

Long-Term Care Insurance

by Sophia



WHAT'S COVERED

In this lesson, you will explore different strategies and available insurance for meeting long-term care needs. You will learn that your needs may change over time and your agility skill can help you adapt. Specifically, this lesson will cover:

- 1. Overview of Long-Term Care Insurance
 - 1a. Elimination Period
 - 1b. Benefits of Long-Term Care Insurance
- 2. Who Needs Long-Term Care Insurance?
 - 2a. When to Buy It
 - 2b. Cost of Long-Term Care
- 3. Medicare and Medicaid
 - 3a. Medicare
 - 3b. Medicaid

1. Overview of Long-Term Care Insurance

The table below shows the staggering numbers and probabilities associated with old age and the need for help with **activities of daily living (ADL)**. When someone is unable to perform at least two ADL on a regular basis, she or he is thought to need long-term care. As noted above, the financial costs associated with needing long-term care can be quite significant (we will discuss some of these costs later). Right now, let's focus on a way to transfer the potential financial risk associated with long-term care needs: the purchase of **long-term care insurance**.



HINT

Long-term care insurance is sometimes called *nursing home insurance*.

Table: Numbers and Probabilities Associated with Old Age and ADL

81 million	The number of people that will be age 65 and older living in the United States in 2050.
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40 million	Number of people age 65 and older living in the United States in 2010.
34 million	Number of people who provide any care to someone age 50 or older.
68%	Probability of being unable to perform two ADL at some point in time for those age 65 and older.
40%	The percentage of individuals who reach 65 that will need a nursing home in their lifetime.

Source: L. Harris-Kojetin, M. Sengupta, E. Park-Lee, and R. Valverde, Long-Term Care Services in the United States: 2013 Overview (Hyattsville, MD: National Center for Health Statistics, 2013).

With long-term care insurance, some of the risk associated with paying for long-term care costs is transferred to an insurance company.

- That is, the insurance company will pay a predefined daily, monthly, or lifetime amount to the insured individual or designated caregiver as a way to help pay for the costs of care.
- It is important to remember, however, that a long-term care insurance policy will generally not eliminate all of the costs if care is needed.



KEY CONCEPT

Long-term care insurance is not designed to cover a person's medical care. Medical expenses are typically covered through private health insurance policies or by Medicare.



TERMS TO KNOW

Activities of Daily Living (ADL)

Basic activities such as being able to bathe yourself, fix your own food or eat it by yourself, dress yourself, use the bathroom on your own, or get out of bed without assistance.

Long-Term Care Insurance

A way to transfer the potential financial risk associated with long-term care needs.

1a. Elimination Period

Long-term care insurance does not have a traditional deductible, like automobile or homeowner's insurance. Instead, long-term care policies use something called an *elimination period*.

- An **elimination period** is the waiting phase between the time the insured individual qualifies for benefits and when the insurance carrier begins providing benefits.
- This is usually between 1 and 3 months, but it can be longer.
- This is important to know because one way to reduce long-term care insurance premiums is to extend the elimination period for as long as possible.
- You can do this by aggressively saving into an emergency fund and using that money to cover short-term care needs.

IN CONTEXT

Say, for example, that a policy has a 100-day elimination period and that the cost of long-term care in a community is \$80,000. Using a 360-day billing cycle, this means that the cost per day is approximately \$222 ($\$80,000 \div 360$). An insured would need an emergency fund of \$22,222 to meet elimination period expenses ($\$80,000 \div 360 = \$222.22 \times 100 = \$22,222$).

Let's now review what long-term care insurance covers.



TERM TO KNOW

Elimination Period

The waiting phase between the time the insured individual qualifies for benefits and when the insurance carrier begins providing benefits.

1b. Benefits of Long-Term Care Insurance

Long-term care insurance typically has two different benefit amounts that pay for different services.

1. Skilled nursing care that provides around-the-clock medical care, most often in a nursing home.
2. Home care, which provides a benefit of usually half the amount paid for skilled nursing care. Home care is intended to pay for services provided to you or your relative at home. Some policies require all care providers to be licensed, whereas other policies will pay family members who are providing the care.

Nearly all long-term care policies also include:

- A set **benefit period**, which specifies the length of time benefits will be paid. This benefit period could be a few months (very rare) to many years.
- A set **benefit limit**, which specifies the maximum amount the policy will pay. Some policies, for example, have a flat benefit limit equal to, say, \$300,000 or \$400,000. Other policies have daily or monthly maximum benefits.

IN CONTEXT

An important question to ask is how much long-term care insurance is appropriate? To answer this question, you need to make some assumptions. Let's say that the cost of long-term care services averages \$300 per day. Also assume that you anticipate needing coverage for 4 years. Based on a 360-day billing cycle, you would want a policy with benefits of \$432,000 ($\$300 \times 360 \times 4 = \$432,000$). Without a policy, you would need to fund these expenses from assets.



HINT

You don't need to buy 100% coverage. You can purchase a policy that pays a portion of expenses while you cover the remaining expenses from cash flow and assets.

As you can see, long-term care insurance can be a useful tool to protect you and your relatives over your lifetime financial journey. Even if you end up taking care of your relative yourself, a long-term care insurance policy will provide you and your family some additional resources that can be used to provide care.



TERM TO KNOW

Benefit Period

The length of time long-term care benefits will be paid. This benefit period could be a few months (very rare) to many years.

Benefit Limit

The maximum amount a long-term care policy will pay.

2. Who Needs Long-Term Care Insurance?

2a. When to Buy It

There is a common misconception among the general public that only the elderly need assistance with ADL. You might be surprised to discover that this is not always the case. In fact, you may already know someone younger than age 65 who needs help. Consider these facts:

- More than 33% of the residents at adult daycare centers are younger than age 65.
- About 15% of the residents of nursing homes are younger than age 65.

