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Utah State University Extension

FINANCIAL FITNESS

Fact Sheet

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FINANCING LONG-TERM CARE: INSURANCE AND ITS ALTERNATIVES

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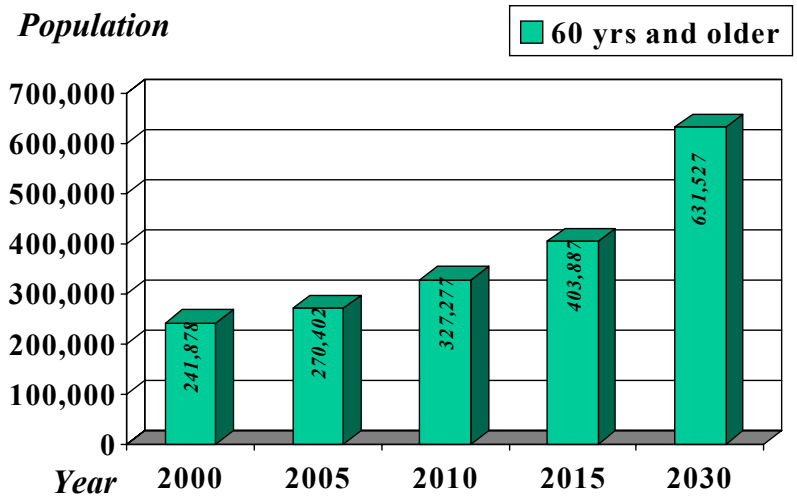
It's called the "graying of America." More and more of us are moving into our senior years and our life expectancy is increasing. In 2000, there were about 35 million Americans aged 65 and over–more than twice the number than in 1960. The most dramatic increase is in the population aged 85 and older. This is the fastest growing age group and is expected to increase by 200% in the next 20 years.

This growth in the older population will be reflected in an increased demand for long-term care services. While millions of seniors lead healthy active lives, others are not so fortunate. Two out of five persons aged 65 and over risk needing nursing home care at sometime in the future. As more of us move into our eighties, the chances increase considerably that we will face health problems or need assistance taking care of ourselves. Statistics show that, at any given time, 22% of those aged 85 or older are in a nursing home.

Because women generally outlive men by several years, they face a 50% greater likelihood than men of entering a nursing home after age 65.

Potential Need for Long-Term Care in Utah



Source: Governor's Office of Planning and Budget. *2000 Economic Report to the Governor*. Salt Lake City: Author.

As we grow older, we worry about our financial ability to handle disability or illness. But we are unsure about what preparations we need to make. Possibly it is because we don't understand what qualifies as long-term care, or we believe that Medicare will pay for most long-term services.

What is Long-Term Care?

Long-term care goes beyond medical and nursing care to include all the kinds of assistance you could need if you ever have a chronic illness or disability that leaves you unable to care for yourself for an extended period of time.[1] It ranges from providing personal care at home in the form of help with such activities as bathing and dressing to skilled nursing services in a nursing home. Although most long-term care services are used by older people, long-term care is not only for seniors. It can be needed by a young or middle-aged person who has been in an accident or has a debilitating illness.

The need for long-term care does not mean that a person must be placed in an institution of some sort. Most long term assistance is provided in home or at a community facility such as a senior center or an adult day care center. Relatives, friends, neighbors and those working for community-based services often provide assistance with the normal activities of eating, bathing, and dressing (see *Community-Based Services as a Resource*, below).

Types of Long Term Care

Medicare, Medicaid and insurance companies have strict definitions of various types of long term services, based on where they take place, what kind of licenses and approvals a facility might have, and the level of care they are equipped to provide. Although this section talks about institutional long-term care, increasingly, insurance companies, HMOs, Medicare and Medicaid are finally adding some home health-care benefits to their coverage.

Skilled Nursing Care requires the most medical training and therefore costs the most. A registered nurse (RN) must be available at all times, and care must be supervised by a doctor. Medicare will pay for skilled nursing services only in a Medicare-approved facility licensed by the state.[2]

Intermediate Care Facilities also must be state licensed and the rehabilitative care they offer must be based on a doctor's orders or under the supervision of skilled medical personnel. A registered nurse must be on duty during the day shift. Such a facility may be a special unit of a hospital or skilled nursing home, or it may be a separate facility. Medicare does not cover intermediate care facilities, but Medicaid does, if confinement is based on a doctor's orders and the recipient is eligible for benefits. Eligibility for Medicaid is based on the amount of one's income and assets, and varies considerably from state to state following broad federal standards.

