

## What you need to know about Long Term Care

Long-term care insurance is becoming an increasingly popular topic among consumers, and for good reason. **A recent study showed that 40% of the people who turn 65 each year will spend some time in a nursing home.**<sup>1</sup> As people live longer, these odds likely will increase.

<sup>1</sup> "Some Observations About the Senior Citizens' Freedom to Work Act of 2000." Journal of Financial Service Professionals, January 2001.

### Changing Times Bring New Concerns

Most of us know at least one person who has stayed in a nursing home or needed professional home health care. The financial consequences of long-term health care can have a significant impact on a family's savings and lifestyle. According to the Health Care Financing Administration (Fall 1996), a total of \$106.5 billion was spent on long-term care, and nearly half of that was paid, out-of-pocket, by the patients and their families. Those accumulated expenses can use up a major part of your savings. For people who enter a nursing home, the financial outcome can be worse: according to the Congressional Subcommittee on Aging, **79% to 80% of nursing home residents deplete their assets within twelve months.**

To understand who needs long-term care insurance, it's necessary to understand basic changes taking place in American society. According to the U.S. Census, there were 32 million people age 65 and older in 1990 but by the year 2030, this figure could double to 64.6 million. Moreover, people are living longer today than ever before. By the year 2040, there may be more people over age 85 than there are over 65 today. Not only are we getting older but, over the next 50 years, the working age population may increase only 2% to 18%, while the elderly population is expected to increase anywhere from 139% to 169%.

For years, it was tradition for adult children to take care of their parents during the "golden years." But changing times have brought an increase in dual-career families, job insecurity, family mobility, and divorce. **Today, many adult children are not able to stay home and look after their own children, let alone an aging parent.**

In addition, corporate downsizing has eliminated thousands of mid-management jobs throughout the country. Consequently, many adult children are not in a position to financially help their parents as they had planned. Add to this the increasing uncertainty of health care benefits for senior citizens, and a giant question mark looms on the horizon.

### Who Will Pay For Long-Term Care? Not Uncle Sam

Who will support this population and help pay its inevitable medical bills? The writing is on the wall. According to Alice M. Rivlin and Joshua M. Weiner, authors of "Caring for the Disabled Elderly" (published by the Brookings Institution), the combination of aging Baby Boomers and an increase in the longevity of the aged will dramatically heighten the need for more public and private spending. **But when it comes time to pay the bill, no federal program — Social Security, Medicare, or Medicaid — will pay for all long-term care expenses.**

## How "Secure" Is Social Security?

**Social Security is not a savings account that builds up over time.** It is a "pay as you go" system, paid for through payroll taxes on present employees to support former workers. Today, according to the Social Security Administration, each retired Social Security beneficiary is supported by the payroll taxes of 3.3 workers. By 2020, it's estimated that each Social Security beneficiary will be supported by the payroll taxes of 1.9 workers. **In other words, payroll taxes would have to increase by almost 60% for the system to remain solvent and provide the same level of benefits in the future.**

## Don't Bank On Medicare Or Medicaid

Although Medicare provides health coverage for senior citizens, it is limited in the area of long-term care coverage. In 1995, Medicare paid a total of 9.4% of all nursing home care expenses in the country<sup>2</sup>. Medicaid, on the other hand, will cover the cost of long-term care, but there's one catch: to qualify, you must become indigent ("spend down" your assets). Remember, once you have depleted your assets, you have also lost control over where and when you receive care. Also, because of state and federal budget cutbacks, the facilities close to your family and friends might not have openings for Medicaid patients at the time you need care.

