

# Long Term Care White Paper

Long Term Care is one of those things many people don't want to think about. They either assume it will never happen to them or believe, incorrectly, that Medicare will cover the costs. A large portion of the US population ends up receiving some form of long term care. Further the use of formal long term care is only growing as baby boomers age.

Long term care encompasses more than just living in a nursing home. There is informal and formal long term care provided every day everywhere. Many people receive in home informal long term care from friends and relatives. On the other end of the care spectrum is full-time long term care provided in a nursing home. In between are all kinds of combinations of adult day care, in-home professional care, and assisted living facility arrangements. Together these form the overall spectrum of long term care. Now with that information in mind I bet you can think of one or more people you know who receive some form of long term care.

Long term care generally focuses on the need for assistance with Activities of Daily Living, more commonly referred to as ADLs. These ADLs include: eating; toileting; dressing; bathing; transferring; and ambulation. Most commonly a long term care insurance policy is activated (with benefits paid subject to policy elimination period and payment limits) when two or more of these needs require the assistance of a caregiver. Depending on the degree of help needed, it is common for informal care arrangements to come into play first to provide assistance with these ADLs. However, when there are no friends or family to provide informal care or such provision would cause undue hardship on the friends or family then formal care usually is started.

In addition to the above ADLs, loss of cognitive functioning is generally a trigger for Long Term Care Policies to begin benefits. Organic brain diseases lead to many individuals seeking care at home and in facilities. An otherwise healthy individual can easily spend several years in a nursing home if placed there because of organic brain disease alone. The cost of that care can easily reach \$6,000- \$10,000 per month. These costs are not paid by your health insurance or Medicare. These costs must be paid out of pocket without a long term care insurance plan.

When paying for the care out of pocket, life savings (assets) can easily be erased. When this happens with one spouse, for instance due to organic brain disease, it is easy for the non-impaired spouse to become impoverished, due to the use of assets for care of their spouse. This is not how most couples envision their lives together. Not only are they not together constantly, as they planned earlier in life, the healthy spouse is watching their retirement assets depleted to care for the impaired spouse, without any idea what retirement funds will be left for their own care. Eventually when there are no assets it's possible Medicaid may kick in, but by that point all the assets they worked so hard to build up for retirement and a legacy are gone.

Statistics indicate that just under 2/3 of the long term care population is over the age 65 while the rest are under that age. This shows it is people of all ages who need long term care. The expectation is that more than 2/3 of the overall population will ultimately need some form of long term care at some point in their life.

The instance of organic brain disease is increasing, leading to more people seeking care. The length of stay for someone with cognitive impairment (generally the same as organic brain disease) is around 8 years but has been growing in length. As baby boomers age and there are fewer informal care givers, available to render informal care due to work and other commitments, we will see far greater numbers of people seeking formal long term care as many informal care arrangements will no longer be available.

The statistics help provide that LTCI is not just for those over 65. It also shows that depending on the reason for the long term care stay, the length of stay varies greatly as does the cost for the care. As the population ages we will see more need for long term care insurance to pay for the formal care arrangements. More formal care will be used in the future due to less available informal care.

Understanding why it is important to have the coverage, and after seeing numbers that point towards the need for coverage, it's a good time to discuss solutions. The primary solution is a Long Term Care Insurance (LTCI) Policy. Such a policy can do everything as much or little as the buyer wants, from just helping pay for the care to completely paying for the care, depending on how it is set up. It's a good idea to deal with an agent who has experience selling long term care plans based on client needs, not based on a standard cookie cutter approach.

With LTCI when you go onto benefit payment, you have an insurer paying for the care based on how your policy was structured at the time of purchase. This means your own assets are protected, at least to the limits of the LTCI policy. That becomes a significant issue when one spouse needs custodial care while the other does not. A policy helps pay for the nursing home costs while the spouse who remains at home is able to continue with life and still have access to all of their assets to pay for the needs at home. Specifically, in the event of an organic brain disease situation where many claims create a long facility stay for the impaired spouse, LTCI coverage becomes critical to help prevent impoverishing the spouse remaining at home who is providing the support to the impaired spouse.

Next, I will describe how LTCI works. The policy has an elimination period (think deductible) that when met allows payment of benefits to begin. Of course the plan requires 2 or more of the ADLs being certified as needing assistance, by a physician, before the claim can be certified by the insurance carrier, at which point the elimination period begins being counted. Once on claim, the covered person begins receiving benefits based on the care received and the amount of coverage per day or per month. Care received is either home based or institutional. The daily or monthly benefit limit amount is one of the elements determined at the time of policy purchase.

When on claim, the covered person will have up to the daily amount of coverage for the care received in a single day (where daily benefits limits is selected) or the care provided in a month if monthly benefits limits is the benefit calculator. This means, if your nursing home day rate is \$175 and your coverage is \$160 per day, you will owe the additional \$15 per day. On the other hand if your are receiving in-home

care and during the month you have 20 visits at \$100 each but your monthly maximum benefit is \$6000, the full \$2000 is covered and you have access to the other \$4000 as part of your overall benefit pool.

If you have lifetime coverage you don't have a maximum lifetime benefit pool. If you selected a two or more year benefit period, then your daily or monthly benefit is multiplied by the appropriate number of days or months to give you the total benefit pool. The pool can't be exhausted faster than the daily or monthly limit, but amounts left over are still in the pool of available claims benefits funds, so it's possible to get more than the contracted number of years of coverage, because really it is a benefit pool of money you contracted to access. The expression of a set number of years of coverage is purely for the calculation of the actual benefit pool.

Thus, as mentioned the design of your LTCI plan is critical. This is where you decide how much coverage you will have available when the time comes to use the coverage. A well designed plan will meet your stated needs which may be to fully fund care or to only fund some portion of care retaining some costs as out-of-pocket. We evaluate those needs with you and advise the most appropriate coverage levels and plan design for you.

Many people mistakenly believe Medicare pays for long term care. They actually don't pay for any custodial care, only for care where medical services are provided. Medicaid does pay for custodial care but only when you meet governmental spend down requirements which are fairly harsh. In fact you will be in poverty at the time you are on Medicaid and when only one spouse is receiving care that is typically devastating to the other spouse. A downside of Medicaid funded care is that it is not available at every facility, meaning finding a room may be difficult and even if you can find a bed/room it's likely not going to be at your first choice facility. So while Medicaid does cover nursing home care, there are many pitfalls to getting to the point of securing that care.

LTCI is the best solution for those who have assets to protect. If you have assets that you wish to ensure are preserved for heirs or a favorite charity, having LTCI is a critical step to protect your assets. There are traditional LTCI products as well as those designed as part of an annuity contracts or life insurance contract. The annuity and life contract designs can help provide the protection needed, and in some cases return premiums or a death benefit to survivors. Either way there is a product to provide the protection needed, because as we know, the government is not going to both pay for your care and preserve your assets.

If you don't presently have a Long term care plan call David Brooks at 713-429-1487 for an evaluation of your needs. A proposed solution will be customized based on your needs. This is the best first step in protecting your assets against the high costs of long term care.