Custodial Care requires no medical training–just the skill and patience needed to help people carry on daily activities such as dressing, bathing, eating, and taking medicine. Medicare does not cover custodial care, however, in most states Medicaid covers custodial as well as intermediate care services, if based on a doctor's orders.

What Does Long-Term Care Cost?

The cost of long-term care is expensive, depending on the degree of care needed, and where it is to be provided. As a national average, the cost of a year in a nursing home averages between $40,000 and $50,000. Skilled nursing care at home with two-hour visits by a nurse three times a week over a year, would cost approximately $12,500. Personal care at

[1] The definitions given here can and often times are re-defined by insurance carriers in their policies and given special meaning under a particular contract. It is important to read the fine print carefully to be sure you and the insurance company mean the same thing.

[2] Medicare and Medicaid have their own definitions of skilled nursing care. They don't necessarily match the definitions found in long term care insurance policies.

home from a home health aide three times a week for two hours a visit would cost approximately $8,400 a year in addition to medical bills and prescription drugs. This is a substantial amount for anyone, but particularly older persons who often live on fixed incomes.

Who Pays for Long-Term Care?

Surveys show that millions of older persons mistakenly believe that Medicare covers long-term care services. This is a dangerous misunderstanding because it leads to a false sense of security; seniors thinking they already have coverage for a chronic illness or disability. The fact is that Medicare will *not* cover most long-term care expenses. Medicare is intended to pay for short-term acute care in a hospital. Medicare will pay 100% of covered services for the first 20 days in a Medicare-certified skilled nursing home and for days 21 to 100 after a co-payment of $96 per day. It pays nothing after 100 days. You must meet strict eligibility criteria and a physician must show that nursing home admission is required. The program does not cover custodial care in a nursing home.

Medicare will pay for care in your home only if you are homebound and need, for a limited period of time, part-time nursing or speech therapy, occupational therapy, physical therapy, or a home health aide. This usually means fewer than eight hours per day of help for up to 35 hours per week. For very short periods, Medicare may cover up to eight hours a day, seven days a week for a maximum of 21 consecutive days in certain circumstances. A doctor must prescribe this care for you to be eligible for Medicare benefits. If your condition improves, however, you would no longer qualify for coverage.

Medicare supplement health insurance (commonly referred to as "Medigap" insurance) is designed to help cover some of the costs that Medicare does not cover, but it does ***not*** include coverage for long-term care. Medicare supplement policies D, G, I, and J will pay up to $1,600 a year (about 40 visits) for short-term, at-home assistance for those recovering from an illness, injury or surgery. However, no Medigap policies pay for long-term nursing home care.

Some life insurance policies have special riders which allow the policy holder to use the policy's death benefit to pay for long-term care expenses if he or she is terminally ill. These policies pay a certain percent of the death benefit each month the insured requires long-term care. While these "living benefits" are being collected, the death benefit decreases each month by the amount paid.

About half of the costs of long-term care are paid out-of-pocket by nursing home residents and their families. The rest of the nation's long-term care bill is paid by Medicaid. Medicaid is a joint federal-state health care program for people with very low incomes and it does cover the cost of long-term nursing home care. Before they can become eligible for Medicaid assistance, many people must spend down a significant part of their income and assets. State laws differ about how much money and how many assets you are allowed to keep once you become eligible for Medicaid. To apply for Medicaid in Utah, contact the Bureau of Eligibility Workers in your local Department of Workforce Services office. Their Internet address is http://www.health.state.ut.us/medicaid/html. For more information, you may call the Medicaid Information Line (801) 538-6155 or 1-800-662-9651 or contact your local Area Agency on Aging and Adult Services.

Not all long-term care has to take place in an institutional setting. If you meet income guidelines for Medicaid and frailty guidelines, a state-wide Home and Community Based Alternative Services program will pay for personal care services in your home up to 60 hours a month. Alternative Services can also provide some homemaker services and some respite care. The Medicaid Waiver Program will pay for some personal care services for seniors 65 years and older if they need a nursing home level of care. Again, contact your Area Agency on Aging and Adult Services for more information.

What Kind of Insurance Is Available?

In light of the growing number of seniors, the private sector has started to respond with insurance products which help pay for long-term care. Long term care insurance is similar to other insurance in that it allows people to pay a known premium to offset the risk of much larger out-of-pocket expenses should the policyholder develop a chronic illness or disability.

Standardized long-term care policies do not exist in the long term care market. Comparing policies is extremely difficult because companies are selling policies with many different combinations of benefits and coverage. Some policies limit coverage for services provided in nursing homes and do not provide coverage for services delivered in home, while others cover both nursing home and home care. Other companies pay for care only if it is provided by adult day care centers or other community-based facility. It pays to shop carefully before you decide if long-term care insurance is a good option for you. See Financial Fitness Fact Sheet #xx for information on how to evaluate a long-term care policy.

