



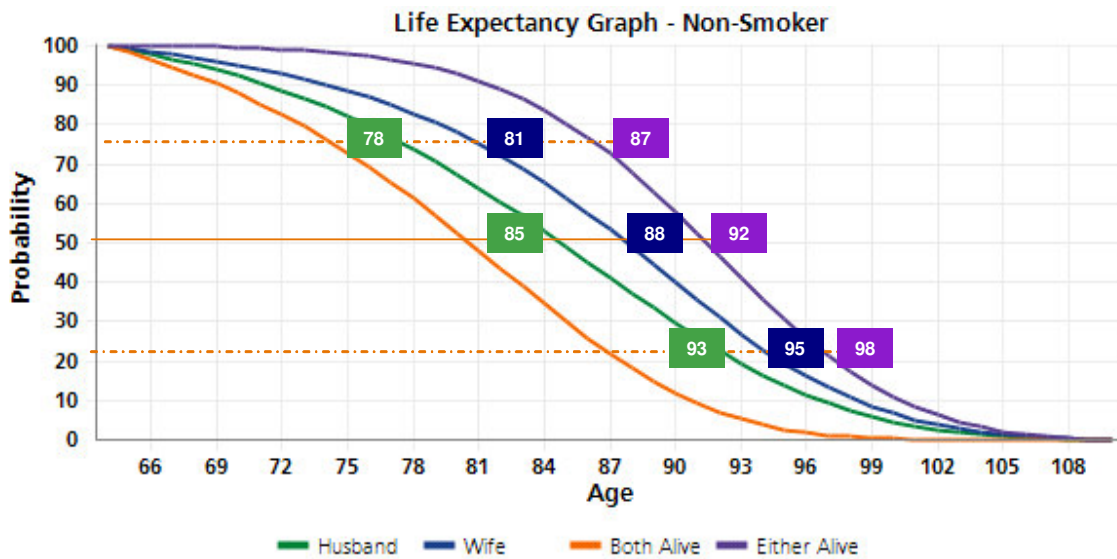
FISCHER & HUTCHINSON  
WEALTH ADVISORS

Financing Long-Term Care

Certainly, the financial crisis of 2007-2009 has put a significant damper on how baby boomers thought they'd be spending the third and fourth acts of their lives. But barring any major global catastrophes or terrorist attacks on our homeland, there now seems to be some green shoots of recovery on the horizon. This period of uncertainty, however, has caused many folks to revisit their retirement plans and their underpinning assumptions.

**Life Expectancy**

One of their major revelations has been the fact that they're going to live a long time after retirement. As shown in the graph below, while a 65-year-old male has a 50% chance of living to age 85, his 65-year-old spouse has a chance of making it to age 88 and one of them to age 92. But that means that 50% of the population also makes it beyond these benchmarks. At age 65, one spouse has a 25% chance of reaching age 98. All of these statistics, of course, are based on medical practices far less advanced than available today.



<sup>1</sup>All calculations based on Annuity 2000 Mortality Table.

What comes along with this increased longevity is the increased likelihood of needing some level of additional non-medical long-term care.

### What is long-term care?

Long-term care is the ever-changing array of services aimed at helping people with chronic conditions cope with the limitations in their ability to live independently. These include nursing homes, assisted living, in-home custodial care, adult day care, and respite services. They are typically required by individuals who cannot perform one or more activities of daily living such as bathing, dressing, toileting, eating, or getting around the house, or are cognitively impaired due to some form of dementia or Alzheimer’s disease.

### What kind of care?

The US Department of Health and Human Services estimates that 70% of all persons over 65 will require some form of long-term care. The question is what type. Long-term care is often associated with institutional care, but most long-term care is actually provided at home – either in the home of the person receiving care or at a family member's home. It’s estimated that individuals currently turning 65 may need 3 years of long-term care in their lifetime, **with almost 2 years of that care provided at home.** The majority of care that is provided at home, **about 80%, is provided by unpaid caregivers – relatives or friends.** But even when paid, an in-home option with 4-8 hours of coverage per day will be far less expensive than institutional alternatives. Unfortunately, the need for services can escalate into more intensive care requirements.