<sup>2</sup> Health Care Financing Administration, Fall 1996  
13642(497) Ed. 1/99

## What Does Long-Term Care Insurance Cover?

Long-term care insurance usually pays for skilled, intermediate, or custodial care in a nursing home. It can also cover professional "at-home" health care. This type of insurance can help pay for a variety of home and community-based care services, including: physical, speech, and occupational therapists; home health aides and visiting nurses; adult day care, and hospice care. (Note: Generally, skilled care refers to round-the-clock treatment by a registered nurse under a doctor's supervision. Intermediate care refers to occasional nursing and rehabilitative care under the supervision of skilled medical personnel. Custodial care primarily meets personal care needs in activities of daily living such as help in eating or bathing.)

## How Do Long-Term Care Insurance Policies Work?

Typically, long-term care policies pay up to a specific dollar amount for covered services per day, reimbursing policy owners for expenses incurred. Few, if any, policies provide full coverage for all expenses. Annual premiums for long-term care insurance policies can range from \$250 to over \$2,500 depending on age, waiting periods, and the duration and amount of benefits.

## Just What Does A Good Policy Include?

No matter what your needs are, there are certain things to look for in long-term care insurance. Be sure that the company offering the policy is financially secure — research their ratings. (Most libraries have that information available from independent ratings agencies; otherwise, ask your agent.) Keep in mind that premiums can be costly (depending on age). Find the level of coverage that is affordable yet still offers what's most important to you. For

example, if you are concerned about the possibility of being unable to care independently for yourself in the future, and you don't feel comfortable having to rely on a stranger to do so, then make sure that your policy provides benefits allowing a friend or family member to come in and take care of you. Or, if you do not anticipate needing long-term health care services for several years, you may want to consider purchasing an inflation protection option. And, no matter what, you will want a policy that waives premiums while you are receiving nursing home and/or home health care benefits.

(Note: As of January 1, 1997, federal legislation provides some tax advantages for long-term care insurance. Part of the premiums are now deductible as a medical expense. This applies to both existing and new policies ("qualified" long-term care insurance contracts) that meet the federal standards.)

The National Association of Insurance Commissioners (NAIC) produces a "Shopper's Guide to Long-Term Care Insurance." This can be obtained, at no cost, from your State Insurance Department. The Health Insurance Association of America (HIAA) also publishes a booklet, "The Consumer's Guide to Long-Term Care Insurance," which provides basic information on long-term care. Since several companies offer long-term care insurance, with a variety of coverages and options available, it is important to carefully research the subject and make an informed decision. Long-term care insurance may not be for everybody, so if you are considering a policy, read it carefully. Ask for an outline of coverage that describes policy features. If you have questions, ask them. With the help of an informed agent, you will be able to make an educated decision.

### **Long-Term Care Insurance Policy Checklist**

1. What services are covered?
  - Skilled care
  - Intermediate care
  - Custodial care
  - Home health care
  - Other care
2. How much does the policy pay per day for:
  - Skilled care
  - Home health care
  - Intermediate care
  - Custodial care
  - Other care
3. Does the policy offer a means for increasing benefits to account for expected future costs? If so, how? Is there an additional premium?
4. Does the policy have a maximum lifetime benefit? If so, what is it?
  - Nursing home
  - Home health care
5. Does the policy have a maximum length of coverage per "spell of illness" or maximum benefit period? If so, what is it?
  - Nursing home
  - Home health care
6. How long do I have to wait before pre-existing conditions are covered?

7. How long do I have to pay, out of pocket, before the policy benefits begin? (This amount of time is known as an "elimination period.")
8. Does the policy require:
  - Physician certificate of need
  - A functional assessment
  - A prior hospital stay for a nursing home or home health care
  - A prior nursing home stay for home health care
  - Other
9. Can the policy be canceled?
10. Will the policy cover you if you move to another area?
11. What is the age range for enrollment?
12. What does the policy cost? Per month? Per year?
13. Is the policy a "qualified" long-term care insurance contract?

**Contact An Agent** — professionally trained and experienced — we can help you analyze your needs and recommend appropriate solutions through insurance and financial products and concepts —**at no charge to you.** [Request a free, no obligation, consultation](#) with a licensed Long Term Care agent - contact our Call Center at 1-704-875-1199.

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