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Make a Long-Term Plan for Long-Term Care

Most of us have seen the bumper sticker: "Be nice to your kids; they'll choose your nursing home someday." For those of us who have faced the difficult decision about where and how to care for aging parents or other relatives, the humor is not so obvious. The costs, both emotional and financial, associated with providing for the daily needs of those we love who are no longer able to care for themselves can be staggering.

And the problem isn't just with the older generation. Given the persistent rise in the costs of long-term care (LTC), even mid- to late-career individuals—typically in their peak earning years—need to begin looking ahead toward their retirement and taking the cost of their own LTC into consideration in their financial planning and investment strategies. In the year 2000, 37 percent of those who needed LTC in the US were younger than 65, according to the US Department of Health and Human Services (HHS). More recent research indicates that the majority of Americans will require some form of LTC at some point in their lives, and this is especially true as Baby Boomers and even a few Gen Xers move into retirement. HHS figures indicate that a person turning 65 today has almost a 70 percent chance of needing LTC in their remaining years. Additionally, because women typically live longer than men by about five years, they are more likely to require LTC at some point.

What is long-term care? The term encompasses a range of services and types of support that may be required to meet an individual's personal care needs. It's important to note that most LTC is not medical in nature. Instead, it involves help with activities of daily living (ADLs) such as bathing, dressing, toileting, transferring from bed to chair and vice versa, preparing meals, and eating. Because these are not strictly medical matters, LTC is not usually covered by Medicare, which is the primary federal program intended to assist eligible seniors with medical costs.

When people are no longer able to perform two or more of the ADLs without assistance, they become candidates for LTC. It's also important to remember that many circumstances other than advanced age can bring about a need for LTC, including chronic health conditions such as diabetes or high blood pressure, stroke, severe heart disease, and other illnesses and disabilities that can strike people in their 60s, 50s, or even 40s. HHS estimates that about 8 percent of those between ages 40 and 50 have a disability that could require LTC-type services; 69 percent of those 90 and older have such a disability.

Remember: most LTC expenses are not covered by Medicare. Surveys consistently show that this fact comes as a surprise to many, but unless you require skilled nursing care in a nursing home or in your own home, Medicare won’t help. Further, coverage by Medicare, even for such covered expenses, is limited to a maximum of 100 days (the average length of time covered by Medicare is actually about 22 days).

This means that most LTC services are provided by an unpaid caregiver—usually a friend or family member—a nursing home, a home care aide, an adult daycare service provider, or some combination of the above. Paid services, as you might expect, aren't cheap; a semi-private room in a nursing home averages just over $6,800 per month, with more expensive states (like New York and Massachusetts) averaging closer to $11,000 per month, and less costly states (like Texas and Missouri) running a little less than $5,000 per month.

For those with scarce financial resources, Medicaid typically becomes the source of last resort for LTC funding. Medicaid covers most non-medical LTC costs, but to qualify, your income and assets must be below a certain level, which is set by each state (see www.healthcare.gov). An entire legal specialty has sprung up around various strategies for helping older Americans qualify for Medicaid: gifting assets, placing them in certain types of trusts, etc. In laymen’s terms, older people must basically put themselves below the poverty line in order to qualify. Also, because of Medicaid rules, once those assets are gifted away or otherwise divested, they become difficult if not impossible for the grantor to repossess and still retain eligibility for Medicaid benefits. It is a serious dilemma.

Enter long-term care insurance. These plans, usually issued by private insurers, offer many different options—each of which comes with a cost—that can cover most or all of the expense of LTC services. Premiums are based on your age when the policy is issued (the younger you are, the lower the premiums) and which options you select for coverage. Most policies reimburse policyholders a daily amount, up to a pre-selected limit, for expenses related to assistance with ADLs, and most policies will cover expenses for nursing home care, private home care, and adult day care.

For persons with plentiful assets—generally, $1 million or more—pre-funding an LTC plan is usually the wisest and most cost-effective choice. They should consult with their financial advisors in order to establish the best tradeoff between managing the risk of LTC costs and keeping the maximum level of assets actively invested. Younger persons who are still working and approaching retirement can profitably utilize various strategies involving policies with cash value and death benefits to even further lower the opportunity cost of funding their eventual LTC needs. It's important to keep in mind that the average length of time an individual in the US will need LTC services is about three years. This means that LTC planning should take into account inflation, the average cost and duration of a nursing home stay in your state, and your present age.

As an example, let's look at a person who is 55 and lives in Massachusetts, one of the most expensive LTC states. The current average annual cost of a nursing home stay in Massachusetts is about $132,000 ($11,000 X 12). Since the average duration of a nursing home stay in the US is about 3 years, someone needing LTC services today would require about $396,000 ($132,000 X 3). If we allow for the current average rate of inflation in LTC costs (around 3 percent, according to the most recent study by Genworth Financial), $396,000 would need to grow to about $800,000 by the time the individual reaches age 80. Annual premiums for an LTC policy to cover this need range between $1,700 and $3,500 for a policyholder aged 55, according to the American Association for Long-Term Care Insurance (www.aaltci.org). So, at the low end, 55-year-old policyholders would spend a total of $42,500, over the next 25 years, to insure an $800,000 need. At the high end, they would spend $87,500. The insurance isn't cheap, but it can buy you and your loved ones a lot of peace of mind.

If paying that kind of premium now would disrupt your retirement savings strategy, you may wish to discuss Medicaid planning with your financial and legal advisors. But the most important thing is that even if you are still in your peak earning years, the time to begin making a plan for your LTC needs is now. As a friend of mine is fond of saying, "We'll all get old if we live long enough." This is one expense that most of us will not be able to avoid. Plan now, to avoid unpleasant surprises later.

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