Who Needs Long-Term Care Insurance?

Your decision whether or not to purchase long term care insurance and if so, which policy to select, should be based on a number of factors: your total assets/liabilities; your assessment of your chances of needing this kind of care; what services the policy you choose will cover; services that exist in your community; what programs you are eligible for; other resources available to you, especially family support; and whether or not you can afford the cost of long-term care insurance now and in the future. Your personal philosophy about leaving an inheritance also plays an important role in deciding whether or not to purchase long-term care insurance. Another step in your decision-making process is gathering information about the care available in your area and what it costs. What is the average cost of nursing home, adult day care centers, assisted living arrangements or home care in your area?

It is difficult to give any precise guideline about how much income and what level of assets you should have before you invest in long-term care insurance. Your common sense is your best guide. If you must pay the premiums from your savings, or if you would have to make significant lifestyle changes in order to pay premiums, this insurance is probably not for you. The second factor to consider is the amount of assets you would want to protect for your spouse and children. A lengthy, expensive stay in a nursing home could easily wipe out the majority of most people's assets. The availability of family members or friends to provide some needed care is another important consideration. The presence of a family member often delays the need for nursing home care.[3] Finally, how you feel about receiving Medicaid assistance may influence your decision to buy or not buy long-term care insurance.

Spousal impoverishment rules protect a limited amount of a couple's assets. At the time of application for Medicaid, a couple's combined assets, excluding the house, car, and personal belongings, are considered available assets for financing long-term care. Federal law allows a minimum and maximum amount be protected for the spouse living at home. Certain assets, such as a principal residence, personal belongings, one car, and a $1,500 burial account for each person are exempt. The remainder is considered eligible to pay for nursing home care.

What Other Resources Are Available?

As they age, many seniors fear they will lose their independence because of medical or financial difficulties. The paragraphs that follow discuss some personal and community-based resources that will allow you to choose the level of assistance that is appropriate to your needs from a mix of supportive services.

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[3] Some families use family care at night and some adult day care or assisted living care the rest of the time as a means of alleviating some long-term care costs.

Savings/Investments as a Resource

Some financial planners and consumer publications say building an economic safety net of savings and investments is preferable to buying long-term care insurance. They base this advice on the fact that seniors face a diversity of economic threats in their advancing years, only one of which is the need for long-term care. Having their own financial safety net allows seniors protection against a broad range of risks. For example, if, instead of buying long-term care insurance, you invested an amount equal to your insurance premiums into a no-load mutual fund, Series EE savings bond, Treasury security or Roth IRA, the proceeds would be available for whatever needs arise. Instead of worrying that your long-term care policy will not cover the amount of home health care that you need, you can use your savings and investments as you see fit. Their use is not restricted or limited by eligibility requirements, expense qualifications, daily benefit limits, or other conditions which affect insurance.

Community-Based Services as a Resource

There is a range of services which can be obtained at home or in a community setting. Some of the services available in many communities are described below. To learn more about services and providers in your community, call your local Area Agency on Aging and Adult Services. They do not offer services directly. However, all Agencies have trained staff to provide information and who will refer you to needed services. The state Aging Services Administrative Office is located at 120 North 200 West, Room 401 in Salt Lake City. Their phone number is (801) 538-3910; Fax (801) 538-4395. They can give you contact information for your local Agency on Aging and Adult Services. A list of area agencies is available at http://yeehaw.state.ut.us/SrvAge.htm.

Resources to Help You Live at Home

Most older people would continue to live in their own home if at all possible. Services available to help seniors stay in their homes include homemaker, chore services, assistive devises, companion services, and meal delivery or "meals on wheels." Contact your Area Agency on Aging and Adult Services and ask for their Information Referral System officer to determine which are available where you live.

Homemaker Services help with grooming and dressing, light housekeeping, meal preparation and food shopping.

Home Chore Services go beyond home-making to include heavy-duty tasks, such as floor and window washing, minor home repairs, yard work, and laundry, and are widely available even in the smallest cities and towns.

Assistive Devices, such as telephone amplification equipment, walkers, or emergency response systems for summoning help can be obtained through special programs and give the participant a sense of security and allow for independent living.

Friendly Visitors or *Companion Services,* whether paid or volunteer, ease loneliness for individuals at home. Their duties range from supervision to simple companionship. Companion services may also include *Respite Care*, which allows family members to take a break from their caregiving responsibilities for a short period of time. Respite care is also available in adult day care centers, hospitals, or nursing homes.

