay for most of the care needed. Very affluent people probably don't benefit as much from buying Long-Term Care Insurance, because they can invest their assets in income-producing investments to create more wealth to pay for long-term care if they eventually need it. And for people who are extremely low-income already, they may not have enough income to pay the monthly premiums for insurance, (especially after they retire and are living on a fixed income), and they will be likely to be able to qualify for Medi-Cal to pay for long-term care. However, it should be remembered that Medi-Cal will only cover nursing home care, not home care of assisted living, and many of the higher-quality skilled nursing facilities refuse to accept any Medi-Cal patients, so your options will be limited.

Adding Long-Term Care to your Life Insurance Policy or Annuity
In the past few years, a few insurance companies have added a creative option to make Long-Term Care Insurance more affordable to working people and middle-income people: adding long-term care insurance to your existing life insurance or annuity policy. If you are already paying monthly or annual premiums for a life insurance policy or annuity, you can increase those premiums by a small amount and then leverage the money already in your annuity or life insurance to pay for long-term care if you need it. If you never need long-term care, the entire amount you pay in will be added to your life insurance or annuity to be paid to your heirs or beneficiary. This is an especially good option for people who may be over 55 but want to buy long-term care insurance, because the premiums will much less expensive than if you buy a long-term care insurance policy separately. Some annuities and life insurance policies allow you to “front-load” the long-term care policy while you are still working and can afford to put more money into the premiums, and then decreasing the premiums after you retire and are on a fixed income. For instance, you could add long-term care to your life insuarance policy at age 58, pay $4000 a year in premiums for 10 years, retire at age 68 and have invested $40,000 in the policy, and then reduce your premiums to reflect your retirement income.

Tax benefits of long-term care insurance
Recently the IRS has added tax deductions for long-term care insurance, and some states also offer tax credits for long-term care premiums. The federal tax benefits vary depending on your age, with a tax deduction of up to $1310 per year for people age 51 to 60, and a $3500 deduction for people age 61 to 70. These deductions depend on a number of factors, so a tax professional should be consulted to make sure you qualify.

Here's a personal example: Let's do the math on long-term care and insurance
I am going to use myself as an example just to give you an idea of the pros and cons of long-term care insurance. I bought long-term care insurance at age 49, because of these three significant risk factors: I am a woman, I have no kids, and I have two minor health conditions that could eventually become disabling. As a result of these factors, I am almost certain to need long-term care if I live “long enough,” generally defined.as living until at least age 75.

My long-term care insurance premium is approximately $100 per month, and it includes an inflation rider which allows the insurance company to increase my premium in small increments based on inflation, and which also increases the pay-out on the policy as the costs of care go up. There are strict limits on the increases I will have to pay, and the premium is likely to go up to a maximum of $150 to $200 a month over the next 30 years. I have had the policy for 9 years and it has not gone up at all yet, but is likely to go up next year at the 10 year mark. So let's assume I will have paid $100 a month, or $1200 per year, or a total of $12, 00 for the first ten years.

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Then let's make a guess that it will go up to $150 per month for the next 20 years (more likely it would go to $125 for the next 10 years and then $150 for the final 10 years, but let's keep the math simple). That would be $1800 per year for 20 years or a total of $36,000. So over a period of 30 years I will have paid a total of $48,000 into this policy, and I will then be nearly 80 years old, and right in the prime age group to need long-term care.

What if I need nursing home care?
So let's guess that I may break a hip. My mother, grandmother, and great grandmother all had osteoporosis and had hip and back fractures, which required long-term care for several years, so I'm clearly at risk for a hip fracture or some other disabling bone fractures. I would be likely to need skilled nursing care. Earlier I mentioned that the average cost of nursing home care in the US is $74,820 per year, and in the overpriced Bay Area where I live, that cost is an average of $80,000 per year. While the average need for long-term care is one year, the average nursing home stay is 2 and ½ years. Even if I only need 2 years of nursing home care, that's $160,000 in 2012 dollars, and that cost is sure to be much higher 20 some years from now when I'm old enough to need the care. But even if the cost remained static until then, it would still be a bargain for me to pay $48,000 into this long-term care insurance policy instead of $160,000 for a two-year stint in a nursing home. And besides, who has $160,000 in the bank to pay for care? I certainly don't, and couldn't possibly save that much between now and the time I may need the care. The long-term care insurance policy does not cover 100% of the cost of care, but most policies cover at least 75-85% of the cost, depending on what type of care is needed and what type of facility it is.

