Paying for Long-Term Care

Fact and Fiction about How to Pay for Long-Term Care Services

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Trends in Long-Term Care?
Trends in Long-Term Care

- Population Aging and Living Longer
- 80% of New Claims in the Home
- Height of LTC Sales in 2003 - $1 Billion
- LTC Sales in 2009 - $500 Million
- Financial Crisis of 2008-2009 impact
- Prolonged low interest rate environment
- Majority of LTC policies staying inforce
What is Long-Term Care?
What is Long-Term Care?

- What is the first thing you think of when you hear the word long-term care?
  - Nursing Homes

- Most care begins in the home

- Some care starts when people have a sudden health change and are admitted directly to a skilled nursing facility

- Long-term care lasts 90 days or more
# Acute Versus Chronic Care

<table>
<thead>
<tr>
<th>Acute (Health Care)</th>
<th>Chronic Care (LTC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medically based injury or sickness</td>
<td>Physical-based (ADLS) or Mental-based (cognitive impairment)</td>
</tr>
<tr>
<td>Short Term</td>
<td>Long-Term (90 plus days)</td>
</tr>
<tr>
<td>Restorative in nature</td>
<td>Maintenance and/or supportive in nature</td>
</tr>
<tr>
<td>Cured in short period of time</td>
<td>Usually cannot be cured</td>
</tr>
<tr>
<td>Individual can usually return to previous lifestyle</td>
<td>Likely to affect individual until death</td>
</tr>
<tr>
<td>Paid for by public and private insurance</td>
<td>Not reimbursed by private insurance or Medicare</td>
</tr>
</tbody>
</table>
Activities of Daily Living

Measures used to assess a person’s need for long-term care

- Bathing
- Dressing
- Toileting
- Continence
- Transferring
- Eating
## Scheduled vs. On Demand Care

<table>
<thead>
<tr>
<th>Activity of Daily Living</th>
<th>Scheduled</th>
<th>On Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bathing</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Dressing</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Toileting</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Continence</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Transferring</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Eating</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Cognitive Impairment

Caused by
- Dementia
- Senility
- Organic brain disease
- Alzheimer’s Disease

Deterioration or loss in intellectual capacity

Results in short or long-term memory, orientation to people, place and time, challenges with deductive or abstract reasoning

Can take years for families and doctors to detect
Who Needs Long-Term Care?
Who Needs Long-Term Care?

- 60% of people age 65 may need long-term care at some point in their lives.
- Women are more likely to need long-term care.
- 70 Million people will be 65 or older when the last baby boomer retires in 2030 – double the number today.
- 37% of people receiving LTC are between 18-64.
The Costs of Long-Term Care?
Nursing Home Costs

- **Private Room**
  - $74,460 annually
  - $204 daily
  - 6-year Average Annual Increase of 3.2%

- **Semi-Private Room**
  - $66,795 annually
  - $183 daily
  - 6-year Average Annual Increase of 2.7%

*Source: John Hancock 2008 Cost of Care Survey*
Assisted Living Facility Costs

- $35,544 annually
- $2,962 monthly
- 6-year Average Annual Increase of 4.0%

Source: John Hancock 2008 Cost of Care Survey
Home Health Care Costs

- National average hourly rate for home health aides is $19
- 6-year Average Annual Increase 1.4%
- 80% of New Claims are at Home

Source: John Hancock 2008 Cost of Care Survey
Only a quarter (26%) of U.S. adults think they have or will have saved enough money to finance their own potential long-term care needs as they age. Fully, 41% do not think they will have enough money to cover their expenses as they age and 33% are not sure.

The Wall Street Journal Online, “Preparing and Paying for the Cost of Care as We Age” (2006)
Who Pays For Long-Term Care?
Who Pays for LTC?

- Medicare
- Medigap Plans
- Medicaid
- Individuals, from personal savings
- Long Term Care Insurance
Source of Nursing Home Payments

Center for Medicare and Medicaid Services (CMS)
National Commission for Quality LTC, January 2007
Overview of Medicare

Medicare was established by Congress in 1965 under the Social Security Act.

Entitlement program that provides health insurance for individuals age 65 and older as well as for disabled people.

Medicare is administered by Centers for Medicare and Medicaid Services (CMS).
Medicare

Finances acute medical care for the elderly and disabled

Emphasis on acute care

Medicare pays for:
- Hospital services
- Limited nursing home and home health care
- Hospice benefits are available
What is Medicare?

