Long-Term Care Insurance: 'Who Needs It?
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Not me, I am young and healthy. I eat right, exercise, and get regular check-ups. Just a few of the reasons people today are living longer. In fact, since the 1960s, life expectancy has increased between 1.5 and two years each decade.

But before you get too caught up in the good news, you may want to think down the road a bit. What are the odds that you'll enjoy this same level of good health when you're 80, 90, or even 100? Especially since approximately 70% of people over the age of 65 will require long-term care at some point.

With people living longer, protecting your financial assets so that you'll have enough money to last during your lifetime is every bit as important as accumulating them in the first place. But with health care costs rising every year, one illness or disability can wipe out a person's savings due to ongoing medical expenses. According to Genworth Financial, a leading provider of long-term care insurance for individuals, the average cost for a private nursing home room in 2015 was more than $80,000 per year.

What is Long-Term Care Insurance?

Long-term care is provided to people who are unable to perform the basic tasks of everyday living on their own for an extended period due to chronic medical, physical or cognitive conditions, or disabling injuries. Long-Term Care Insurance covers long-term care services provided in a nursing home, at home, in an assisted living facility, or in other community-based settings. Medicare, Medicare supplemental insurance (Medigap), and traditional health and disability insurance plans typically do not cover long-term care services.

Footing the bill

First of all, you need to know that Medicare generally doesn't pay for long-term health care. It pays only for skilled nursing facilities or home health care that falls under the category of medical necessities. While it may be possible to use your savings to pay for long-term health care expenses, several factors enter into the picture. For example, you'll need to determine how much money may be needed. And to figure out that dollar amount would require estimating the type and length of service that may be necessary.

Additionally, income and assets that you've set aside for other retirement goals may be jeopardized if health care costs are higher than expected. And while you could invest for the potential expenses, investment risk may be a factor. Putting money in a conservative account may not keep up with inflationary costs of health care. A more aggressive account may be affected by market downturns when money is needed.

A potentially more efficient and effective alternative is an insurance policy that would provide the dollars needed to cover long-term health care expenses. Consider some of the advantages:

Policy guarantees. A guarantee, backed by the claims-paying ability of the issuing company, provides the assurance that money will be available to pay long-term care expenses when needed.

Investment freedom. You won't need to be concerned with investment performance of assets set aside to pay expenses since an insurance policy shifts the responsibility for asset availability to the insurance company.

Leverage. The capital required to purchase insurance protection is typically less than that needed to pay for expense due to the leverage insurance provides. As a result, you may have additional capital.

Tax benefit. Qualified long-term care insurance policies pay an income-tax-free benefit.

In addition to combining long-term care benefits and death benefits, some products even offer a return-of-premium feature, which ensures that if the policy is surrendered prior to claim, the original premiums paid will be returned to the policy owner. [1]

Long term care coverage with an asset- protection twist

Partnership-eligible long-term-care insurance programs, which most states now offer, allow you to keep some of your assets if you exhaust all of your benefits from an eligible long-term-care policy and have to rely on Medicaid. For example, if your policy provides total benefits of $200,000 (usually your daily benefit multiplied by your benefit period), you'll be able to protect an extra $200,000 in assets above the state's Medicaid limits after using up all of your policy's benefits.

State laws on how to qualify for Medicaid differ, but you generally can't have more than $2,000 in countable assets, including investments. A spouse who lives at home can generally keep about $115,000 while the other spouse is in a nursing home or other care facility. You can generally keep your home, cars and a few other items. You can also keep assets in certain kinds of trusts. With a long-term-care partnership policy that provides $200,000 in coverage, you'd be able to keep about $202,000 in countable assets -- or the spouse at home could keep about $315,000 -- after you exhaust your benefits and need to sign up for Medicaid.

