

Will You or Your Parents Need Long Term Care? And Should You Get Long Term Care Insurance?

The major variable in retirement planning is whether, when, and how long anyone will need long term care; i.e., help with daily living. There are three types of long term care, distinguished by the setting: nursing homes, assisted living facilities, or care provided in one's own home. It is not uncommon for an individual to use different types at different times in their lives.

Nursing Homes

43% of Americans over age 65 will enter a nursing home at some point in their lives¹. Most stay for a relatively short period of time, recuperating after surgery or illness.

The average stay is between two and three years. More than half leave a nursing home within three months. The odds of needing a nursing home increase for those with Alzheimer's disease: Only 3% of Americans between the ages of 65 and 74 are diagnosed with Alzheimer's, but by age 85, 47% have been diagnosed with the disease (National Institute on Aging).

Nursing homes cost between \$38,000 and \$52,000 per year now, and, by 2030 when baby boomers will need nursing homes, they will cost \$97,000 annually.

Assisted Living

Assisted living facilities offer help with daily living, but provide less round the clock supervised care than nursing homes. They are less expensive, averaging about half the cost of a nursing home. Most often, private pay or insurance is used to cover the costs of assisted living homes.

Concepts in Home Care

Home based care is appropriate for those who need less skilled medical care or less assistance with daily personal and household chores. In-home care is typically charged by the hour, and currently averages about \$17- \$19. In addition to its lower cost, it is often preferred because it enables the client to stay in his or her own home, in comfortable and familiar surroundings.

It is far more likely that we and our parents will need assisted living or in-home care than a nursing home.

- Long Term Care Can Be Very Expensive

Metro Denver
Average Annual Costs*

¹ HIAA: Guide to Long-Term Health Care, Dec., 1999

Nursing Home: \$55,000 - \$78,000

Assisted Living Facility
\$25,000 - \$30,000

In-home Care \$ 11,856**

**Assumes 4 hrs/day, three times per week

Who Pays for Long Term Care?

Many people believe, mistakenly, that Medicare or Medicaid covers the costs of health care, home care or nursing home care in retirement. They don't for most people, and that's why more of us are considering long term care insurance.

Tips When Considering LTC Insurance:

- Buy from a reputable company and one that has experience in long term care. As the industry grows, more and more companies are entering the market. Find one that has experience and a track record in long term care insurance.
- Buy a policy that allows your own doctor to certify when you are eligible for benefits, rather than someone chosen by the insurance company.
- Buy a policy that you can afford for the rest of your life, even if your income declines. Some companies raise premiums more than other companies. Check with the State insurance commissioner to find out about the premiums of the company and specific policy you are considering. You may want to pay more of the daily nursing home costs yourself in order to get the lower premiums.
- If you can afford it, buy a policy with automatic inflation protection, which increases your benefits over time without increasing your premiums. . If inflation is running at 5% annually, a nursing home that now charges \$110 per day will be charging more than twice as much in 14 years will. Without inflation protection, your coverage will be half of what you'll need. If you're over age 75, you may not need the inflation protection.
- Pay close attention to the types of facilities that are covered by the policy. Some policies cover care in any licensed facility, others exclude care in certain facilities.

- Buy a policy that covers assisted living facilities, in-home care as well as nursing homes. You're more likely to need in-home care than nursing home care. On the other hand, you're also more likely to be able to afford it (average costs are \$16-\$19 per hour). If you can cover those costs on your own, or if you have friends or relatives who can assist with in-home care, don't include it in a long term care insurance policy.
- Be sure you understand how the policy defines inability. Does it mean that the insured must actually have someone else assist them, or does it mean that someone else must be available to supervise the activity? Bathing is often the first ADL that a person is unable to perform. If bathing is not included among the benefit triggers, look for another policy. In addition to ADLs, the benefit trigger should include cognitive impairment or mental incapacity.
- Buy a policy in which the "elimination period", the number of days you must pay for care before the policy begins paying, need be satisfied only once rather than each time you need care. To save on premiums, buy a policy with a 60 or 90 day waiting period, meaning that you'll pay the costs of care for that period before the insurance begins paying.
- Independent experts advise buying a policy in your 60s. At that age, premiums are still relatively affordable.
- Bear in mind that you may not need care for many years after you buy LTC insurance. The most likely time to need a nursing home, for example, is when you're 84. So, if you buy a policy when you're 60, you may not start needing or receiving benefits for another 24 years, hence the need to buy from a company that will be around long into the future, buy compounded inflation protection, and buy a policy whose annual premiums you can afford for the rest of your life.

How Much Does LTC insurance cost?

Like other life or health insurance, long term care insurance costs less if you buy it earlier. The younger you are, the less expensive the policy, even when you take into consideration the longer period of time a person is paying premiums.

Sample annual premium rates

Colo.Standard Nursing Home And Home Care Plan	
Age 60	\$980
Age 65	\$1330
Age 70	\$1910
Age 75	\$2940

Standard Plan = \$100/day nursing home care. Max benefit =\$125,000 for any combination of nursing and home care.

Colorado residents can claim a tax credit of 25% of the premiums (up to \$150) for the cost of long term care insurance. Individuals must have less than \$50,000 in taxable income for the year, and less than \$100,000 if both spouses buy a policy.

Trends in long term care:

- Fewer nursing homes and fewer people going to nursing homes.
- Those who enter nursing homes will be more impaired.
- Instead of nursing homes, more people will go to assisted living facilities or will be able to stay in the home, even those with dementia.
- Greater reliance on long term care insurance.

Summary suggestions about financing long term care:

- Use your money to stay out of a nursing home.
- Consider obtaining a good long term care insurance policy. See the tips, above.
- If you or your parents are over age 65, enroll in Medicare Part B
- Learn about reverse mortgages and other ways to use current assets to pay for long term care. Reverse mortgages allow homeowners, age 62+ , to “borrow” against the equity in their home. Borrowers can receive a lump sum or a monthly payment. The payments received are not counted as income, so they do not affect Social Security benefits and are not subject to income tax. The loan is paid back when the last surviving borrower dies, sells the home or moves permanently away. There is a typical 2% charge for mortgage insurance. As of December 2000 that charge is waived for borrowers who use the proceeds to buy long term care insurance.

For more information:

General Information: Seniors Inc. (303) 300-6940

Social Security: 1-800-772-1213 or www.ssa.gov

Reverse mortgages: HUD’s Housing Counseling Clearinghouse 800-217-6970 or www.hudhcc.org

AARP Home Equity Information Center 800-424-3410 www.aarp.org/revmort

National Reverse Mortgage Lenders Association 866-264-4466
www.reversemortgage.org