- Health Insurance program for people 65 and older, disabled or with End-Stage Renal Disease
- Traditional pay-per-visit arrangement with a deductible and coinsurance
- Original Medicare Plan has two parts:
  - Part A (Hospital Insurance)
  - Part B (Medical Insurance)
Defining Medicare’s Services

**Skilled Care**
- Tube feeding
- IV’s
- Muscular injections
- Treatment of deep skin lesions
- Suctioning
- Close monitoring 24 hours a day

**Rehabilitative Care**
- Physical Therapy
- Speech Therapy
- Occupational Therapy
Medicare Services and Providers

- Skilled Nursing Facilities
  - Days 1-100
    - 21-100 co-pay of $137.50 for 2010
- Home Health Care
- Hospice Care
Medicare Supplements (Medigap)

- Also known as Medigap insurance
- Covers some of Medicare’s deductibles, co-payments and coinsurance
- Premiums vary dramatically
- Most cover daily co-payment of $137.50 (2010) for the 21st through the 100th day for skilled nursing home stays
- Some supplement plans pay for skilled nursing facility stays beyond the 100th day maximum
- If Medicare does not pay, neither does the Medicare Supplement
What is Medicaid?

- Jointly funded and administered by federal government through Centers for Medicare and Medicaid Services (CMS) and the states
- Unlike Medicare, Medicaid provides extensive benefits for long-term care
- Medicaid is primary public financing source for long-term care
- Medicaid does not require that all care be skilled
- Medicaid is designed to pay for long-term care, while Medicare pays for short-term care
Medicaid Services

- **Required**
  - Hospitalization
  - Physician Services
  - Laboratory and X-Ray
  - Nursing home care

- **Optional**
  - Home Care
  - Personal Care
  - Homemaker Services
  - Assisted Living Facilities
  - Rehabilitation
  - Physical, Speech, and Occupational Therapy
  - Respite Care
  - Adult Day Care
  - Hospice Care
Medicaid Eligibility Guidelines

Each state follows federal guidelines to determine eligibility as to what services they will pay.

A person eligible in one state may not be eligible in another.
  – If eligible, they may not receive the same benefits.

Three types of eligibility requirements that must be met:
  – 1) General Eligibility
  – 2) Functional Eligibility
  – 3) Financial Eligibility
States determine income eligibility in two ways

- **Spend down state**
  - Individuals are required to pay their entire income to the nursing home and Medicaid pays the difference

- **Income Cap State**
  - States will not approve an individual for Medicaid if their income is greater than $2,022 - three times the Supplemental Security Income amount (SSI)
Non-Countable Assets

- Personal items
- Household items
- Vehicle
- Life insurance with face amount less than $1,500
- Property essential to self support
- Burial arrangements
- Trusts
- Cash Allowance between $2,000 and $3,000
Countable Assets

- Bank accounts
- Retirement funds
- Securities
- Annuities
- Life insurance with a face amount more than $1,500
- Entrance fees for Continuing Care Retirement Communities
Community Spouse Resource Allowance

- The 2010 CSRA federal maximum is $109,560 and the minimum is $21,912
- States may adopt these or other standards as long as they do not go above the maximum or below the minimum
- The community spouse may keep one half of the couple’s assets, not to exceed the federal maximum and not to go below the federal minimum
- Some states are more generous and allow the community spouse to keep up to the $109,560 regardless of whether or not this represents half the couple’s assets
Community Spouse Income

- The community spouse does not have to use their income to support the nursing home spouse.
- The community spouse is entitled to some or all of the institutionalized spouses income up to the 2010 “minimum monthly maintenance needs allowance” or MMMNA.
- The MMMNA may range from a low of $1,821.25 to a high of $2,739 a month.
- The community spouse can petition the Medicaid agency for an increase.
BUT... How Can The National Long-Term Care Partnership Program Help?
What is the LTC Partnership Program?

- A resident of a Partnership state purchases a tax-qualified long-term care insurance policy.
- The policy must meet all state specific requirements.
- When the policyholder goes on claim, the policy pays benefits and if they exhaust their benefits, they apply for Medicaid.
- BUT they are allowed to protect assets that would have otherwise been spent on their care.
  - Dollar for Dollar Asset Protection.
- Policies must be tax-qualified under IRC 7702B.
- Policies must meet Inflation Protection by age.
Inflation Protection Requirements

Inflation protection will be required as follows:

- For ages 60 or younger
  - Must be compound inflation protection
    - Can be less than 5% and can be CPI