A recent study conducted by MetLife reported the following costs as of 2008 for Delaware:

## Costs of Long Term Care in Delaware<sup>2</sup>

State and Cities	Nursing Home	Assisted Living	Home Health Care Aide		
			4 hours/day	8 hours/day	12 hours/day
Delaware	\$87,235	\$48,636	\$30,660	\$61,320	\$91,980
Wilmington	\$89,790	\$52,920	\$30,660	\$61,320	\$91,980
Rest of the State	\$85,775	\$43,656	\$32,120	\$64,240	\$96,360

<sup>2</sup>Average annual costs for Nursing Home, Assisted Living, and Home Health Care are from 2008 MetLife studies (the MetLife Market Survey of Nursing Home and Assisted Living Costs, October 2008 and the MetLife Market Survey of Adult Day Services and Home Care Costs, September 2008).  
<sup>3</sup><http://www.medicare.gov/LongTermCare/Static/Home.asp>

For information on other states, please refer to the following online resources:  
<http://www.metlife.com/assets/cao/mmi/publications/studies/mmi-studies-2008-nhal-costs.pdf> or  
[http://www.longtermcare.gov/LTC/Main\\_Site/Paying\\_LTC/Costs\\_Of\\_Care/Costs\\_Of\\_Care.aspx#Live](http://www.longtermcare.gov/LTC/Main_Site/Paying_LTC/Costs_Of_Care/Costs_Of_Care.aspx#Live)

## Financing alternatives

How many boomers have integrated this highly probable need for long-term care into their current retirement plan? If not, where do you start? Well, your options are pretty straightforward.

# Paying for long term care



### Self Insure

- Income
- Home Sale
- Reverse Mortgage
- Cash Value of Life Insurance
- Savings and Investments



### Government

- ~~Medicare~~
- Medicaid
- Hospice
- Community Services
  - Senior Centers
  - Adult Day Care



### Insurance

- ~~Health Insurance~~
- Long Term Care
- Life Insurance

## Self Insurance

The arguments typically made for self insurance are:

1. The new long-term care costs may be partially offset by reductions in other lifestyle spending once this type of care is required by one spouse;
2. They have enough resources and the costs can be absorbed by the retirement portfolio.

While both assumptions are feasible, there are several scenarios where they may not be appropriate. For example, consider the situation where one spouse is institutionalized and the other continues to live at home affording little opportunity for reduced living expenses. Similarly, what if the long-term care costs consume the majority of a couple's retirement funds when the first spouse starts receiving care, will there be enough assets remaining to generate sufficient supplemental income for the spouse not receiving this care (sometimes referred to as the "community spouse"?)

If providing a sizeable legacy was a primary objective, will paying for long-term care out of pocket wreak havoc with your ability to meet this goal?

In today's market, simply relying on savings and investment withdrawals at a time when the market is so far down may not be the most prudent approach. Alternative funding sources including the cash value of life insurance policies, home equity, reverse mortgages, and/or a charitable remainder trust should be explored. Of course, each of these has its set of pros and cons and should be considered in context with your overall financial plan.

### Government assistance

Many people believe they can rely on Medicare to pay for any long-term care services they will need. However, Medicare only pays for long-term care if you require skilled services or recuperative care for a short period of time. **Medicare does not pay for what comprises the majority of long-term care services – non-skilled assistance with activities of daily living.**

Medicaid is the joint federal and state funded welfare program that pays for the largest share of long-term care services. The eligibility requirements for this program, however, are becoming increasingly more restrictive. As illustrated below, there are income limits imposed on the spouse receiving care, as well as asset and home equity limitations imposed on both spouses. These rules are state specific.

## ABC'S of Medicaid Eligibility (Delaware)

- Eligibility is a two step process
  1. Financial Eligibility
  2. Medical Eligibility
- "Countable" Assets (not including home, car, and personal property)
  - Case Total - total of all assets regardless who is the owner
  - Institutionalized Spouse =  $\frac{1}{2}$  of case total (+ community spouse's half >\$104,400) < \$2,000 (+\$1,500 for burial)
  - Community Spouse =  $\frac{1}{2}$  case total < \$25,000
  - Look back – penalty if gifted < 5 yrs @ \$ amt gifted ÷ \$189.55=mos
- Home equity < \$500K
- Income
  - Institutionalized Spouse <\$1705/mo, if over – Miller Trust
  - Community Spouse no limit
- Recovery laws in place – not aggressively enforced...yet

**Rules are tricky – contact Elder Law Attorney for legal guidance**

More information can be found online at:

<http://dhss.delaware.gov/dhss/dmma/lcmedicaid.html#nh>.

Medicaid counts all of the couple's resources together - everything owned by one or the other spouse, and all of the jointly owned resources to determine a "case total". The total is then split in half, with half attributable to the non-institutionalized "community" spouse and half to the "institutionalized" applicant spouse. If the community spouse's half is less than \$25,000 an amount may be taken from the applicant spouse's portion to bring it up to \$25,000. For example, suppose a couple had combined "countable" assets of \$46,000. The community spouse would be entitled to retain \$23,000 from his or her half and \$2,000 from the institutionalized spouse's half. This would leave the institutionalized spouse with \$21,000, requiring a "spend down" of \$19,000 to \$2000 before he or she would be eligible for Medicaid. This assumes that he or she would also meet the income and home equity restrictions listed above. For more complicated situations, consultation with an elder law attorney prior to applying for Medicaid may be warranted. Besides the financial aspects of the Medicaid financing options, there may be issues related to lack of choice, availability of "Medicaid" beds in more desirable facilities, and quality of care.

