

StrategicPoint of View[®]

LONG TERM CARE

Perhaps you managed your money effectively, everything went as you had hoped, and you are enjoying a comfortable retirement. Unfortunately, the unexpected can often disrupt our plans — sometimes permanently.

What would you do if you became ill or were disabled, unable to care for yourself anymore? What if you needed help cooking, dressing, bathing? How would you pay for all of the help you need while keeping up with normal living expenses? Sadly, this situation happens every day. People find themselves suddenly confined to a nursing home, their finances drained to cover the costs associated with long term care.

Long term care planning is an integral part of retirement planning. While most retirees focus on the early years of retirement (opportunities for hobbies and travel, a second home and grandchildren), it is the later years of retirement that are the most challenging for planning. Here is what the American Society of Actuaries tells us about longevity:

- A male age 65 has a 50% chance of reaching age 85 and a 25% chance of living to 92.

- A female age 65 has a 50% chance of living until age 88 and a 25% chance of lasting until age 94.
- For a 65 year old couple, there is a 50% chance that one of them will live until age 92 and a 25% chance that one of them will survive until age 97.

You can't count on an early death as your long term care solution.

The Must-Have Plan

There are a variety of ways to meet your long term care needs, but everyone must have a plan. The plan could include self insuring: if you have sufficient assets (potentially several million dollars) and have carefully planned your retirement spending needs, you may be able to fund long term care out of your investment portfolio. Alternatively, you can sell your vacation home or an investment property in anticipation of a long term care need. In a pinch, you might even consider giving up your home and moving in with your children or a friend — reserving the proceeds of your residence for long term care expenses. All of these options require foregoing assets or turning to others for assistance.

The most efficient and least life-altering solution is to purchase long term care insurance. The

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insurance increases your control over an uncertain future and provides peace of mind for your family. You protect your assets and, at the same time, pass along the risk of financial loss to an insurance company.

Popular Myths

Before discussing long term care insurance, let's review some of the myths around long term care and the misconceptions about purchasing insurance.

MYTH:
I'll never go into a nursing home.

FACT:
According to the *New England Journal of Medicine*, 43% of people age 65 and older will spend some time in a nursing home. Even if you never go to a nursing home, you might get to a point when you need a nurse to visit your home regularly or someone to help you with daily activities.

MYTH:
It can't cost that much to stay in a nursing home or to get assistance.

FACT:
National figures show home health care (2007) costing \$204 a day for an 8-hour shift (\$74,372 a year); assisted living averaging \$89 a day (\$32,573 a year); and nursing homes charging \$205 a day (\$74,806 annually). Figures for Rhode Island are slightly above average, while costs in Connecticut and Massachusetts are substantially higher and Florida varies by location. Facility-based care costs have risen between 4-5% each year in recent years while home care providers' rates have remained relatively flat. (Source: Genworth Financial 2007 "Cost of Care Survey")

MYTH:
If I go to a nursing home, it probably won't be for very long.

FACT:
The average nursing home stay is 2.5 years, but 17% of residents stay more than five years. These figures do not include time spent in assisted living, adult day care or at home with family or agency support, which comprise 85% of the delivery of long term care services (Long Term Care Consultants, Inc.).

MYTH:
I'll just go on Medicaid.

FACT:
Medicaid is helpful to those who have limited assets, which can be spent down, and who do not have someone dependent upon them for financial security. However, to qualify for Medicaid, you must meet strict state and federal guidelines for income and assets. In addition, in 2005 Congress passed the Deficit Reduction Act (effective 2/2006), which tightened rules for Medicaid eligibility.

Prior to the Deficit Reduction Act, you could gift assets outside of a trust to another person and three years later apply for Medicaid without reference to the gifted assets. This three-year timetable was called the "look-back period." The new law extends the look-back period to 60 months. In addition, within the look-back period, Medicaid used to start timing a gift from the day it was transferred. Now Medicaid restarts the clock on any gift within the look-back period to the day that you apply for Medicaid and would otherwise be eligible for Medicaid assistance except for the gift in question. This is called the "penalty period," and it makes it extremely difficult to impoverish yourself by transferring your assets to others in order to receive government support.

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MYTH:
I'm covered by Medicare.

FACT:

Medicare pays for less than 2% of long term care expenses.

Medicare only covers skilled care in approved nursing homes or in your home only in certain situations.

- 90% of all care received in nursing homes is custodial — the balance being skilled or intermediate care.
- Medicare does not cover daily in-home services unless it is directly related to an illness or disability.
- The average Medicare payment for long term care expenses is 23 days.

This means that most people cannot count on Medicare to pay for their long term care needs.

MYTH:
My supplemental health insurance will help me pay for nursing home costs.

FACT:

Like Medigap (a supplement to Medicare), your supplemental health insurance might only cover acute short term illnesses. It won't adequately cover long term care.

MYTH:
My family will take care of me — if I even need it.

FACT:

According to the Harvard School for Public Health, 75% of elderly people living today rely on family and friends to help them with daily activities. Despite their good intentions, your family might not know how to care for you medically or emotionally. In addition, many elderly people would rather not be a burden on their families. For some families, caring

for aging parents is a welcomed obligation. However, if you have not spoken to your children and reached an agreement on how your care should be provided, you should not count on this plan.

