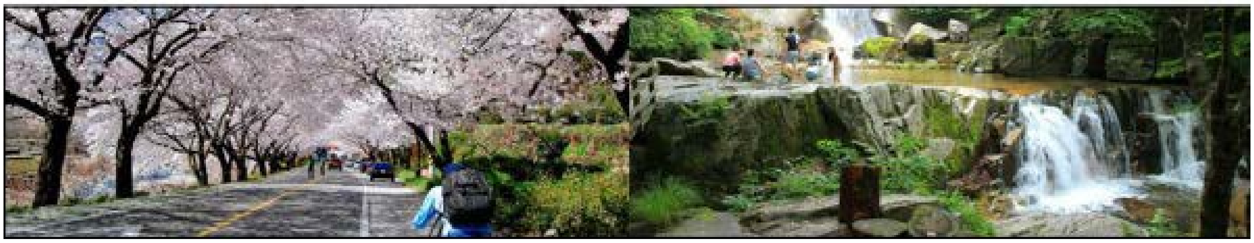

FINANCIAL PERSPECTIVES

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Paying for Long-Term Care

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Long-Term Care

Long-term care (LTC) is the term used to describe a variety of services in the area of health, personal care, and social needs of persons who are chronically disabled, ill or infirm. Depending on the needs of the individual, long-term care may include services such as nursing home care, assisted living, home health care, or adult day care.

Who Needs Long-Term Care?

The need for long-term care is generally defined by an individual's inability to perform the normal activities of daily living (ADL) such as bathing, dressing, eating, toileting, continence, and moving around. Conditions such as AIDS, spinal cord or head injuries, stroke, mental illness, Alzheimer's disease or other forms of dementia, or physical weakness and frailty due to advancing age can all result in the need for long-term care.

While the need for long-term care can occur at any age, older individuals are the typical recipients of such care.

Individuals with Disabilities, by Age[1]

Age Range	No Disability	With a Disability
5-17 Years	94%	6%
18-34 Years	93%	7%
35-64 Years	88%	12%
65-74 Years	76%	24%
75 Years and over	53%	47%

What Is The Cost of Long-Term Care?

Apart from the unpaid services of family and friends, long-term care is expensive. The following table lists national average costs (regional costs can vary widely) for typical long-term care services. One federal study estimated that on average men will need 1.5 years of long-term support services, while women will need 2.5 years of such care.[2]

[1] Source: U.S. Census Bureau, 2018 American Community Survey 1-Year Estimates, Sex by Age by Disability Status for the Civilian noninstitutionalized population, male and female, Table B18101.

[2] See Long-Term Services and Supports for Older Americans: Risk and Financing. Department of Health and Human Services, Office of Disability, Aging and Long-Term Care Policy. Updated February 2016.

Service	2019[1]
Assisted living facility	$4,051 per month ($48,612 per year)
Nursing home (Private room)	$280 per day ($102,200 per year)
Nursing home (Semi-private room)	$247 per day ($90,155 per year)
Home health aide	$23 per hour
Homemaker/companion	$22.50 per hour

Paying for Long-Term Care – Personal Resources

Much long-term care is paid for from personal resources:

- Out-of-Pocket: Expenses paid from personal savings and investments.
- Reverse Mortgage: Certain homeowners may qualify for a reverse mortgage, allowing them to tap the equity in the home while retaining ownership.
- Accelerated Death Benefits: Certain life insurance policies provide for "accelerated death benefits" (also known as a living benefit) if the insured becomes terminally or chronically ill.
- Private Health Insurance: Some private health insurance policies cover a limited period of at-home or nursing home care, usually related to a covered illness or injury.
- Long-Term Care Insurance: Private insurance designed to pay for long-term care services, at home or in an institution, either skilled or unskilled. Benefits will vary from policy to policy.

Paying for Long-Term Care – Government Resources

Long-term care that is paid for by government comes from two primary sources:

- Medicare: Medicare is a health insurance program operated by the federal government. Benefits are available to qualifying individuals age 65 and older, certain disabled individuals under age 65, and those suffering from end-stage renal disease. A limited amount of nursing home care is available under Medicare Part A, Hospital

[1] Source: Genworth 2019 Cost of Care Survey, page 2. Downloaded November 5, 2020.

Insurance. An unlimited amount of home health care is also available, if made under a physician's treatment plan.

