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LONG-TERM CARE: IS IT PART OF YOUR FINANCIAL PLAN?

For many of us, it may be difficult to think of growing older, but as a nation, we are indeed aging. Given the increase in life expectancies and the aging of the baby boom generation, it's projected that by the year 2030, approximately one in five U.S. residents will be age 65 or older.[1] By 2050, it's anticipated that the number of older Americans will reach approximately 88.5 million[2] – more than double the population of 40.3 million age 65 or older as reported in U.S. Census data from 2010.[3]

Given the trend toward an aging population and longer life expectancies, it's likely that an increasingly larger number of us will need some sort of help or assistance in the future due to health concerns such as chronic illness, disability or dementia. In fact, research suggests that nearly half of all Americans will need long-term care at some point in their lives to assist them with activities of daily living such as eating, dressing or bathing.[4]

For those in need of long-term care, assistance can be provided in settings such as a nursing home or assisted living facility, as well as in the person's own home. Unfortunately, while the cost of care can vary greatly depending on the type of care required, as well as where it will be received, long-term care tends to be quite expensive.

For example, home health aide services had a median cost of $45,760 in 2015, while one bedroom assisted living facilities had a median annual cost of $43,200. Nursing home facilities were even more costly with median rates for semi-private and private rooms running $80,300 and $91,250 respectively.[5] Given that care is expensive now, and will likely only become more so in the future, we believe everyone should have a plan for how they may address these potential costs.

While most health insurances, as well as Medicare, will typically pay a portion of the costs associated with recovery at a nursing facility after a hospital stay, they don't cover the costs of daily living assistance that may be required as the result of a general decline in the ability to care for one's self due to health conditions or age. Unfortunately, unless someone has the financial resources to fund long-term care on their own, they may have to rely on Medicaid as an option. Before one qualifies for Medicaid coverage, however, certain requirements must be met including the depletion of the majority of one's assets. Obviously, this could potentially leave the individual, and possibly his or her spouse, in a financially precarious situation.

While some may choose to fund long-term care on their own, or rely on the eventual assistance of Medicaid, some people choose to purchase long-term care insurance. Designed to help cover the costs of on-going care not covered by regular health insurance, these policies offer flexible coverage options such as the dollar amount of the benefit that will be paid per day, as well as over the life of the policy, the length of time that payments will be made, the type of care that will be provided, as well as whether the care will be provided at home, or in an assisted living or skilled nursing facility. In order for coverage to become effective, however, the insured must have lost the ability to perform two or more basic activities of daily living, or to have developed the onset of dementia.

When considering the purchase of long-term care insurance, it's important to weigh the pros and cons. Obviously, the biggest benefit of long-term care insurance is that it can help defray the cost of care, thereby mitigating the risk of depleting your savings. Additionally, by choosing your coverage wisely, you retain greater control over the type of care you will receive, as well as where you may receive that care. As well, insurance that will pay for your future care needs will likely lessen the burden on family or friends who may otherwise have to look after you.

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While long-term care policies can provide some significant benefits, the premiums are traditionally expensive. Though costs can vary widely, premiums may run between $1,000 and $3,000 annually for a policy purchased by an individual in their fifties.[6] If insurance is purchased later in life, the premiums would likely be even higher.

While premiums can be expensive, the costs are influenced by the coverage options selected. For example, policies with inflation protection may help you to better keep pace with the higher cost of care in the future, but in exchange for this feature, the premiums will typically be higher. Similarly, policies that have a longer elimination period – the waiting period before payments begin after the loss of the ability to perform certain activities – will typically have lower premiums. Overall, however, the cost of long-term care insurance has been increasing with the cost of new policies increasing almost 9 percent compared to last year.[7]

Remember as well that premiums are typically not set in stone once a policy is issued, and they may well increase over time. Indeed, a combination of low interest rates combined with greater than expected benefit claims has forced some insurance companies to increase premiums. For example, one leading provider of long-term care insurance increased premiums on existing policies as much as 50 percent in 2012.[8] Given it's not uncommon for premiums to increase over time, when shopping for insurance, we believe it's important to look at the providers' history of premium increases as an indicator of what you might expect to see in the future.

Good news for policyholders is that once a long-term care policy is issued, it cannot be cancelled by the insurance company due to the insured's age, or health condition. This guarantees that benefits will be paid as long as they haven't been used up, or the insured hasn't stopped paying the premiums. If, however, someone can no longer afford to pay the premiums, a policy "nonforfeiture option" may allow the insured to receive a reduced benefit based on the premiums that have already been paid. If such an option doesn't exist in the policy, however, any premiums paid may be lost. As such, before purchasing a long-term care policy, consider your ability to continue making premium payments in the future as this would be the time when you would likely be most apt to need the coverage for which you've been paying.

Given that the cost of long-term care can be significant, we believe it's important for everyone to consider how they will fund that care if and when they need it. While some may have the resources to pay for care themselves, others may be willing to take the risk that at some point in their future, they may have to spend down their savings in order to qualify for Medicaid coverage. For those seeking a strategy that may help them retain greater control over their care while protecting their financial assets, long-term care insurance may be a viable solution.

Please contact us with questions, for additional information, or if you need assistance in determining a long-term care funding strategy that may be best for you.

[1, 2] http://www.census.gov/prod/2010pubs/p25-1138.pdf
[3] https://www.census.gov/prod/cen2010/briefs/c2010br-09.pdf
[4] http://www.rmminc.net
[5] https://www.genworth.com/corporate/about-genworth/industry-expertise/cost-of-care.html
[6] http://www.cbsnews.com/news/long-term-care-insurance-vs-other-strategies-pros-and-cons/
[7, 8] http://www.elderlawanswers.com/long-term-care-insurance-premiums-rise-almost-9-percent-15019