



# Taking the Long-Term Care Journey

MANAGING RETIREMENT DECISIONS SERIES

**LONG-TERM CARE (LTC) MAY NOT BE** the first thing people think about as they approach retirement, but it is a subject that may require many decisions along the retirement road. This Decision Brief reviews the major considerations.

“Long-term care” is the overall term for care provided to an incapacitated person over a prolonged period. Older people comprise the largest segment of the population that receives this care. The events that typically signal the need for long-term care services are abrupt or gradual changes in health or mental capabilities.

The available services include not only nursing care but also assistance with activities of daily living (ADLs) like dressing, bathing and eating plus help with instrumental activities of daily living (IADLs) such as meal preparation, shopping and using the telephone. Caregivers provide these services in a variety of settings including private homes, adult day care groups, assisted living facilities, nursing homes and more. The degree of incapacity, family situation and many other factors influence the type of services provided.

Because the costs for long-term care can severely cut into retirement savings, it is wise to make tentative plans for obtaining—and paying for—care even before it is needed. Long-term care insurance is one way to pay for some of this care.

#### Disclaimer

This Decision Brief is not intended to provide advice for specific individual situations and should not be construed as doing so. It is an information tool for general guidance. Individuals needing advice should seek the services of a qualified professional. Keep in mind that the tax code can change, the taxation of products and strategies vary, and individual tax needs and issues are unique. Consideration of tax issues is beyond the scope of this work.

**Word to the wise:** It’s best to plan for the financial resources and a support system that may be needed while still healthy. Making long-term care arrangements at the last minute is certainly possible, but the results may not be satisfactory.

#### Why Be Concerned?

The emotional toll of long-term care is very high. The onset of problems often devastates people who were once vital and active, but who are now dependent on others. It is also stressful to family members and other loved ones who may not know how to provide the required care or who lack the necessary time or resources.

Many community services have formed to help people who need certain types of assistance. Examples include Meals on Wheels and special transportation services for the elderly and disabled. Some people find these services useful but others consider them difficult to access or to combine with other support services they are receiving.

### The Housing Factor

Housing choices made before a person needs long-term care may influence which options are feasible and needed. For example:

- Living near family members and a support system can be a huge help.
- Living in a continuing care retirement community provides access to several levels of support as needs change.
- Living in an assisted living facility provides some care services as well as basic housing.
- Living in a private home may or may not be suitable depending on whether the home is adaptable to changing care needs.

Another challenge is locating people who can help with care on an ongoing basis. Family members, especially wives and daughters, often do this free of charge. But as a care recipient's condition progressively worsens, families may need to seek assistance from professional caregivers, care managers, and/or institutions on a limited or around-the-clock basis.

Unfortunately, professional services are often very expensive, and can quickly drain financial resources.

The good news is that LTC insurance can help with financing this care. But its purchase must occur before—ideally, well before—the need for care arises.

Many experts suggest buying long-term care insurance while people are still in their early 50s. The reason? The initial cost of coverage rises with age, and the likelihood is greater that people will still be in good health at that time of life. That means they may be eligible for relatively favorable insurance rates.

In general, people should plan ahead for long-term care needs, both mentally and financially. Some experts estimate that 70 percent of the over-65 population will need long-term care at some point. A care plan will help with decision-making if health changes suddenly bring on a need for long-term care services.

Being prepared should help keep emotions from fraying and ensure better cost management, making for a better overall outcome.

### What Does Long-Term Care Cost?

Costs for professionally-provided long-term care vary by type and amount of care, provider, and geographic location. Here are average U.S. costs for some of these services (MetLife Mature Market Institute, 2010):

\$205/day	National average daily rate for semi-private room in a nursing home
\$21/hour	Home health aide
\$67/day	Care in an adult day healthcare center
\$3,293	National average monthly cost for room, board, and housekeeping services in assisted living communities (which are residential communities that provide certain types of care)

If the spouse or other relatives provide informal care, there will still be costs. These costs include time commitment and emotional demands, plus the possible loss of income from work.