- For ages 61-75
  - Compound, CPI Inflation or Simple Inflation

- For ages 76 and older
  - No inflation is required
## Partnership Program

### Medicaid Spend Down

<table>
<thead>
<tr>
<th>Non-Exempt Assets</th>
<th>LTC Insurance Benefits Paid</th>
<th>Medicaid Spend Down Requirements*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Person A</strong></td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>Person B</strong></td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td><strong>Person C</strong></td>
<td>$1,000,000</td>
<td>$500,000</td>
</tr>
<tr>
<td><strong>Person D</strong></td>
<td>$200,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

*The cash allowance the individual or couple is allowed to keep would be deducted from this amount*
Alternate Financing Options for LTC

- Life Insurance with LTC Features/Riders
- Life Settlements and Viatical Settlements
- Home Equity
- Annuities with LTC Features/Riders
- Health Savings Accounts
Case Study
Case Study

Ralph and Alice just celebrated their 50th wedding anniversary and have lived in the Virginia Beach area their entire lives. Yesterday, Ralph, who has Alzheimer’s, wandered away from home. The police found him wandering around, talking incoherently and took him to the hospital. The family doctor told Alice that Ralph needs to be admitted into a facility (NH) for his safety and due to the extensive amount of supervision he requires. Ralph and Alice grew up during the Depression. They have worked hard, raised a family, and always tried to save. Their assets, totaling $300,000, not including their house, are as follows:
## Case Study: Countable Assets

<table>
<thead>
<tr>
<th>Account</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Account</td>
<td>$40,000</td>
</tr>
<tr>
<td>CD’s</td>
<td>$60,000</td>
</tr>
<tr>
<td>Money Market</td>
<td>$50,000</td>
</tr>
<tr>
<td>Checking Account</td>
<td>$20,000</td>
</tr>
<tr>
<td>Stock/Brokerage Account</td>
<td>$130,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$300,000</strong></td>
</tr>
<tr>
<td>Primary Residence (Exempt)</td>
<td>$300,000</td>
</tr>
<tr>
<td>Less: Mortgage</td>
<td>($40,000)</td>
</tr>
</tbody>
</table>
Case Study: Income

Ralph gets a Social Security check and a pension of $2200 each month and Alice’s check is $400. The average cost of the local facility is about $5000-6000 per month. Alice quickly realizes that their monthly income is not enough to cover the cost and in just a few short years, most of their assets would be depleted, leaving Alice with very little.
Alice wants to apply to Medicaid to have them pay for Ralph’s care. Medicaid eligibility is complex and must be determined by CMS. There are income and asset criteria. In general, for a married couple, all countable assets are added together and then Medicaid applies “Division of Assets”. This is the term used to refer to the Spousal Impoverishment provisions of the Medicare Catastrophic Coverage Act of 1998. All assets that exceed these figures must be “spent down” on care.
Case Study: Without PQ LTC

- Medicaid Recipient Cash Allowance $2000
- CSRA (Community Spouse 2010) $109,560
- Based on Ralph and Alice’s countable assets of $300,000, $188,440 would have to be “spent down” prior to Medicaid eligibility.

With no LTC insurance in place, what are their options for Medicaid planning?

- Pay off remaining mortgage balance $40,000
- Home repairs/maintenance $20,000
- Pre pay burial arrangements $30,000
- New Primary vehicle $25,000
- Total $115,000
- Subject to Spend Down $73,440
Case Study: Without PQ LTC

- Income Ralph: $2200
  - Less Monthly Personal Needs Allowance: $30
  - Less money to Alice: $1350
- Total to facility: $820

- Income Alice: $400
  - Diverted income from Ralph: $1350
- Total MMNA for Alice: $1750
Case Study: With PQ LTC

- Countable Assets not subject to any spend down requirement.
- LTC premium waived upon benefit eligibility.
- Assets would not have to be liquidated in a potentially down market. Nor would there be any tax consequences, i.e. capital gains, ordinary income, penalties on CD’s.
- Alice would not lose any of Ralph’s monthly income.
- Choice of a local facility without having to wait for a Medicaid bed.
- Dollar for Dollar Asset Protection. In the event that Ralph exhausts his LTC policy, he could apply for Medicaid and receive asset protection on a dollar for dollar basis. Those assets would not have to be spent down and they would be permanently exempt from Estate Recovery.
New Products and Markets
New Products and New Markets

New Products
- Streamlining Product Portfolios – One Product
- Elimination of Certain Features – Unlimited Periods
- “Death Benefit Like” Options – Pools of Money
- New Inflation Options – “Dial” Inflation and CPI Based

New Markets
- CLASS Act Provisions of Health Care Reform Law
- Employer Sponsored Private Long-Term Care Plans