- Medicaid: Medicaid is a welfare program funded by both federal and state governments, designed to provide health care for the truly impoverished. Eligibility for benefits under Medicaid is typically based on an individual's income and assets; eligibility rules vary by state.

In the past, some individuals have attempted to artificially qualify themselves for Medicaid by gifting or otherwise disposing of assets for less than fair market value. Sometimes known as "Medicaid spend-down", this strategy has been the subject of legislation such as the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). Among other restrictions, OBRA '93 provided that gifts of assets within 36 months (60 months for certain trusts) before applying for Medicaid could delay benefit eligibility.

The Deficit Reduction Act of 2005 (DRA) further tightened the requirements to qualify for Medicaid by extending the "look-back" period for all gifts from 36 to 60 months. Under this law, the beginning of the ineligibility (or penalty) period was generally changed to the later of: (1) the date of the gift; or, (2) the date the individual would otherwise have qualified to receive Medicaid benefits. This legislation also clarified certain "spousal impoverishment" rules, while making it more difficult to use certain types of annuities as a means of transferring assets for less than fair market value.

Paying for Long-Term Care

Long-term care (LTC) is the term used to describe a variety of services in the areas of health, personal care, and social needs for individuals who are chronically disabled, ill, or infirm. LTC may include services such as skilled nursing home care, assisted living, home health care, or adult day care.

LTC in the United States today is, without doubt, expensive. In 2019, for example, the national median rate (regional costs can vary widely) for a semi-private room in a nursing home was $247 per *day*, over $90,000 per year. This 2019 figure represents a five-year compound growth rate of 3.10%.[1]

How long do most people need LTC? One federal study estimated that on average men will need 1.5 years of long-term support services, while women will need 2.5 years of such care.[2] Of course, not everyone will need LTC. And, in many cases, LTC will be needed for only a limited period of time. However long the need exists, for many individuals, paying for LTC can be a major challenge. Some resources which have been used to pay for LTC include:

Personal Resources

Method	How It Works	Pros	Cons
Personal assets	Assets that an individual (or a family) has managed to accumulate through work, savings and investment, or inheritance.	• Allowed you to choose when, where, and how you receive care. • No concerns about being healthy enough to qualify for LTC insurance or other types of insurance policies. • Funds not needed for LTC can be used for other purposes or left to family or friends at your death.	• Investment returns are variable and subject to both gain and loss. • May need to sell illiquid assets (such as the family home) to free-up the cash needed to pay LTC costs. • LTC expenses may exceed the amount of available assets.

[1] Source: The Genworth 2019 Cost of Care Summary, page 3. Downloaded November 5, 2020. The five-year compound growth rate is based on surveys conducted from 2014 to 2019.

[2] See Long-Term Services and Supports for Older Americans: Risk and Financing. Department of Health and Human Services, Office of Disability, Aging and Long-Term Care Policy. Updated February 2016.

Personal Resources

Method	How It Works	Pros	Cons
Family caregiving	Family members provide the direct “hands-on” effort needed to care for the individual.	• No need to pay for care provided by family members. • Family support may also be available to meet other needs besides LTC. • To the extent that personal funds are not spent on LTC, they can be left to family or friends at your death.	• Family members may be unwilling or unable to provide the needed care. • Some family members may feel that the burden of providing care is unequally on their shoulders. • You must pay for care that family members cannot or are unable to provide.
Reverse mortgage	A special type of mortgage that allows a homeowner to convert a portion of his or her home equity into cash.[1]	• No income or medical requirements to qualify. • Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• Owner must meet certain requirements to qualify.[2] • Funds from a reverse mortgage are “income” and could affect eligibility for Medicaid or other assistance programs. • LTC costs could exceed the cash received. • A borrower may be forced to sell the home to repay the loan.

[1] No loan payments are required as long as at least one borrower lives in the home. The outstanding loan balance, plus accrued interest and loan costs, is due when the last borrower sells the home, permanently leaves, dies, or fails to carry out a contractual obligation such as paying property tax when due.

[2] Generally, to qualify for a reverse mortgage the owner must be at least age 62, the home must be owner-occupied, and it must be the owner’s principal residence. Not all types of home qualify. Only first mortgages are permitted; any other debt secured by the home must either be first paid off, or paid off with the proceeds from the reverse mortgage.

