Paying for Long-Term Care, a Surprising Option

By Congressman Bill Owens, NY 21

Millions of older Americans are currently in need of long-term care (LTC), or assistance with activities of daily living provided in an individual's residence or in a facility. As baby boomers continue to retire and demand continues to grow, policymakers are working to find ways to address this burden on our health care system.

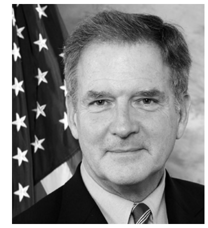
The number of Americans over age 65 increased from 35 million in 2000 to 40 million in 2010, a 15 percent increase, and is projected to increase to 55 million by 2020. There are some questions about whether the long-term health of Americans under age 50 will reduce or increase the need for long-term care, because of the nature of new illnesses that have developed and the potential for longer lifespans requiring longer periods of care, as reported by Sabrina Tavernise in the New York Times on Jan. 9, 2013.

Medicare and Medicaid will help pay for only a limited amount of LTC services and there is no dedicated federal public LTC program. The average cost of a private room in a nursing home was $7,000 a month in 2010, or $84,000 per year. The average cost of a home health aide was $21 per hour, resulting in over $60,000 a year in cost.

There are a number of studies and a significant body of information to analyze as we move forward in an effort to provide affordable long-term care for those who need it. These include a report issued by the Commission on Long-term Care (CLTC) dated Sept. 30, 2013, which contains significant data and analysis that properly focuses on the need to assess home- and community-based services, as well as long-term care facilities, and Governor Cuomo's North Country Health Systems Redesign Commission, which issued recommendations on restructuring delivery of care in eight northern New York counties, including a significant section on the structure and maintenance of LTC, including home-based services and long-term care facilities. The Congressional Research Service (CRS) also issued a report on February 1, 2010, entitled "Long-term Care, Financing Overview and Issues for Congress." In 2007, CRS reported that the expenditures by Medicaid for long-term care represented 48.5 percent of the total of $233.4 billion expended nationwide for LTC. All three of these reports focus on several areas, including workforce, delivery systems, and financing.

As we look for vehicles to finance LTC, a number of private insurance companies are developing options to offer a rider on a life insurance policy that allows for a partial draw down of the death benefit to pay for long-term care. According to the New York State Department of Financial Services, the purchase of long-term care policies is actually declining. The number of individuals with life insurance is also declining. Federal and state policymaking should raise awareness about the importance of purchasing a long-term care policy, and development of public policy that facilitates the purchase of LTC insurance riders is also extremely important. A $500,000 life insurance policy with a rider resulting in 50 percent of the death benefit payable in advance for long-term care would significantly reduce the cost to individuals for long-term care, as well as to Medicaid, which according to the Commission on Long-term Care currently pays 62 percent of the cost of LTC versus private insurance, which pays approximately one-third.

There are a couple of concepts that I believe should be considered as these policies are developed, including: allowing IRAs and 401(k)s to purchase the insurance and to distribute the long-term care benefit on a tax free basis, obviously precluding taking a deduction for that care for an individual income tax return; allowing Health Savings Accounts (HSAs) to purchase long-term care insurance, also with the same tax impact as previously described regarding IRAs and 401(k)s; allowing IRAs and 401(k)s to be treated as capital assets and excluded if an individual secures long-term care insurance coverage for a minimum of three years, whether that coverage pays for in home care, care in a facility, or any combination thereof for that three year period.



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Urging individuals to seriously consider long-term care insurance, particularly using vehicles such as life insurance riders is a reasonable approach to addressing the looming long-term care crisis that may well substantially reduce the $233 billion spent in 2010 for this care. As we work to address this issue, reducing Medicaid expenditures, preserving assets, and providing appropriate care for aging Americans should be our top priority.

Congressman Bill Owens has represented New York's northernmost Congressional District since November of 2009 and has lived in the North Country for over 30 years. After graduating law school, Bill served as a Captain in the Air Force stationed at Plattsburgh Air Force Base and then built a successful North Country law practice. Throughout his life in Plattsburgh, Bill has worked closely with his community to promote economic development and recruit businesses from Canada to Upstate New York. Bill has long been concerned with the funding of long-term care particularly its impact on local real property taxes. ■

RETIREMENT SECURITY & LONG-TERM CARE MONOGRAPH

The Society of Actuaries Committee on Post-Retirement Needs and Risks, working closely with the SOA Long Term Care Section, issued a call for papers in 2013 titled: "Managing the Impact of Long-Term Care Needs and Expense on Retirement Security: A Holistic and Multi-Generational View."

In the fall these papers will be issued as a monograph designed to explore several aspects of the relationship between retirement security and long term care. The collection of papers will offer ideas about making the long-term care financing and management better. They cover a variety of topics and should be helpful in thinking both about what individuals need to do today and about the structure of the long-term care system. The papers will be of interest to a range of audiences including individuals, advisors, financial service companies, and policymakers.

Many of these papers will be presented at the 2014 Society of Actuaries annual meeting in three sessions to be held on Wednesday Oct. 29, 2014. We encourage you to come to the annual meeting sessions and participate in the discussion. Look for the monograph on both the Committee on Post-Retirement Needs and Risks and the LTCi Section websites.