ESTATE PLANNING & ELDER LAW SERVICES

LONG-TERM CARE INSURANCE ALTERNATIVES

ALTERNATIVES TO LONG-TERM CARE INSURANCE

About 70 percent of Americans who live to age 65 will need long-term care at some point in their lives—and there are 10,000 Baby Boomers turning 65 every day.

Not all of that care will be in a nursing home; some seniors will be able to be cared for at home by family members, but almost half will need paid assistance for some time. Nearly a quarter of seniors will need paid care for two years or more, and some of that care will be in a facility: fifteen percent of people who reach the age of 65 will spend over two years in a nursing home.

In short, the odds are pretty good that you or someone you love will need to pay for long-term care at some point. Once you accept that reality, the next question becomes: how? The cost of care in a nursing home is high, and rising, typically outpacing inflation. Many people believe that Medicare covers nursing home expenses, but that is true only in very limited circumstances. The cost of care can wipe out a family's savings in months, but there are ways to prepare, including purchasing long-term care insurance.

In this e-book, we'll discuss what long-term care insurance is, its advantages and disadvantages, and some alternatives to traditional long-term care insurance.

What is Long-Term Care Insurance?

Traditional long-term care insurance operates along the same lines as other types of insurance you may have used, like car and home insurance. You pay regular premiums while the policy is in effect, and if you need long-term care that is covered under your policy, you make a claim.

Most policies will pay a certain amount per day or week for care up to a lifetime limit or for a certain number of years. As with other types of insurance, the benefits available with traditional long-term care insurance vary somewhat from policy to policy, and in general, the more you are willing to pay, the more you are able to get. If you want a higher daily benefit or lifetime maximum, inflation protection, or a shorter waiting period for benefits to kick in, you will likely pay a higher premium than you might otherwise.

What Does (and Doesn't) Long-Term Care Insurance Cover?

While the amount and type of coverage vary between long-term care insurance policies, traditional long-term care policies commonly cover the following:

- **Nursing home care:** If you need a nursing home or skilled nursing facility, your long-term care insurance will cover expenses for room and board, nursing care, management of your medications, and help with activities of daily living, or ADLs. These include toileting, bathing, dressing, and eating. The average cost of nursing home care in Michigan is $10,870.00 per month, or much more for skilled care involving ventilators, feeding tubes, etc.

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- **Assisted living:** If you cannot live independently but do not require the level of care offered in a nursing home, a traditional long-term care policy may cover your expenses in an assisted living facility. Although costs vary by geographic location, you can expect to pay approximately $5,000.00 per month to $6,500.00 per month for assisted living level care.

- **In-home care:** Some policies will pay for help that allows you to stay in your home, such as home health aides, nursing care, physical therapy, and personal care. Non-skilled in-home care averages about $25.00 per hour, or $52,000 per year for 40 hours of care per week.

Some policies include care coordination and case management services and coverage for adaptive equipment, home modifications, and adult daycare.

However, there are also services that are often not covered, such as treatment for substance abuse. While coverage will not necessarily be denied if you have a pre-existing condition, it's likely that your medical history will cause your premiums to be higher, and there may be a waiting period before care related to a pre-existing condition is covered. It's important to review a policy carefully to understand what services are covered and when benefits kick in.

Long-Term Care Partnership Programs

Long-term care partnership programs are a collaborative effort between long-term care insurers and state Medicaid programs. They are a way to augment the benefits of traditional long-term care insurance.

Ordinarily, when a person needs nursing home care but lacks the resources to pay for it, the person becomes eligible for Medicaid assistance to pay for care. This eligibility typically requires the beneficiary to "spend down" assets, keeping only $2,000 or less in countable assets. There are also income limits for Medicaid eligibility.

After the beneficiary's death, the state Medicaid program can seek reimbursement from the late beneficiary's estate for benefits paid. Often, this wipes out the estate, leaving no inheritance for the surviving family.

With a long-term care partnership program, seniors purchase long-term care insurance through the partnership program to cover the costs of future care. If they receive qualifying care, and insurance benefits are paid out to cover the cost, an equivalent amount of their assets is sheltered from Medicaid's asset limit, in the event that they ultimately need Medicaid assistance. For instance, if $50,000 is paid out in long-term care insurance benefits, an additional $50,000 of the beneficiary's assets are shielded from being counted for Medicaid eligibility purposes.

Furthermore, participation in a partnership program can shield a deceased beneficiary's assets from Medicaid estate recovery. This is significant, because while a Medicaid beneficiary's primary residence is generally exempt from spend-down during their life, it is not out of reach of Medicaid estate recovery after their death without proper planning. If the beneficiary participated in a long-term care partnership program, the home could be safe from estate recovery, meaning the late beneficiary's heirs could inherit it.