Medicaid eligibility rules vary by state, so there can be different rules for the partnership programs if you move to a new state. Most states have reciprocity with other states' long-term-care partnership programs. That means if you move, you'll generally be able to protect the same amount of assets based on your policy's total benefits, but the Medicaid eligibility rules of your new state (not the state where you originally bought the policy) will apply. But a few states (such as California) do not have reciprocity, says Jesse Slome, of the American Association for Long-Term Care Insurance.

Most long-term-care policies are partnership-eligible and don't charge extra for the benefit. Most states require the policy to have some kind of compound inflation adjustment before age 61, then any automatic cost-of-living rider (not necessarily compound) from age 62 to 75. After age 75, there's usually no requirement for a cost-of-living adjustment, says Slome. But some states, such as California, require the policy to have a 5% compound cost-of-living adjustment until age 70, followed by a 5% simple interest adjustment. Ask your insurer if the policy you're considering qualifies.
A new type of long-term-care policy, called guaranteed purchase option coverage, does not qualify for partnership programs in most states because it doesn't increase benefits automatically with inflation. It tends to cost a lot less than other policies when you first get coverage, but you have to pay extra if you want to boost your coverage levels every few years. For more information about new types of inflation adjustments
If a policy doesn't qualify for the partnership program because it has a smaller inflation protection, but it meets your needs and costs a lot less than a partnership-eligible policy that, say, provides 5% compound inflation, don't automatically reject the lower-cost policy. If you never need Medicaid, you'll never benefit from the partnership policy anyway. There are generally two criteria to qualify for Medicaid: the asset test and the income test If people have some source of retirement income, say, from a pension, they may run out of assets but may never qualify for Medicaid based on income. You can find out more about your state's Medicaid eligibility requirements at www.medicaid.gov [2]

How to Make Long-Term Care More Affordable

The average cost of a private room in a nursing home is now about $248 per day (or about $90,000 per year), and 12 hours a day of home care costs even more, according to the MetLife Mature

Market Institute. But for many baby-boomers, it takes more than the threat of financial catastrophe to be prodded into buying a long-term-care insurance policy.

Clients in their fifties should have some form of long-term-care coverage to protect their retirement savings. Until recently, people who bought policies generally got enough insurance to cover 100% of the cost of care. But insurers boosted their rates after paying more money in claims than they expected. Rates for new policies have shot up—especially for women buying on their own—and it has become a lot more difficult to qualify for coverage if you have health issues.

Buy his and her policies
Several major long-term-care insurers have switched from unisex to gender-differentiated pricing.

In many cases, single women—who tend to live longer than men and are more likely to need care—now pay about 50% more than single men, The rate hikes haven't been approved yet in some states, and a few insurers still offer unisex rates, especially for policies sold through employers.

Most insurers continue to offer discounts for couples of about 30%. For example, some couple's policies give women a big break. For healthy 55-year-olds buying a policy with a three-year benefit period and a $150 daily benefit, plus 5% compound inflation protection, the cost is $2,190 a year for a single man and $2,966 for a single woman. But the price drops to $1,854 each if they buy as a couple.

Couples can also hedge their bets with a shared-benefit policy. Instead of two separate benefit periods, you share a benefit pool—three years each becomes a pool of six years that can be split between the spouses.

If you're a single woman, consider a policy that combines long-term-care and life insurance. With a combo policy, rates won't go up, and either you or your heirs are guaranteed a payout. For example, a 60-year-old woman who invests $100,000 in a policy could get $6,627 in monthly long-term-care benefits for six years—totaling $477,144. If she dies before needing care, her heirs will get a death benefit of $159,048. (Money she uses for long-term care is subtracted from the death benefit.) [3]

Get inflation protection for less. In the past, most policies automatically increased benefits by 5% compounded per year. But policies with 3% or CPI-adjusted inflation protection, which trims premiums, have become more popular. For example, a 50-year-old woman who buys a policy with a $150 daily benefit, a three-year benefit period and a 90-day waiting period would pay $3,374 per year with 5% inflation protection, compared with $1,560 for a CPI-adjusted policy. A man would pay $2,174 per year for the 5% compound policy, or $956 for one with a CPI adjustment.