What if I receive care in my home?
But what if I don't need the round the clock nursing care provided by a skilled nursing facility? Say I have a stroke and am paralyzed on one side of my body. This is actually a strong likelihood, since one of my grandmothers and one of my aunts had disabling strokes and each of them needed long-term care for several years. I would be likely to be too disabled on one side of my body to walk without help, prepare meals, clean house, drive, bathe, or dress myself. If I wanted to stay in my own home, I would either have to have home health aides come into my home to provide these services, or go to an adult day health center during the day to receive care, or some combination of the two.

If I choose home care, I would be at home all day with a home health aide staying with me through part or all of the day to make sure I get meals, that I am able to get to the bathroom safely, help with bathing, housecleaning, and provide other needed care. This could cost anywhere from $1000 to $1500 a month to employ a part-time home health aide to come in for 3 or 4 hours a day (depending on the hourly wage), to many thousands of dollars each month if I need 10 to12 hours of care per day, or even more if I need help during the night. This cost would become astronomical if I needed a licensed nurse (a Licensed Vocational Nurse or Registered Nurse) to provide complex nursing care, as home health aides are legally allowed to provide only "custodial care." It is hard to do the math on whether long-term care insurance would be a good deal if I need home care, because it would depend on how many hours a day of care I needed and for how long, and whether I need custodial care or more expensive licensed nurses. However, even if I only need 4 hours of care a day, it is likely that I would need the care for at least a few years, because the paralysis is likely to be permanent, and if I needed care for at least 3 years, it would end up costing much more than paying the long-term care insurance premiums for 30 years.

What about Adult Day Health Care?
An adult day health care center is somewhat similar to a child care center in that they provide care during the day for elders who cannot manage at home all day on their own. The patients either live alone, or have a spouse or adult child or roommate who can provide some care at home. If my spouse is still living and can assist with

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my care, or if I have a roommate living with me, it may be possible to go to an adult day health center each week day for care. The spouse or rommate could help me get out of bed in the morning and get washed and dressed, and help me with breakfast. If I have no one living with me, a home health aide could come in every morning and help me with these tasks. I could arrange for van transportation to the adult day health center each week day morning, and be cared for by nurses and nursing assistants at the center throughout the day, and return home by van each night. Most adult day health care centers provide care 8 to 10 hours a day, and provide at least one meal. Most currently cost at least $100 per day, or about $2000 a month (they are generally open five days a week).This would cost about $24,000 a year, but I would also have to factor in extra cost for having care at home on weekends when the center is closed. So if I needed adult day health care for two years or more, it would definitely cost more if I pay for it out of pocket than the $48,000 I am likely to pay into the premiums for my long-term care insurance. My policy will pay approximately 80 % of the cost of an adult day health care center, and I would pay the remaining 20% out of pocket. Again, this is in 2012 dollars and the cost is likely to be significantly more by the time I am old enough to need this service. And Medicare will not cover any of the cost of adult day health care centers, but Medi-Cal will pay part of the cost, depending on your diagnosis and other factors such as dementia. So it looks like if I choose adult day health care, paying the insurance premiums is likely to be a bargain if I need care for two years or more.

While my personal example will not be useful for everyone, my situation is somewhat typical of the current crop of Baby Boomers that are rapidly approaching the elder years when long term care may be needed.

I have disability insurance, so why do I need long-term care insurance?
Many people mistakenly believe long-term care will be covered by their disability insurance, either their own private disability insurance, by State Disability insurance, or by Worker's Compemsation coverage related to their jobs. However, most disability insurance policies are intended to provide income for you to replace the paycheck you cannot earn if you are too disabled to continue working. Disability insurance generally provides income, but does not provide any health care or long-term care. Worker's Comp is a little broader, and if you have a disabling injury or illness related to your job, they will cover some of your health care costs but rarely cover long-term care.