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In addition to Medicaid asset protection, one advantage of long-term care partnership program policies is that premiums are often somewhat less expensive than those of traditional long-term care insurance. Most U.S. states have a long-term care partnership program, though the rules of the program may differ somewhat from state to state.

Pros and Cons of Traditional Long-Term Care Insurance

The biggest advantage of traditional long-term care insurance is that it can keep you from spending your life savings on the high cost of nursing home care. With this coverage, you may also have more flexibility about what type of care you receive or what facilities are open to you. In addition, if you pay for inflation protection, the amount of your benefit can better keep pace with the rapidly-increasing cost of care. Premiums are also typically waived while you are receiving benefits.

Unfortunately, there are also disadvantages to traditional long-term care insurance, with the most significant being the cost. The premiums can be high, and are usually even higher for people with pre-existing conditions such as cancer or heart disease. Some people may even be unable to qualify for a policy because of pre-existing conditions. Premiums are usually lower if you purchase a policy while you are younger and in better health, but that also means you will likely be paying out for longer before you make a claim—if you ever make one.

Traditional long-term care insurance is “use it or lose it.” If you never make a claim against your policy, the thousands of dollars you paid in premiums are gone forever. However, in recent years, some alternatives to these traditional policies have become available.

Hybrid Long-Term Care Policies

One alternative to traditional long-term care insurance policies is hybrid long-term care policies, sometimes called combination long-term care insurance. These policies contain elements of both long-term care insurance and life insurance or annuities.

A disadvantage of both traditional long-term care insurance and long-term care partnership program policies is that you could find yourself paying premiums for years, only to receive nothing in return if you don’t make a claim for long-term care expenses. Hybrid policies can eliminate that possibility. If the policyholder dies without having made a claim for long-term care benefits, the insurer pays a death benefit to the beneficiary designated by the policyholder.

Hybrid long-term care policies come in two varieties; life-insurance based and annuity-based. Both include coverage for long-term care expenses, should the policyholder need care. The difference is the financial vehicle used to fund the policy.

Life Insurance-Based Hybrid

With a life insurance-based hybrid, the policy provides coverage for long-term care during the policyholder’s lifetime, and a death benefit to their beneficiaries upon their death.

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How much of a death benefit is paid? That varies with the policy. Some policies offer a guaranteed minimum death benefit; with other policies, the amount of the benefit is tied to the amount of premiums paid by the policyholder.

If the policyholder does need long-term care during their lifetime, the policy's accelerated death benefit feature uses the death benefit to pay for qualified long-term care expenses. Should the death benefit be exhausted, the policy's long-term care insurance rider takes over payment for those costs.

Seniors who are concerned about the rising costs of long-term care, but also about the prospect of paying for a long-term care insurance policy they will not use, may find hybrid long-term care insurance appealing. As with any insurance contract, however, it is important to understand the details. Hybrid long-term care insurance premiums are often significantly more expensive than traditional long-term care policies, and the death benefit is usually lower than that of a dedicated life insurance policy.

Annuity with Long-Term Care Benefit Rider

If you are seeking an alternative to traditional long-term care insurance, but neither a long-term care partnership policy nor a hybrid long-term care policy is right for your needs, another option is to purchase an annuity with long-term care benefits. This is, in essence, another type of hybrid.

An annuity is a financial product, a contract between you and an insurance company. In exchange for a lump-sum payment or the payment of periodic premiums, you receive guaranteed income payments during retirement. The long-term care benefit rider is a feature that can be added to the annuity for an additional cost. The rider provides coverage for qualified long-term care expenses if the owner of the annuity meets specified criteria (such as inability to perform a certain number of activities of daily living, or ADLs).

If you have an annuity with a long-term care benefit rider but do not need care, the annuity nest egg continues to grow and provide you with income. Depending on the terms of your annuity and rider, there may be a death benefit or return of the remaining cash value to your named beneficiaries after your death.

Other Options to Pay for Long-Term Care

Unfortunately, it is not always possible to take advantage of the options described above to pay for long-term care. Those who find themselves confronted with the need for care without having long-term care insurance or alternatives in place may need to speak with an elder law attorney about choices available to them. These options may include veterans' benefits, establishment of a first-party special needs trust, or programs such as the MIChoice Waiver program or the Program of All-Inclusive Care for the Elderly (PACE).

To learn more about long-term care insurance, alternatives to traditional policies, and other options for paying for long-term care, contact Estate Planning & Elder Law Services to schedule a consultation.

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