## Options for Paying for Long-Term Care Services

Paying for long-term care out of personal income and assets is one option. This may not be affordable for those with limited financial resources, however.

Other options include:

- *Medicare*: This pays for a very small part of total care, primarily skilled or recuperative care for a short time, usually following a recent hospital stay. Some people mistakenly believe that Medicare pays for all long-term care. That is not correct. Medicare does provide for a limited amount of skilled care, but not for most of the long-term care services a person may need.
- *Medicaid*: This is a public assistance program for those who meet functional and financial eligibility criteria. People who have used up their personal assets for long-term care often turn to Medicaid for subsequent care. Medicaid is mostly a nursing home benefit and varies greatly from state to state. Future prospects for Medicaid are uncertain because state budgets are getting stretched and long-term care benefits are being reduced. This trend is expected to continue.
- *Private long-term care insurance*: There are three types of long-term care insurance: Individual, group and hybrid (long-term care products combined with life insurance and annuity policies). Individual policies are subject to strict underwriting standards, so people should apply while in good health.
- *Use of home equity*: Homeowners may use home equity loans or reverse mortgages to provide funds for long-term care. However, these alternatives may do more harm than good, since any form of borrowing may limit financial flexibility and the option of moving elsewhere to deal with changing care needs. Reverse mortgage payments may also affect eligibility for government benefits, including Medicaid.

### What's the Company's Financial Rating?

The rating of an insurance company is a signal of its ability to pay benefits. As such, it is a very important consideration when evaluating LTC insurers and their products.

## Long-Term Care Insurance Basics

Long-term care insurance policies are basically designed to:

- a. Cover services the person needs when unable to perform one or more ADLs or if suffering from severe cognitive impairment; and
- b. Cover costs of necessary diagnostic, preventive, therapeutic, curative, rehabilitative, or maintenance services.

At policy issue, the applicant for insurance selects a benefit period (for example, three years) and daily benefit amount (for example \$150/day). For most policies, these choices translate into a pool of money available to cover costs of care.

## Where to Find Long-Term Care Insurance?

People purchase individual LTC policies through insurance agents holding a health insurance license. In some cases, financial advisors partner with agents who specialize in this insurance and handle this aspect of a client's financial plan.

These agents may represent one or more insurance companies and can provide guidance in selecting options. It is important to have a knowledgeable agent who can compare options effectively.

Some employers make long-term care insurance available to their workforce, through a group policy issued by an insurance company sponsor. Group policies are usually guaranteed or simplified issue (less underwriting) for employees, but may require full underwriting for spouses.

A new approach to insuring for long-term care involves what are known as "hybrid" policies. These are life insurance or annuity products that have additional long-term care features.

The hybrid products offer early access to policy funds if there is a long-term care need (as defined by long-term care claim criteria). Some products offer additional guarantees that provide for a continuation of payments, up to certain limits, if the basic policy funds are exhausted.

As an incentive to purchase long-term care insurance, many states offer what are called “partnership” programs. Under such programs, people who use up all their private long-term care insurance benefits can apply for Medicaid without having to spend down all of their personal savings and investments. The amount of personal assets they can keep equals the amount of private long-term care insurance benefits they received. The effect is to preserve this amount for passing on to heirs.

