

Assessing the Need for Long-Term Care Insurance

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Long-term-care costs and payment options are discussed in this NebGuide, which also assesses the need for long-term care insurance.

In recent years, the term “long-term care” has evolved to include services for the elderly which can be provided in their own homes or other residential facilities. Senior housing, designed to accommodate the needs of those with limited mobility, and assisted living facilities are alternatives and often far less expensive options than nursing homes.

Chances of Needing Nursing Home Care

- Forty-four percent of persons reaching age 65 are expected to enter a nursing home at least once in their lifetime.
- Of those who do, 53 percent will have a one-year or longer stay; the remaining 47 percent will have a stay of less than one year.
- 56 percent of people over the age of 65 will not need nursing home care.

As age increases, so do the chances of needing long-term care.

Defining Long-term Care

Long-term care differs from traditional or preventive health care and the need for care varies with the individual’s health status and circumstances.

Long-term care helps one live as he or she is now; care is not designed to improve the individual’s health status, nor correct medical problems.

Long-term care is also designed to be custodial in nature, assisting individuals with limited ability to perform activities of daily living [ADL], such as bathing, dressing, and toileting.

Options for Long-term Care

Once nursing homes were viewed as the only option available to the elderly and their families as older citizens became unable to maintain independent living. In-home care was and is often provided by unpaid caregivers, typically adult daughters.

Today consumers can find a variety of ways to meet long-term care needs, depending on type of care provided and cost for services. Some elderly clients receive a few hours of personal assistance per week in their home, others need visits from home health professionals who provide physical or other therapy, or medication assistance. Some health needs require in-home nurses, adult day care, or services provided in an assisted-living facility. Nursing homes provide a higher level of skilled, round-the-clock care.

Custodial care needs may be supplied by family, paid or volunteer caregivers, adult day care facilities, in-home health care providers, or assisted-living facilities; all of which are less expensive options than nursing home care.

What does long-term care cost?

Long-term care costs have risen dramatically during the past two decades. The American Association of Retired Persons (AARP) reports the average monthly cost of nursing home care to be \$6,266, or more than \$75,000 annually.

Price tags for all care options continue to rise. The cost of nursing home care varies widely among states as well as facilities. In Nebraska, the average expenditure for long-term care approaches \$45,000 annually, depending upon type of care and location.

Costs may range from a per-hour charge for home visits to 24-hour care in a skilled nursing facility. Medicare and most types of health insurance, such as a Medicare supplement policy, do not pay most expenses for long-term care.

Medicare-covered benefits

Although Medicare rarely pays for long-term care, some costs of care provided by a skilled nursing facility are covered if they follow a qualified hospital stay for illness or injury. The Medicare Part A benefit covers 100 percent of home health care IF authorized by a physician [disability period determined by doctor] as well as 80 percent of durable medical equipment for a limited amount of time. Medicare has strict definitions for covered services, length of benefit and payment limits.

Medicaid

In 2003 in the United States, long-term care costs were in excess of \$183 billion; 48 percent of those expenses were paid by Medicaid. Medicaid is a federal/state entitlement program which pays medical assistance costs for certain individuals and families with low incomes and resources. Medicaid is the largest source of funding for medical and health-related services for America's poorest people. However, each state may establish its own Medicaid eligibility standards; determine the scope of its services, and administer its own program.

Spending down

Many people may start paying for nursing home care out of their own funds and "spend down" their resources until they are eligible for Medicaid, which may then pay part or all of their nursing home costs. Some assets and income can be protected for a spouse who remains in the home.

Many people who need long-term care services never qualify for Medicaid assistance, and some individuals pay for long-term care out of their own or their families' resources, bearing the entire cost of care in whatever format is available to them.

Long-term care insurance

Consumers who buy long-term care insurance pay for the insurance premiums in addition to any premiums paid for Medicare and a Medicare supplement, since neither cover costs of long-term care.