MYTH:
I'll save on the premiums and wait a few years before I buy long term care insurance.

FACT:

The longer you wait, the greater the risk of being turned down or receiving a lower rating. Insurance companies do not have to provide you with long term care insurance. In fact, insurance companies statistically determine your chance of needing long term care before they offer you a policy. If roughly half of all applicants will one day need formal care, then the insurance company will likely want to insure only those applicants who are the least likely to need the coverage. Insurance companies can also give you a lower rating, resulting in higher premiums for underlying medical conditions. Bottom line: the insurance company determines your eligibility, not you. The worst case scenario is if you become sick before you even purchase a policy.

MYTH:
If I wait to purchase long term care insurance, it will cost me less in the long run.

FACT:

The average age of a person on claim is between 78-80 years old. However, 40% of all long term care services are provided for individuals between the ages of 18-65. Car accidents, Multiple Sclerosis, Lou Gerig's disease, strokes and other illnesses can befall people before they are elderly. Waiting can be dangerous to your health. In addition, actuaries at insurance companies try to equalize the payments over the paying period. If the average age of the initial claim

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is 79, the insurance company will try to collect the needed amount of premiums to care for that individual before he or she needs the coverage. In other words, the 55 year old and the 65 year old will statistically pay the same amount in premiums, all else being equal. Again, changes in your health can lower your rating or cause you to be ineligible, defeating the purpose of your waiting to apply.

What Is Long Term Care Insurance and When Is It Needed?

Long term care insurance provides a daily benefit which covers long term care expenses once a person has met certain eligibility rules. The rules require that the individual not be able to perform two of the following activities of daily living: bathing, dressing, toileting, transferring (from bed to chair, etc.), maintaining continence and eating. An individual can also receive insurance benefits if he/she suffers from cognitive impairment—such as dementia or Alzheimer’s.

Long term care insurance provides support for services received at nursing homes, for home health care, at community based care (such as adult day care or meals on wheels) and at assisted living residential care facilities. Long term care insurance can also provide for respite care, transportation, bed reservations (to secure a spot at a nursing home during hospitalization), and home maker services.

Benefit Options

Long term care insurance requires you to make several decisions on a variety of provisions. What you choose will depend on what you can afford and how much you can provide in self support.

Length of Benefits vs. Daily Benefit

- Length: Even though the average stay in a nursing home is less than three years, when adding in care at home or in assisted living,

the time frame for needing coverage can be much longer.

- Daily Benefit: coverage for long term care insurance lists a daily benefit, often between \$150 to \$225 a day, depending on local nursing home costs. You can select a benefit that will cover the anticipated expenses in full, or you can subsidize your coverage from you own savings.

One of your first choices is whether you want a “short-fat” policy (one with a high daily benefit but shorter duration) or a “long-thin” policy (one that gives you a smaller benefit over a longer period of time). In general, “short-fat” policies provide more advantages than “long-thin” policies. This is because you have access to more money up front. If you have substantial short-term needs, the “short-fat” policy will cover those needs. In addition, you can always choose to use only a portion of the benefits, saving the rest for later claims.

Individual Coverage vs. Shared Care

If you are a couple, you have the advantage of using “shared care,” which provides a pooled benefit that is available to both partners. Thus, if one partner dies without using his/her benefit, the other partner has access to the entire pool. Or if the first partner to need care has substantial needs, that partner can access more than half of the benefit. Sharing a benefit gives the couple a greater chance of not outliving their coverage. Single individuals, who can’t benefit from shared care, might focus on a slightly longer policy period unless they can self-insure a portion of the cost or they simply can’t afford a longer benefit.

Elimination Period

This is the period of time during which you will cover long term care costs, after you become eligible and before your benefits kick in. They range from 0 days to 365 days. A common elimination period is 90 days.

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The longer periods can save you on premium costs, but the savings is usually modest.

Inflation Protection

With long term care costs rising typically 4-7% a year, inflation protection is a must on long term care insurance policies. Without it, the buying power of the benefit dwindles, leaving value of the coverage at much less than originally intended.

It is best to buy the inflation protection built into the policy. Riders, which offer the opportunity to increase your benefit periodically, become increasingly expensive and unaffordable with age. Built in inflation protection is more expensive up front, but much more valuable as you age.

In terms of type of inflation coverage, unless you are in your late sixties or older, most individuals should select compound inflation protection over simple inflation protection, because the latter will have a harder time keeping up with spiraling costs.

Additional Riders

The Internal Revenue Service Code that applies to long term care insurance requires that all policy holders be offered “non-forfeiture benefits.” These riders give policy owners an opportunity to get back a portion or all of the premiums paid if the owner dies or surrenders the insurance without claims. Alternatively, the benefit may offer to convert a policy to a paid up benefit or a shortened benefit period. The default position on most policies is a small paid up benefit if policy rates increase.

While riders for additional benefits would appear to be attractive, they can be expensive and are often accompanied by restrictions. They should only be considered when there is a risk that the policy owner may not be able to make premium payments in the future and where the inability to pay would result in significant financial loss.