### Insurance

Most forms of employer-sponsored or private health insurance, including Health Maintenance Organizations (HMO) or managed care, follow the same general rules as Medicare. If they do cover long-term care, it is typically only for skilled, short-term, medically necessary care. Therefore most people who need long-term care but are not eligible for Medicaid end up paying for most of it on their own - out of income or assets, long-term care insurance or life insurance. The life insurance option can either be used to access the cash value or for replenishing a legacy upon the death of the last spouse to die. Unless already paid up or as some form of permanent life insurance, life insurance premiums can be prohibitively expensive at the age where the need for long-term care is most probable.

As fee-only advisors, it takes a lot for us to conclude that the best way to manage a risk is through risk transfer. But in this case, pursuant to the golden rules of risk management (i.e. consider the odds, don't risk a lot for a little, don't risk more than you can afford to lose), purchase of some level of long-term care insurance would seem prudent in many cases. Some estimate the actual risk of needing some type of long-term care in your lifetime is 50%. This risk is significantly higher than the risk associated with other life events. For example, insurance professionals cite the following probabilities for other life events\*:

- Probability of losing a home to a fire is 1 in 1,200
- Probability of having a car accident is 1 in 240
- Probability of a hospital visit costing \$30,000 is 1 in 15

\*More information is available on the web at:

<http://www.financinglongtermcare.umn.edu/pdfs/factsheets/whythinkltcfactsheet.pdf>.

Insurance specifically for long-term care can:

- Provide the insured with the best choice for their care, with less regard to finances
- Protect an "at-home" spouse from impoverishment
- Preserve an estate to pass on to heirs
- Avoid burdening your children

### **So how much is enough?**

Let's look at a hypothetical case.

Please note, the figures used in this example are intended for demonstration purposes only and may be significantly different based on the insured's personal situation and the options and features selected. Tom will be 65 on July 1, 2009. He believes he will likely need at least 4 hours/day of in-home custodial care beginning at age 85 for 3 years. Assuming rates from the table above, the cost for such care in Delaware would be \$21/hour or \$84/day. He expects this kind of care to rise at a rate of 6%/year such that 20 years from now, the daily rate would be approximately \$269/day. For three years of coverage, he would need approximately \$278,000. Tom obtains an online premium quote of \$152/month for long-term care insurance which provides a daily benefit of \$100 for 3 years with a 5% compounded annual escalation, such that in 20 years, his benefit will be approximately \$265/day (just \$4/day less than the cost of care at that time). Before committing, however, Tom also calculates what his balance at the end of 20 years would be if instead of paying this monthly premium, he invested it with a 6% after-tax return. He projects his balance would be approximately \$70,230 - only about ¼ of what he would really need.

### Why the big difference?

Since life expectancies and the need for long-term care are, in fact, probabilities, a portion of those who purchase long-term care insurance will not live long enough to draw on this coverage and a portion of those who do survive, won't ever need it. Therefore, those who do need it will be subsidized by those who don't. Of course, for those lucky enough to live past their life expectancy AND never require long-term care, paying a premium for 20+ years only to not collect may not seem like a very wise decision.

### A compromise?

So, like most of our other advice, some degree of diversification, focused on diminishing the impact of a catastrophic outcome, may be a suitable strategy. Like all insurance, one must pay a little now to reduce some of the uncertainty later. While the statistics for needing long-term care over age 65 are pretty compelling, the majority of this care will likely be limited to the lower cost in-home custodial care and not extended stays in a nursing home or assisted living facility. So providing for a daily benefit to cover in home custodial care at \$100-150/day would seem to be a reasonable compromise.

### **When you are ready to consider your financing options...**

We would be glad to assist you.

- By integrating the costs of long-term care across a variety of long-term care scenarios, we can evaluate their potential impact as well as alternative means of financing including paying for long-term care insurance out of your retirement portfolio.
- If you decide insurance is a viable option for you, we would encourage you to request a copy of **“A Shoppers Guide to Long Term Care Insurance” published by the National Association of Insurance Commissioners (NAIC)**. Most insurance carriers will provide you with a copy at no charge. There are many features which should be considered in making this decision.
- There are also many resources available on the web. Beware, however, that many of these resources generally want to sell you insurance and may be biased as to how much and which features to include.
- We are available to work with you and/or your insurance broker to develop and/or review an overall strategy to manage this risk and assess appropriate insurance products for implementation.