

WISER Special Report

Long-Term Care: What are Your Options?

Long-term care is an issue of pressing concern to many Americans. When a loved one can no longer live independently, family members confront the emotional challenge of deciding what to do next and the financial shock of long-term care expenses.

Over the next thirty years, as baby boomers reach retirement, America's elderly population is expected to double from 35 million to nearly 75 million. As a result, the number of Americans who will need long-term care (in nursing homes or at home) will skyrocket.

Experts predict that the costs of long-term care will increase dramatically over the next several decades. In fact, the median annual cost of a private nursing home room in 2010 was \$75,190. By 2030, the median price is expected to increase to \$97,000 (in today's dollars). Most individuals and families simply cannot afford to bear these costs.

Public Programs for Long-Term Care

Long-term care covers a range of services for individuals who need assistance with the activities of daily living—such as bathing, walking, taking medication, shopping, cooking and driving. Long-term care can be provided in a private home or in a nursing home. In either case, long-term care is expensive.

Current public programs offer limited protection against the financial costs of long-term care. Contrary to what many people believe, Medicare covers very little in the way of long-term care. Medicare is mostly an acute care program covering hospital and physician bills. The

program pays for only limited home health care and nursing home costs—usually following a hospital stay.

When individuals need non-skilled care, either at home or in a nursing home, they typically pay for it themselves. Only when most of their resources are gone—or in the event that they have no resources to begin with—do individuals qualify for Medicaid coverage of long-term care services. As a result, many individuals impoverish themselves before they get assistance from the Medicaid program.



Private Long-Term Care Insurance

Private long-term care insurance can help protect people with a disability or chronic health condition from the high costs of long-term care. Whereas the Medicaid program focuses almost exclusively on institutional care, private long-term care policies cover a wide range of services, such as assisted living, to help people live at home.

Long-term care policies can be purchased on an individual basis and, increasingly, through group plans offered by employers. Most policies pay a fixed dollar amount—usually \$50 to \$250 per day—for long-term care services. Policyholders can choose the amount, as well as the length of time benefits will be paid and the deductible period.

The affordability of long-term care insurance partly depends upon the age of purchase. People who purchase policies at younger ages pose lower risks to insurance companies, and therefore pay lower

premiums. Typically, premiums purchased before the age of 65 are much lower than policies purchased after the age of 65.

Long-Term Care is a Women's Issue

Women have a particular stake in doing everything they possibly can to protect themselves from the high costs of long-term care. Here are some of the reasons why:

- Women typically live longer than men and, if married, tend to outlive their husbands. A woman born in 1960 has a life expectancy of 73 years, compared to 67 years for a man born in the same year.
- As they grow older, women are more likely than men to live alone, without a spouse or other family member to provide home care. By the time a woman reaches the age of 75, the chances that she is living with a spouse have dropped below one in three.
- At any age over 65, women are more likely than men to need assistance with daily living.
- Women are the primary caretakers in our society. They are more likely than men to have caregiving responsibilities for impaired family members and they often use their own assets to pay for this care.
- Women over 65 have an average income of approximately \$22,625 - less than one-third the cost of an average nursing home for a year.

Making a Wiser Choice

It is important for women to plan early so that the high cost of long-term care does not threaten their financial security. Private long-term care insurance can provide peace of mind to women who can afford to buy it. But as is the case when purchasing any insurance policy, women should scrutinize the policies before making a decision.

In recent years, both the federal government and the states have taken steps to make it easier for individuals to purchase private long-term care insurance. The

federal government passed the Health Insurance Portability and Accountability Act in 1996 which allows individuals to apply long-term care insurance premiums and out-of-pocket expenses toward the 7.5 percent base for medical expense deductions in their taxes. To get the deduction, the policy must be tax-qualified. This law also says that benefits received from qualified long-term care policies are not taxable.

State Legislation

Recently, all 50 states have adopted laws or regulations pertaining to long-term care insurance.

- Twelve states have established some type of state tax incentive (a deduction or credit) for long-term care insurance premiums: Alabama, California, Iowa, Kentucky, Maine, Maryland, Minnesota, Montana, New York, North Carolina, North Dakota and Wisconsin.
- At least 19 states have passed laws to make private long-term care insurance available as a benefit to state employees: Alabama, Alaska, California, Colorado, Connecticut, Florida, Georgia, Kansas, Montana, Nebraska, Nevada, North Carolina, North Dakota, Ohio, Oregon, South Carolina, Vermont, Washington and Wisconsin.
- In 2000, the Federal government passed the Federal Long Term Care Insurance Program (FLTCIP) which allows all Federal employees and their qualified relatives to buy long term care insurance.

For further information, contact your state insurance department to find out what your state regulations entail.

References

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