Fees

Almost all long term care insurance policies are guaranteed renewable, meaning that an insurance company can raise fees on a class of individuals (with state regulator approval) but not on an individual alone. Some companies have a long history of not raising fees, as a result of strong underwriting practices. Other companies, often those who priced their policies lower to attract market share, have been forced to raise fees to maintain profitability. Select a provider who prices policies fairly at the start, not a provider who is the least expensive. In addition, since the time frame between buying a policy and filing a claim can be long, it is important to select a company with strong financials. This increases the likelihood that the company will be around when you start collecting benefits.

Most hesitancy over purchasing long term care insurance revolves around costs and complexity. However, it is important to remember that it takes many years of paying premiums to cover the daily cost of at-home-care or a nursing home for only one year.

Long Term Care Partnership Program

As part of the Deficit Reduction Act of 2005, many states, in conjunction with the federal government, are establishing what are called partnership programs. These programs are designed to encourage individuals to purchase long term care insurance, thereby reducing Medicaid enrollment. The Partnership program allows an individual to keep assets equal to the amount of any long term care insurance benefit received, if Medicaid becomes necessary.

For instance, if you buy a long term care insurance policy with a three year benefit at \$200 a day, your benefit pool is \$200 X 365 days X 3 years, or \$219,000. If you then go on to claim and exhaust all of your

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benefits, the Long Term Care Partnership program will allow you to shelter \$219,000 in assets, on top of the assets you would normally be able to keep when applying for Medicaid services. At the time of this writing, Connecticut has an existing partnership program; while both Rhode Island and Massachusetts are considering long term care partnership programs based on the Deficit Reduction Act guidelines. Massachusetts has an additional “Home Saver Program” designed to protect the home from a Medicaid lien.

Guidelines for Coverage

Who should purchase long term care insurance? This, of course, is a very individual decision, based on your personal financial resources, spending needs, and the availability of family support. Long term care is a quality of life issue — not only for yourself, but also for your surviving spouse or a loved one who is dependent on you. Only money or long term care insurance gives you the flexibility to choose the type of care you wish to receive and the amount of assets available to those who survive you.

That said, long term care insurance is not for everyone. Below are some broad guidelines that serve as a starting point for consideration of long term care insurance.

I Can't Afford Insurance

While the level of assets as an entry point for consideration of long term care insurance is fluid, those with a net worth of less than \$200,000 are often advised not to purchase policies. This is because, below a certain level of assets, long term care insurance is not cost-effective. Either the individual fully expects to spend down assets and go on Medicaid or the family budget simply cannot handle the premiums. Insurance, if purchased, is often used to provide access to an expanded range

of facilities, but the policy owner is making a trade off between current lifestyle and future long term care needs. If insurance is not provided, it is important that family members be made aware that they may need to step in to help a surviving spouse or partner.

I Can't Live Without Insurance

Net worth in this category, once again fluid, is most often cited as between \$200,000 and \$1,500,000. The purpose of long term care insurance for this group of individuals is most often asset protection for a spouse or loved ones. Even after just a few years of assisted living or nursing home costs for a parent or partner, these families stand to suffer significant financial loss, impacting the lifestyle of the survivors. Because the premiums are usually paid from current income or from retirement assets, which could otherwise be spent elsewhere, the policy owners must make an active choice to have long term care insurance as a priority. All too often this group is reluctant to make the trade off between current and future lifestyle, leaving the parties over exposed to long term care risks. One possible solution is for the children of the policy owners to pay the premiums, thereby protecting the quality of life for the surviving parent as well as increasing the parents' ability to leave an inheritance.

I Should Purchase Long Term Care Insurance But I Might Self-Insure.

The need for long term care insurance is not as stark for this group, although the lifestyle of a surviving spouse/partner can still be significantly impacted by long term care expenses. Households with assets between \$1,000,000 and \$2,000,000 may have the ability to self-insure, if retirement portfolio income need is modest and a survivor is adequately provided for through pension benefits, life insurance, an inheritance or some other source. Many individuals in

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this group want to protect their assets for a surviving spouse or as a legacy for heirs, even if they don't have a fear of running out of money. In addition, since long term care insurance provides flexibility in selecting the quality of care, individuals of this group like the option of preserving a lifestyle that they have been accustomed to through a broad selection of higher quality long term care services and facilities.

The Choice Is Totally Mine

Those with the highest level of assets don't need to purchase long term care insurance. However, they often do, if for no other reason than they can afford to and they recognize that long term care insurance is a good deal. It takes many years of premium payments to cover even one year of nursing home care. For the wealthy, the risk reward trade off is staunchly on their side.

Planning Is Key

Long term care insurance can give you peace of mind. You can feel confident that you will be taken care of in the case of an unexpected illness, that your assets are protected, and that your family will not be burdened with your medical expenses.

Don't wait until it is too late and the situation is beyond your control. Examine your financial situation now, explore your options, and take measures to protect yourself against the unexpected. Seek help from a professional who knows the laws regarding long term care and can help you outline the best strategy for your situation.

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