

Long Term Care A work in progress . . .

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Retirement: that was then . . .

- Government (Social Security)
- Family (inheritance/support)
- Savings/Annuities
- Investments
- Pension (65+%)
- Protection:
 - Medical insurance
 - Life insurance
 - Long Term Care (maybe someday . . .?)

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This is now . . .

- Post crisis insecurity
- Pension now > 25%
- Far less confident that they have saved enough for retirement
- More conservative and less willing to take risks
- Trying to control spending
- More likely to seek financial advice

The problem

- As in the UK—longevity rapidly increasing
- Ageing population (85+ fastest growing segment)
- Inadequate retirement funding
- Increasing numbers without medical care
16.7% / 50m+
- Increasing awareness of Long Term Care value
(skilled/custodial)

Aside:

UK Long Term Care Facts

- One in five 65 year olds today will need care costing more than £50,000, which could force many to sell family homes.
- By 2026, the number of 85 year olds is projected to double.
- In the next 20 years 1.7 million more people will have a potential care need than today.

Factoids—2009 US Survey

- Average cost for a semi-private room in a nursing home: **\$79,935 per year, or \$219.00 per day.**
- For every 100 people with similar histories:
 - **37** people required LTC; average lifetime cost: **\$197,824**
 - **63** people used **no** long-term care services
- Of those **37** people who required LTC services:
 - **8** spent > \$50,000
 - **6** spent \$50,000 - \$100,000
 - **12** spent \$100,000 - \$250,000
 - **11** spent < \$250,000
- People with similar histories who used LTC services averaged:
 - **6,933** hours of informal care from friends and family
 - **902** hours of formal care from home care providers
 - **706** days of assisted living or nursing care

The care options

- Family and friends
- Home health care agencies
- Assisted living facilities
- Adult day care facilities
- Skilled nursing facilities
- Hospices
- Continuing Care facilities (combination)

Funding sources

- Medicare
- Medicaid
- Self-funding
- Long-term care insurance
- Continuing Care Facility
- Reverse Mortgages (Equity release)

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Medicare (Federal program)

Health insurance (doctors & hospitals)
 Three-days in hospital before benefits begin
 Pays for skilled but not custodial care

Home Care (under Medicare Part B)	Only for “medically necessary” skilled or rehabilitative services; co-pay required
Adult Day Care	No coverage
Assisted Living	No coverage
Nursing Home (under Medicare Part A)	Only for skilled or rehabilitative care; max. of 100 days; co-pay required

Medicaid (MediCal, MassHealth)

- A joint federal/state program for those with minimal income and assets
- Currently a primary payer for nursing facility care; limited access to other services such as home and community-based care

Resources are at risk:

- Assets over \$2000
- Primary home equity greater than \$500,000
- Most personal income
- Retirement accounts, e.g. 401(k), IRA
- Cash value life insurance
- Vacation home, second vehicle

- Review of 5 years of financial history to look for asset transfers
- Calculating the penalty period
 - \$50,000 asset / \$150 daily cost of care = 333 days of care that you could have paid for yourself
- Penalty period begins the day you apply for coverage, not the day the asset was transferred

Self Funding: the default choice

Self-funding, paying for long-term care with personal money, is the most popular option because most people don't have a plan or are expecting the government to pay for care.

Expectation has been that life insurance, annuities, and personal savings/investments will resolve end of life financial problems.

The problem . . .

- Typical retirement scenario
 - Disability income insurance ends
 - Term life insurance ends
 - Sources of income change or end
 - Medical coverage uncertain
- Retirees live on income, not principal
 - A long-term illness could force a diversion of income to pay for care, and
 - Could result in an invasion of principal, affecting the money available to pay for your long life

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Insurance option

- Long-term care insurance pays for custodial care: Assistance needed due to a loss of functional capacity caused by a lengthy illness, injury, or a severe cognitive disorder
- Help with Activities of Daily Living (ADLs):

Bathing	Eating	Dressing
Toileting	Transferring	Continence
- Covers the spectrum of care options, including home-based and facility care
- LTCi addresses the limitations inherent in the other funding options

Who buys it?

- Business owners (self & employees)
- High Net Worth Families
- Married couples over 50 with children
- Married couples over 40 without children
- Children of retirees
- Couples with large age difference between spouses
- Singles, particularly single & divorced women
- 2nd marriages

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Government support

- LTCi partnership
- Between state governments and private insurance
- Insurers voluntarily participate
- Plan must meet certain state and federal requirements
- Offers (limited) asset protection

Problems & trial solutions

- Annual premium for a mid-option policy for a person at age 50 is about \$1250; at 65, that same policy costs about \$2,400; and at 79, about \$6,800.
- Woefully underpriced = large rate increases
- Lack of customer interest
- Statistics not stable
- Wide regional & personal variances
(Return of premium rider; combination plans)
- Shortage of facilities and trained staff

CLASS Act March 2010

- Part of health care reform law
- Payroll deduction premiums begin in 2011
- \$50 per day benefits begin in 2016
- Regulations due by end of 2010
- No real threat to private LTCi
- Stay tuned

Where next?

- Better census data?
- Proposals for tax incentives for LTCi
- Changes to fiscal policy
 - Civil Service pension funding problems
 - Means testing for Medicare and Social Security
 - Expand CLASS Act? (Move to single payer)
- Heavy emphasis on public education
- Major push by insurance providers



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UK Commission on the Funding of Care and Support:

- Voluntary insurance and partnerships are possible LTC funding options
- A partnership between individuals and the state
- How an individual's assets are protected against the cost of care
- How public funding for the care and support system can be best used to meet needs
- How to deliver the preferred option and impact on local government.