### Key Long-Term Care Insurance Features and Options

Long-term care policies differ in many ways. In general, the richer the benefit package, the greater the cost. Here are a few key areas to consider:

- *Covered services:* Policies stipulate if they cover facilities-only care (typically nursing home care) or comprehensive care (nursing home care plus certain services provided in the home or other setting like an assisted living facility). The comprehensive policies offer more flexibility and are currently the most popular.
- *Daily benefit amount:* This is the maximum amount the policy will pay per day for covered LTC services. Typically, insurers offer this in \$10 increments. Some policies also provide for shared costs, for example, the insurer pays 80 percent of costs up to a daily maximum amount.
- *Benefit period:* This is defined as the maximum period over which the policy will pay out its benefits (typically three years, five years, or unlimited). However, it is actually used to define a pool amount for benefits. If less than the daily maximum is used, the benefit period is extended.
- *Maximum lifetime benefit:* This is equal to the daily benefit amount times the benefit period.
- *Waiting period (or elimination period):* This is the period of time—for example, 30 or 90 days—before benefit payments begin on a covered claim. During this period, the insured individual will be responsible for LTC costs. Usually, there is only one waiting period over the life of an LTC policy.
- *Inflation protection options:* These adjust the policy benefits in response to inflation. The options may be: no election, future purchase option, automatic simple increases (same dollar increase each year) or automatic compound increases (same percentage increase each year).

- *Benefit triggers:* These are conditions that trigger the payment of policy benefits. Most policies say the insured must be unable to perform two or more of six ADLs (bathing, dressing, eating, transferring, toileting and maintaining continence). Independent assessments are used to determine eligibility. Loss of functional capacity and onset of cognitive impairment are two other common triggers. The conditions must have lasted (or be expected to last) at least 90 days.
- *Tax-qualified policy:* A policy designed to meet certain Federal guidelines. For such policies, benefits are not taxable, and premiums paid into the contract may be tax-deductible depending on taxable income and the total amount of tax deductions taken.
- *Premium rates:* After the policy is issued, premiums are not intended to change due to the insured's advancing age or change in health. However, there are no guarantees that premiums will never change. For example, insurance companies may increase the premium based on the overall experience of the insured's policy class, including experience for claims, lapses, mortality, investment returns and expenses
- *Premium payment period:* Lifetime premium payments are the most common. Single pay, pay up to 65, and 10-year pay are also available. Many hybrid products are single pay with charges assessed each period for both the basic and enhanced coverage.
- *Pooling benefits for a couple:* Some LTC policies allow a couple to treat their individual LTC benefits as a pool from which either spouse can draw benefits for LTC care if his or her own benefit is exhausted.

Other choices will come up about features and options not discussed here. A well qualified long-term care insurance specialist should provide recommendations on the full array.

### Deciding Whether to Buy Long-Term Care Insurance

The most basic function of long-term care insurance is to protect against catastrophic costs that can cut into retirement security or bequest amounts left for heirs.

A common rule of thumb has been that purchasing this insurance is not worth it for those with low amounts of savings—for example, less than \$250,000. That is because of the very real likelihood that they will need to turn to Medicaid in event of a significant care need.

Rules of thumb can mislead, however. It's necessary first to look at a person's full financial picture—assets, income, and expenses—not just assets. Second, people need to be aware that Medicaid benefits are getting more restricted and will continue to do so. Finally, the availability of partnership programs, mentioned earlier, may provide a means of preserving assets so that the purchase of long-term care insurance may make sense for the less wealthy.

Those with very significant wealth—for example, over \$2 million—may be comfortable with creating a set-aside account to cover their future care costs. However, even wealthy people may want to purchase long-term care insurance to reduce the uncertainty about the impact that care costs may have on bequest values.

Those with “in-between” levels of wealth will see the clearest benefit from purchasing long-term care insurance.

Decisions made with regard to long-term care will require a great deal of research and analysis. In the end, however, the physical, emotional and financial well-being of all concerned will be worth the effort spent.



The Society of Actuaries would like to acknowledge the work of its *Committee on Post-Retirement Needs and Risks* in producing this series.

The committee's mission is to initiate and coordinate the development of educational materials, continuing education programs and research related to risks and needs during the post retirement period. Individuals interested in learning more about the committee's activities are encouraged to contact the Society of Actuaries at 847-706-3500 for more information. Additional information and research reports may be found at <http://www.soa.org>.



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