Some insurers are offering policies with future purchase options, which cost less than traditional inflation-adjusted policies to start out but don't increase benefits automatically. Instead, you can boost your benefits every few years if you pay more.

When choosing an inflation option, don't simply compare premiums. Calculate how much the pool of benefits will grow to by the time you're likely to need care. A policy with a 3% inflation adjustment may not seem as good a deal when you see how much smaller the benefit pool will be when you're 80.

Some states have partnership programs that let people who buy long-term-care insurance keep more of their assets if they exhaust their long-term-care policy benefits and have to rely on Medicaid. Some states require that policies have 5% compound inflation protection to qualify for the partnership program. Contact your state insurance department (you'll find links at www.naic.org).

Buy a policy when you're still healthy. Insurers are also managing their risk by rejecting more people for health issues and making it more difficult to qualify for the best rates. A study by the American Association for Long-Term Care Insurance found that 45% of people ages 50 to 59 qualified for good health discounts, but only 30% of people ages 60 to 69 qualified.

Elder Law and Medicaid Planning

We generally advise clients of the three main options for protecting assets from the high cost of a nursing home stay - long-term care insurance, asset transfers to adult children and setting up a protected "side fund" through an Irrevocable Medicaid Trust or an Asset Protection Annuity.

Long-Term Care Insurance: Planning for the Future

Long-term care insurance is preferred since it is the only option that helps keep clients out of the nursing home - by paying for home care. We've had many clients over the years that were forced to spend their final days in a facility simply because they ran out of money to pay for home health aides. Additionally, for married couples, the home care option may protect the spouse not requiring the care from compromising their own health and finances with the heavy burden of caregiving in their later years.

Ways to reduce the cost of Long-Term Care Insurance

Since the main objection to purchasing long-term care insurance is the expense

1. First, the client should look at a hundred day elimination period since Medicare may pay some or all of the first hundred days (to the extent skilled nursing care is required) and, of course, there may never be a claim on the policy. It is really hedging with a bit of self-insurance.
2. The daily benefit purchased can be reduced by income from pensions, Social Security and investments, to the extent these items may not be needed by a spouse.
3. The benefit period might be limited to three years since this will encompass the majority of claims and the Medicaid look-back period for transfers to individuals does not exceed that period. In other words, with the help of an elder law attorney, the family would transfer the parents' assets to the children at the time a claim is first made under the long-term care policy, the policy would then pay for care up to the three years and beyond that the client would be eligible for Medicaid benefits, if needed.
4. Cut the cost of long-term care insurance is to work with an independent agent who can provide three or four premium quotes. Some clients end up paying too much due to transactions with captive agents.
5. The cost of the insurance may be reduced forty to fifty percent by choosing a home care only policy - an especially attractive option for clients who cannot afford complete protection and for those over age seventy where the expense tends to be prohibitive. Again, this is also a hedge since most claims under long-term care insurance policies today are for home care.
6. Reallocate assets from underperforming investments, which today may include stocks, mutual funds, C.D.'s, savings accounts and money market accounts into fixed-rate, tax

deferred annuities - recently dubbed "the hottest product on Wall Street" by The Wall Street Journal.