Long-term care insurance can be expensive. Consumers considering purchase of a long-term care policy should pay careful attention to all parts of the insurance contract. Such policies allow the purchaser to make a multitude of choices, but limit the type of care provided, benefit or elimination periods, covered or excluded costs, facility type, eligibility criteria, and excluded health conditions. Each of these factors are important, and each decision impacts future benefit payments. Premium costs vary with age; the older the consumer, the higher the premium.

Premium costs will also vary depending upon the insurance carrier. Buying a long-term care insurance policy through an employer as part of a benefits package, or through a group

plan offered by an organization or association, may cost less than purchasing an individual policy.

An important factor to consider is whether the benefit will continue to be offered after retirement. Many firms facing tough economic challenges target retiree benefit packages for elimination in order to save costs. Additionally, the policy must be purchased before it is needed, which puts the consumer in the position of having to guess what type of future long-term care he or she may need.

The consumer must also determine if the cost of long-term care insurance is affordable, both at the time of purchase and following retirement, when the income stream may be smaller. Like other types of insurance, premium dollars spent on long-term care insurance will not be refunded if the policy is dropped or benefits are never accessed.

Insurance costs vary by age

The cost to a consumer for long-term care insurance is influenced by age, and the assumption that the buyer is healthy at the time of policy purchase. Insurance companies are likely to exclude coverage to those with pre-existing conditions in order to keep the costs of long-term care insurance affordable for the majority.

With excellent health, a 55-year-old might pay an annual premium of \$775, whereas a 65-year-old would pay nearly double that amount, upwards of \$1,400. As age increases, premium costs accelerate at an even higher rate; annual premiums in excess of \$7,000 at age 75 or older are not uncommon. Rising inflation adds to the cost of care; policyholders, especially those who purchase insurance in their 50s and 60s, will want to consider policies with inflation clauses.

To Buy Or Not To Buy Insurance

Planning is the key to affording long-term care whether it is through insurance benefits, private-pay, or a combination of both.

The decision on whether or not to buy long-term care insurance may depend on age, family history, health status, overall retirement goals, income and assets. If a consumer's only source of after-retirement income is a Social Security benefit or Supplemental Security Income [SSI], long-term care insurance premiums will be unaffordable.

Even consumers whose after-retirement income adequately meets their needs will find the cost for long-term care insurance a large expenditure. The buyer assumes the need for protection from potential long term care expenses, knowing that the insurance may never be utilized, very much like he or she purchases liability insurance for an automobile, hoping it's never needed.

Consumers with a large number of assets to protect may find that purchasing a long-term care insurance policy may help preserve a portion of those assets. While the policy may

not cover all the costs, it may help the consumer avoid depleting life savings as a result of a nursing home stay, and still be able to provide assets for children and grandchildren.

Long-term Care Financing Alternatives

Alternatives exist for financing long-term care: individual retirement accounts or investment in stocks, bonds, or money market accounts.

For example, if at age 55 a consumer annually invested an amount equal to a year's long-term care insurance premium and held that investment for 15 to 20 years, it could yield a considerable sum, accessed at a time when the consumer's taxable income is likely to be lower.

Financing long-term care through personal investment lifts any restrictions on type of care needed and keeps the consumer's investment available, if he or she doesn't need long-term care. Additionally, the total accumulated investment would become part of any estate, providing a benefit to a surviving spouse, if there is one, and later to children and/or grandchildren.

The disadvantage of the plan is the consumer's need to strictly adhere to the savings plan, by being self-motivated and committed to investing toward a goal. A one-year or longer nursing home stay could wipe out a savings account in a short amount of time. Additional resources would need to be identified to pay for care on a long-term basis.

Resources Available

The Nebraska Department of Insurance can provide a list of insurance carriers authorized to sell long-term care insurance in Nebraska. Nebraska's Senior Health Insurance Information Program [SHIIP] is a valuable resource; contact them at 1-800-234-7119. The Centers for Medicare and Medicaid Services [CMS] provides consumers with information about Medicare-covered and non-covered areas of care. The toll free number is 1-800-633-4227, or visit the Medicare website: <http://www.cms.hhs.gov/> for coverage details.

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