Although it may be difficult to imagine yourself ever needing long-term care assistance, you ought to at least think about the possibility. Here are a few rules to help you decide when you should start thinking about purchasing a long-term care policy (see the table below):

1. If you are young and just starting out on your lifetime financial journey, long-term care coverage can wait. It is better to begin an emergency savings fund and buy disability and life insurance.
2. Later during your financial journey, when you turn age 50, you should begin thinking about adding long-term care coverage to your financial plan.
3. If you wait until age 70 or older, you'll find that the premiums may be too high.

Table: Long-Term Care Purchasing Guidelines

Age 20–50	Age 50–70	Age 70 or Older
Build savings for the future.	Consider purchasing long-term care policy.	Premium cost may be too high.



Agility: Skill Tip

Remember, part of being successful is understanding how to adapt as things change. In your life and career, you'll have to assess and reassess information to make the best choices for you, then use your agility skill to pivot as needed.

2b. Cost of Long-Term Care

Take a moment to think about how another person's need for long-term care assistance during his or her lifetime might affect you.

- If you have a family member age 65 or older, there is a possibility that you or someone close to you may be asked to provide care for that person in the future. Would you be able to provide such care?
- Besides the actual physical labor involved, would you be able to afford the costs associated with providing care?
- How would providing care affect your schooling, career, and family life?

According to the [Family Caregiver Alliance](#), about 78% of the elderly that need long-term care assistance receive all their care from family members and friends, whereas another 14% receive care from a combination of family and paid services.¹ Although most people are happy to provide a loved one the care that is needed, doing so can be disruptive to family patterns and careers. The stress involved with providing care can cause households to relocate and couples to separate.

Certainly, there are businesses that provide long-term care assistance for a fee. So, why don't more families use these services to provide care to those in need? The answer is, unfortunately, cost. Look carefully at the costs for long-term care insurance shown in the following table. Few families have the resources to cover these expenses for an extended period of time. Specifically:

- The basic costs per month and per year for different levels of care that an individual may need outstrip the incomes of most retired households.
- Keep in mind that these are the national median costs. Some locations will be higher; for example, according to the New York Department of Health, the annual cost of a nursing home in New York City is closer to \$145,000.²

Nursing Home Semi-Private Room	Nursing Home Private Room	Assisted Living Center	Home Health Aid
\$7,100 monthly	\$8,100 monthly	\$3,750 monthly	\$4,100 monthly (4 hours per day)
\$85,200 yearly	\$97,200 yearly	\$45,000 yearly	\$49,200 yearly

Source: Genworth, "Compare Long Term Care Costs Across the United States" (2017), <https://www.genworth.com/about-us/industry-expertise/cost-of-care.html>.



BIG IDEA

It generally is worthwhile to encourage your family members to consider long-term care insurance at some point in the future.

3. Medicare and Medicaid

There are lots of myths surrounding long-term care. One of the biggest myths is that if you or a relative needs long-term care services, the government will step in and help you financially. Although it is true that those who are retired and those who have modest incomes and assets may qualify for two government programs (Medicare and Medicaid), it is wrong to assume that these government programs will pay for long-term care expenses. Let's briefly look at these two governmental programs.

3a. Medicare

Medicare is a government-provided health insurance program that is available to those age 65 or older. Unfortunately, Medicare covers only limited long-term care expenses. Although the details are too complex to explore here, it is important to remember that Medicare benefits are extremely limited – usually restricted to only a few months of total care over an individual's lifetime.

3b. Medicaid

Medicaid is a governmental comprehensive health insurance program that is designed to provide essential medical care for the neediest in society.



DID YOU KNOW

If you implement the tools and techniques presented throughout this course, you will likely not qualify for Medicaid.

- To qualify for Medicaid, a person must have both limited income and limited assets.
- Although Medicaid will pay for long-term care services, using Medicaid as a planning strategy is problematic because, at a minimum, you will need to spend down your assets to the poverty level.



SUMMARY

There may come a time in your life when you're unable to care for yourself and you need long-term care assistance. In this lesson, you went through an **overview of long-term care insurance** aimed at covering the high costs of such care. The **benefits of long-term care insurance** are having the funds to hire skilled nursing care or to establish in-home care. Although these policies don't have traditional deductibles, they employ an **elimination period** which can affect your premiums.

So, **who needs long-term care insurance?** If you're young, you should probably focus on funding emergency savings and disability and life insurance instead. **When should you use your agility skills and buy it then?** Generally, look into getting long-term care insurance when you reach age 50, because

the **cost of long-term care** can be staggering. For example, a home health aid can cost nearly \$50,000 a year. Finally, remember that relying on **Medicare** or **Medicaid** benefits has limitations when it comes to long-term care expenses so be sure to research your other insurance options as outlined in this lesson.

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REFERENCES

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www.genworth.com/aging-and-you/finances/cost-of-care.html



ATTRIBUTIONS

- [Long-Term Care Services in the United States: 2013 Overview](#) | Author: U.S. Department of Health and Human Services | License: Public Domain



TERMS TO KNOW

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Basic activities such as being able to bathe yourself, fix your own food or eat it by yourself, dress yourself, use the bathroom on your own, or get out of bed without assistance.

Benefit Limit

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Benefit Period

The length of time long-term care benefits will be paid. This benefit period could be a few months (very rare) to many years.

Elimination Period

The waiting phase between the time the insured individual qualifies for benefits and when the insurance carrier begins providing benefits.

Long-Term Care Insurance

A way to transfer the potential financial risk associated with long-term care needs.