

ARE YOU PREPARED TO PAY FOR LONG TERM CARE?

In the coming years, many Americans will face the challenge.

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70% of people currently over age 65 will require some long term care someday. That is the estimate of the U.S. Administration on Aging, a division of the U.S. Department of Health & Human Services.¹ Will Medicare or private health insurance pay for it? The short answer is “no”.

In the decades ahead, baby boomers will reach their seventies, eighties and nineties. With aging parents of their own, some are learning how much long term care really costs. Some are still unaware.

How many of us are financially prepared for the possibility? Here are a couple of “averages” to consider from MetLife’s 2009 survey of LTC costs. The average annual cost of nursing home care is now \$79,935 or \$219 per day. That’s up 3.3% from 2008. The average nursing home stay is about 2.5 years, which means you would need roughly \$200,000 to pay those bills.²

Can you imagine paying it out of pocket? Taking out a reverse mortgage to do it? Using Medicaid because you have nothing left? No one wants these financial circumstances. The clear answer is long term care insurance coverage.

How expensive is LTC coverage? Annually, it typically costs about as much as a cheap used car. MarketWatch cited an example from the MetLife survey: in 2009, a 52-year-old federal employee could pay \$1,524 annually for an LTC policy with a \$200-per-day benefit for three years and a maximum lifetime benefit of about \$200,000.²

Does \$1,500 or \$1,800 or \$2,100 annually (just to throw out a few numbers) sound expensive? These premiums are certainly inexpensive compared to the staggering bills you may face if the need for LTC enters your life. Yes, there is a chance that you may never need LTC coverage. However, with advances in medicine and healthcare, we may live much longer than we anticipate before we leave this world. Factor in diseases such as Alzheimer’s and Parkinson’s and other gradually disabling disorders, consider the population wave of baby boomers maturing, and you see why this coverage makes so much sense for so many.

Partnerships to make paying for it easier. Many states have created partnership programs to encourage people to buy LTC coverage. Essentially, these plans provide dollar-for-dollar asset protection when you buy an LTC policy. So for every dollar the policy pays out in benefits, you get an equal dollar amount in asset protection under a state’s Medicaid spend-down regulations.

For example, let's look at Ohio. Let's presume a couple have a \$100,000 LTC policy. If they use up the whole \$100,000 to pay for LTC, they would have to spend down their assets to \$2,250 to qualify for state Medicaid benefits. But ... if they exhaust a \$100,000 partnership policy, they can potentially qualify for Medicaid coverage and still retain \$101,500 of their assets.³ State governments are increasingly offering to partner with LTC policyholders with inflation-adjusted policies.

A new option (and a nice tax break). There are now whole life insurance policies and annuities structured to provide either a long-term care benefit or a death benefit - and thanks to the Pension Protection Act, starting on 1/1/10 the interest deducted to pay premiums and benefits from tax-qualified LTC coverage will no longer be taxed. (This applies to combination whole life/LTC policy plans and combination annuity/LTC policy plans; premiums for traditional LTC insurance policies will still be paid with after-tax dollars. So with these new combination whole life/LTC and annuity/LTC policies, you will now have tax-free premiums and tax-free benefits.)⁴

59% of Americans are wrong when it comes to long term care. AARP conducted a survey in 2006 and found that 59% of respondents believed Medicare would pay for extended nursing home care. Another 52% incorrectly thought that Medicare would cover assisted living costs. In 2009, AARP found that 44% of Americans were "not very prepared" or "not at all prepared" to bear sudden long term care expenses.

I urge you to join the ranks of the prepared. November is Long Term Care Awareness Month - a good time to look at ways to plan for long term care needs. Now is the time to confer with an insurance advisor or financial advisor to learn more about your options.

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Citations.

¹ naifa.org/newsevents/releases/200810212_LTCMonth.cfm [10/21/09]

² blogs.marketwatch.com/retirement/2009/10/27/long-term-care-insurance-is-it-worth-the-bet/ [10/21/09]

³ ltc4me.ohio.gov/faq.aspx [8/08]

⁴ seniormarketadvisor.com/r/smaMag/d/contentFocus/?adclD=c52394c846a85ab7538a370dfea5a92f [10/16/08]

⁵ aarp.org/research/ppi/ltc/Other/articles/the_costs_of_long-term_care_public_perceptions_versus_reality_in_2006_aarp_fact_sheet.html [12/13/06]

⁶ assets.aarp.org/rgcenter/il/bulletin_ltc_09.pdf [4/09]