7. Asset Transfers to Children, when Long-Term Care is not an Option
8. When the client is turned down for long-term care insurance, or cannot afford the premium, two other options remain. First of those are asset transfers to children which are effective vis-a-vis Medicaid after the three year look-back period has expired. Note here that making assets joint with adult children does not protect half since Medicaid considers all of the jointly held assets to be available for the care of the ill parent except to the extent the child can prove the amount of their actual contribution (usually none). Outright transfer of assets to children are generally inadvisable for seniors since those assets then become exposed to the children's debts and liabilities, divorces, etc. In addition, some children spend the money, refuse to give it back when needed or, unfortunately, die before the parent and pass those assets on to their heirs. One exception to the inadvisability of outright transfers is when nursing facility care is imminent or at least foreseeable. In such a case, the assistance of an elder law attorney is essential since the amounts to be transferred, the order of assets transferred and where to transfer the assets all require the advice of counsel. The object here would be to protect as much of the assets as possible and to qualify for Medicaid benefits at the earliest possible moment.
9. Protected Side Fund, another alternative to Long-Term Care Insurance
10. Barring this latter scenario, the preferred option for persons planning ahead who cannot get long-term care insurance is to set up a protected "side fund" with an Irrevocable Medicaid Trust or an Asset Protection Annuity.
11. Known as an "income only" trust, the Irrevocable Medicaid Trust must name someone other than the Grantor or their spouse as the trustee, usually one or more adult children, and limits the Grantor to the income. The principal must be unavailable to the Grantor in order for it to be protected. The client's lifestyle is not generally affected since they still receive their pension and Social Security checks directly. The trust can sell and trade assets through the trustee and the Grantor retains some measure of control by reserving the right to change the trustee in the event of dissatisfaction for any reason.
12. The Medicaid Trust is subject to a look-back period of up to five years. Medicaid eligibility, however, may occur prior to five years depending upon the amount of assets transferred to the trust and the locale (since the penalty period for transfers is the amount transferred divided by the average monthly cost of local nursing facilities).
13. An emerging technique is the use of an Asset Protection Annuity. This special annuity adds a rider to the contract that vests ownership in a trusted son or daughter while retaining certain controls for the parent.
14. Long-Term Care Insurance v. Medicaid Asset Protection Trust
15. Long-term care insurance (LTCI) and the Medicaid Asset Protection Trust (MAPT) are often thought of an alternatives to each other. They are not. While LTCI is both a shield and a sword, the MAPT is a shield only. [4]

    LTCI protects your assets and income from the costs of care. But it has a positive effect (the sword) in that it actually pays for someone to come into your home and care for you there. The MAPT protects assets, like your home and your life savings, but it does not protect your income (pensions, social security, interest, dividends, etc.). The MAPT has no positive effect in terms of providing care. It is solely a defensive tactic. That being said, in the event LTCI is

unavailable to the client for medical or financial reasons, the MAPT is a wonderful tool. And there is
truth in the saying that a good defense is the best offense. With the MAPT in place five years ahead of time, the client's assets are protected and Medicaid will pay for the cost of care, over and above what your income provides. If you have a spouse at home, they may keep about $3,000 per month of the couple's combined income and sometimes more.

Our stated preference for clients is LTCI, if available. Most clients would prefer to "age in place" or, in other words, stay in their own home and receive home care if needed. Here, the LTCI stretches your dollars, to allow you to remain in the home for years more than you might have been able to afford otherwise. If your spouse is unable to care for themselves, it allows you to call in extra help so that you do not wear yourself out acting as a caregiver in your later years.

Some clients have adopted a hybrid approach when it comes to LTCI and the MAPT. They purposely underfund the LTCI, say taking a $200/day benefit ($6,000/month) instead of a $400/day benefit ($12,000/month). They also establish the MAPT and transfer their assets to the trust. The thinking is that the $200/day will pay for the home care that they may need and want, at half the cost of the full policy. On the other hand, if they end up in a nursing home, they won't lose their assets due to the $6,000/month they may be short, and Medicaid will pick up the difference. [5]

1.https://www.wellsfargoadvisors.com/market-economy/financial-articles/estate-planning/assets-long-term-care.htm

2.http://www.kiplinger.com/article/insurance/T036-C001-S003-long-term-care-coverage-with-an-asset-protection-t.html

3.http://www.kiplinger.com/article/insurance/T036-C000-S002-make-long-term-care-more-affordable.html

4.http://www.greeninglawfirm.com/elderlaw.htm

5.http://www.trustlaw.com/long-term-care-insurance-v-medicaid-asset-protection-trust.html