Home-delivered Meals, often called "meals-on-wheels," bring nutritious meals five or more days a week to individuals unable to shop and prepare food on their own. Usually a modest fee is charged for home-delivered meals. These services can provide enhanced nutrition and a sense of security for the homebound, although the number of deliveries can be limited in small population areas. Other programs provide inexpensive meals at senior centers and group settings.

Home Adaptations, such as grab bars or wheelchair ramps, handrails, improved lighting, secured rugs, bath rails and other assistance help promotes independence and accommodates older people's changing physical needs.

Home Maintenance and Repair Programs offer emergency repairs and general upkeep of homes and property.

Home Health Care can be skilled nursing care, speech therapy, physical or occupational therapy, home health aides, telephone reassurance, or help from home makers. Usually, charges for home health services are on a sliding scale but they can be very expensive, depending on your location.

Telephone Reassurance is provided by some agencies or volunteer organizations through regular pre-scheduled calls to the homebound. Ensuring personal safety is the main objective of these programs, but these calls also bring personal phone contact to an individual to reduce social isolation.

Community Services as a Resource

Services provided in the community include senior centers, adult day care programs, nutritious meals served at community locations, protective services, and legal counseling.

Senior Centers offer older persons an opportunity and a place to meet and socialize. They offer a wide variety of recreational, legal, financial, and counseling programs. These centers, usually non-profit organizations, may be located in empty housing projects, churches or synagogues.

Adult Day Care Centers are designed for individuals who live at home, but need company or supervision during the day. This kind of care can be a great help to families caring for seniors but who cannot be home during daytime working hours. Their programs vary, but among the services usually included are counseling and health assessment, personal care, therapies, health education, nutritious midday meals, various social activities, and transportation to and from the center as well as for special outings and doctors' appointments. The cost of adult day care varies. Some centers will adjust their fees according to the individual's ability to pay.

Nutrition Sites offer inexpensive, nutritious meals in settings such as senior centers, housing projects, churches, synagogues or schools. Transportation to and from the site is sometimes provided.

Supportive Living Arrangements

Individuals, who for health, safety or other reasons choose not to remain in their own homes used to have the choice of living with a relative or going into a nursing home. Today, people have a variety of other arrangements to choose from, depending on their physical and mental ability to cope with daily chores. Some arrangements are suited only for alert, active persons; normally, none are suitable for individuals who are bedridden. But many alternative living arrangements can accommodate some physical limitations.

Congregate Housing offers rental apartments for older people. Also known as "sheltered" or "enriched living," congregate housing may sometimes provide meals in a common dining area as well as housekeeping services. Some may even offer health screening, personal care, or other types of assistance. Many units offer subsidized rent for low-income individuals.

Life Care Communities (or Continuing Care Retirement Communities) combine lifetime housing with a range of services–most notably the promise of medical and nursing care when needed. It is the health care dimension that principally distinguishes Life Care Communities from other types of retirement housing. Although persons must be ambulatory when they move to such communities, if they later become ill and disabled, certain nursing, health and personal services are provided. Other services may include meals, housekeeping, diverse social activities and other amenities, such as personal

grooming services and transportation. Most CCRCs require a substantial initial entry fee, depending on the community type and the size of the home or apartment you choose, and monthly fees that may rise annually. Because CCRCs have evolved from the lifecare communities created by religious and fraternal organizations, about 99% of them continue to be sponsored by non-profit organizations. However some hotel chains are showing significant interest in the field.

Shared Housing brings a small group of unrelated people together in a house or apartment. Privacy is maintained, with each individual having his or her own bedroom and sharing only common areas. The housing may be owned or operated by public or private agencies who, in some cases, provide cleaning, shopping, cooking and other services for residents.

Assisted Living Facilities, also known as Adult Care, Sheltered Care, Board and Care Homes or Residential Care, provide what is known as custodial care for people with minimal assistance needs. These facilities might include a room and bath–sometimes shared–along with meals, housekeeping and some personal care. In some facilities a licensed nurse may be available weekdays to provide supervision of medications, and a social worker may provide counseling and assistance in obtaining needed services.

Summing Up

Everyone of us must do our best to plan ahead–for ourselves and our elderly relatives–to assure both quality of care and quality of life in old age. Anticipating long-term care needs can mean checking into all the resources available in your community, such as home care, adult day care, continuing care communities, assisted living programs and nursing homes. It means investigating the cost of these services and facilities and determining what resources you have to cover those costs. It means looking into government programs, private long-term care insurance, and their costs and coverage. Ask questions. Find out what is available. Be an informed consumer. Obviously, the sooner you begin thinking and planning for a time when you or a relative may require long-term care, the better prepared you will be when, or if, a need arises.

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