Insurance-Based Resources

Method	How It Works	Pros	Cons
Long-term care insurance	Private insurance designed to help pay for many types of LTC services.	• Provides a known benefit for a specified period of time. Benefits paid under a "tax qualified" LTC policy are generally received income tax free.[1] • Gives you more control over where, when, and how you receive care. • Funds not spent on LTC can be used for other purposes or left to family or friends.	• Insured must generally be healthy to qualify for the policy. • Continuing premiums required to keep the policy in force. • Premiums may increase over time, benefits may decrease, or both. • If the insured does not use the policy benefits, there is a sense the money was not well spent. • LTC costs could exceed policy coverage amount.
Life insurance policy surrender	A life insurance policy with accumulated cash values is "surrendered" to the life insurance company.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death	• Cash surrender value is usually less than the policy's death benefit. • A portion of the proceeds from the sale may be taxable. • LTC costs could exceed the cash received.
Life settlement	The healthy owner of a life insurance policy sells it to a third party for a percentage of the death benefit.[2]	• Provides cash needed to pay for LTC. • Policy proceeds give you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• May be difficult to find a buyer. • You generally receive only a portion of the policy's death benefit. • A portion of the proceeds from the sale may be taxable. • LTC costs could exceed the cash received.

[1] The discussion here concerns federal income tax law. State or local income tax law may vary widely.

[2] Generally, a life settlement is considered only when the original purpose of buying the life insurance no longer exists.

Insurance-Based Resources

Method	How It Works	Pros	Cons
Viatical settlement	The owner of a life insurance policy who is either "terminally" or "critically" ill sells the policy to a third party for a percentage of the death benefit.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • If certain requirements are met, proceeds of sale are not taxable. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• May be difficult to find a buyer. • You generally receive only a portion of the policy's death benefit. • LTC costs could exceed the cash received.
Accelerated death benefit	Some life insurance policies will pay a portion of the death benefit if the insured becomes "terminally" ill.[1]	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• You generally receive only a portion of the policy's death benefit. • LTC costs could exceed the cash received.
Borrow from accumulated cash values	Cash-value life policies typically allow the owner to borrow from the accumulated cash value, often at favorable interest rates.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.	• When death occurs, outstanding policy loans and interest will be subtracted from the face amount. • LTC costs could exceed the cash received.

[1] If certain requirements are met, the policy proceeds are received income-tax free.

Insurance-Based Resources

Method	How It Works	Pros	Cons
Life insurance-LTC combination policy	A life insurance policy that links a traditional cash-value life policy with a LTC benefit.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • If LTC benefits are not needed, life insurance policy proceeds pass to named beneficiaries at your death.	• Insured may be required to qualify for the underlying life insurance policy. • Typically funded with a large, single premium payment. • Insured must be either "critically" ill or "terminally ill" to qualify for tax-free accelerated death benefit treatment.
Annuity-LTC combination contract	An annuity contract that links a traditional annuity with a LTC benefit.	• Provides cash needed to pay for LTC. • Cash gives you control over where, when, and how you receive care. • If LTC benefits are not needed, annuity can provide additional retirement income or pass to named beneficiaries.	• Typically funded with large, single cash payment. • Accumulated values within the annuity are used first to fund LTC expenses. • Tax-free LTC distributions typically require that an individual be "chronically ill."

Government Resources

Method	How It Works	Pros	Cons
Medicare	A health insurance program operated by the federal government.	• Part A helps pay for a limited amount of skilled-nursing or home health care. • Part B covers doctor's services and certain medical services/supplies. • Part B home health care is available if not covered under Part A. • Part D can help pay for needed medications. • Supplemental (Medigap) policies can help meet some expenses not covered by Medicare.	• Part A skilled nursing facility care is limited to a maximum of 100 days. • Medicare does not pay for custodial care. • Individual is responsible for paying costs not covered by Medicare.
Medicaid	A federal-state program which provides medical care to those with very low resources and income.	• For qualifying individuals, Medicaid pays for LTC services at home, in the community, and in a nursing home.	• Individual must meet Medicaid standards for low income and resources. • Nursing home services usually limited to a Medicaid licensed facility with an available Medicaid bed. • State may seek post-death recovery of amounts paid for LTC.

Seek Professional Guidance

Finding adequate resources to pay for needed LTC services can be difficult. Failing to meet this need can result in essential care being unavailable or, when existing resources are exhausted, in an adverse change in the type or quality of care already being provided. For some individuals, the funds to pay for necessary care will come from multiple sources. The guidance of trained financial professionals can help in creating a program to meet this challenge.