What is the down side of long-term care insurance?
If you buy long-term care insurance, you are signing a contract with a specific company, and putting your trust in that company to pay for your care in the future. What if that company goes bankrupt, or is bought by another company ten or twenty years from now, after you have invested many thousands of dollars in it? There is no guarantee that by the time you need the care, the company will even be in existence. However, the same is true of life insurance and disability insurance; you may pay those premiums for decades and the company may disappear before it's time to pay out on the policy. This doesn't stop most people from buying life insurance, and in fact, most of the major insurance companies have been around for many decades and are likely to continue in business in the future. Your best bet is to buy long-term insurance through the insurance company you already have some type of relationship with, such as the company that where you have your life insurance, property insurance for your home, or your disability insurance policy. In addition, many financial advisors and investment professionals are licensed to sell long-term care insurance.

Isn't this just a scam by big insurance companies to scare us into buying insurance we don't need?
It's always wise to be skeptical of a big corporation that is trying to sell you something. And it can seem like insurance companies are trying to manipulate your worst fears of being old, alone, and disabled and without the care you need. However, most of us buy car insurance, health insurance, and other types of insurance to hedge our bets for some protection against some of life's potential disasters. Buying long-term care insurance could

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potentially give you four important benefits: access to care when you need it, more control over your care, more choice of the type of care (home care, assisted living, adult day health care, or nursing home care), and keep you from losing your home and other assets. It could also be a total waste of money if you don't end up needing long-term care, or if the insurance company goes bankrupt before you need care, or could be bought out by another company that might try to change your policy or provide less care than originally agreed on.

What's the bottom line?
There is no right answer for whether or not to choose long-term care insurance. As always, careful research into the costs and benefits are crucial, as is reading the fine print on any policy you may be considering. A brutally honest look at your own personal risk factors is also important, as well as your current age and your overall financial situation. In addition, many financial advisors and investment professionals are licensed to sell long-term care insurance. If you already have a financial advisor, they can help you assess whether it makes financial sense for you to buy long-term care insurance, and if so, help identify a policy that is right for you. And most insurance experts suggest that you choose a large company that has been in business a long time and has a track record of financial stability, and that you talk with a financial advisor to analyze the future prospects of that company.

If you are considering a particular policy, look carefully at these five factors:

How much does the policy pay out as a daily benefit?
It should be enough to offset the daily cost of long-term care.

Does it cover care in all settings and allow you to choose the type of care you want?
It should cover care in a nursing home, home care, assisted living, or adult day health care center. Be certain that it covers what is euphemistically called “Memory Care,” which is a special skilled nursing facility or wing of a nursing home designed for people with dementia and other neurological disabilities such as Alzheimer's disease. There has been an unprecedented explosion of people needing Memory Care in the past decade, mainly because more people are living long enough to develop various forms of dementia. People with these disabilities require specialized care that is often not available in traditional nursing homes and other facilities.

What is the benefit period?
Any policy should cover a period of at least two years of care. As mentioned earlier, studies show that one to two years is the average time for long-term care to be needed. A policy that covers less than two years may not be worth the premiums you are paying into it.

What is the elimination period?
Most policies will not pay for the first 30 to 90 days of long-term care. As mentioned earlier, Medicare will usually pay the full cost for the first 20 days of long-term care and will pay for at least part of the cost of the next 21 to 100 days of care. However, since Medicare will not pay for any costs after 100 days, any policy you buy should kick in by then. It is ideal to buy a policy that starts to pay after the first 30 days, and many do, because even though Medicare will cover part of the cost of that 21 to 100 days, the remainder can be quite significant, adding up to many thousands of dollars before your policy starts to pay out.

What is the inflation language in your policy?
This is important for two reasons. First of all, the cost of care is likely to increase substantially between the time you buy the policy and the time you will need care, usually at least 20 to 30 years. So it is important the

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amount your policy pays daily is tied to some inflation indicator to make sure your policy will pay for most of your care even if the cost is much higher than today. Secondly, the insurance company must be allowed to raise your premiums to keep pace with inflation, but they must be restrained from jacking up your premiums unreasonably. So read the fine print about both the inflation riders regarding increases in the pay-out for care, and the mechanism by which your premiums can be raised.

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