

Money Matters

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Question of the Month

Long Term Health Care Insurance Options

By Aaron Skloff

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Q: Having diligently saved for the last 30 years, we have built a healthy retirement nest egg. In the event one or both of us need long term care, how can we protect ourselves?

The Problem – Cost of Long Term Health Care. According to the U.S. Department of Health and Human Services, 7 in 10 people over the age of 65 will require long term care. If you are a 55-year-old New Jersey resident today, expect to pay over \$300,000 for one year of nursing home care when you are likely to need it 25 years from now at the age of 80. Based on the average nursing home stay, total costs are expected to reach \$1.3 million per person — easily wiping out a lifetime of savings.

The Solution - Long Term Care Insurance. Just a quick background on long-term care (LTC) and long term care insurance. Let's start with what conditions would fall into the category of LTC: a prolonged physical illness, a disability, or a cognitive impairment (such as Alzheimer's disease). The need for LTC is generally driven by the inability to perform one or more of the six activities of daily living (ADLs): bathing, continence, dressing, eating, toileting and transferring (getting out of bed). LTC insurance covers your long term care expenses.

Before we dig into LTC insurance policies, let's dispel two common myths about publicly provided LTC. Myth number one, Medicare covers these costs. Unfortunately, Medicare covers very limited circumstances for no more than a mere 100 days and may require the patient to pay a significant amount of coinsurance. Myth number two, Medicaid covers these costs. Medicaid is designed to cover the impoverished. To avoid abuse, Medicaid conducts a detailed review of a couple's combined assets and has a five-year “look-back period” for spending down assets.

One important exception to the Medicaid rules applies to Partnership Program certified LTC insurance policies. These policies allow you to protect your assets away from Medicaid without a look-back period. The asset protection is equal to the insurance benefits received from a Partnership Program policy. For example, \$1 million of assets would be protected away from Medicaid if \$1 million of benefits were paid from your Partnership Program policy. This is often called Dollar for Dollar Asset Protection.

LTC insurance provides financial protection from the exorbitant cost of long term care. Most policies cover the cost of care in a nursing home, adult day care center, assisted living facility or your own home. Long term care insurance policies should be examined based on four key criteria:

- 1. Elimination Period.** This defines how long you pay for your own care before the policy begins paying. The longer the elimination period, the lower the cost of the policy. A 90-day elimination period, which is common, could cut the policy price by 20%.
- 2. Daily Benefits.** This defines how large a benefit will be paid. For example, a \$300 daily benefit policy will pay approximately \$110,000 per year.
- 3. Inflation Protection.** This is a critical part of any policy. In order to keep up with the rising costs of LTC, most policies provide for 5% compounding of benefits. Without this compounding, your \$300 daily benefit would not provide a great deal of coverage when you need it.
- 4. Length of Coverage.** Coverage lengths range from two years to an entire lifetime. A four-year length of coverage, which is common, could cut the policy price by 40% versus the cost of lifetime coverage.

There are advantages provided to couples that purchase LTC insurance from the same company. Many insurers provide shared care policies, providing a shared pool of benefits. Instead of having two policies that cover a five-year period, you wind up with ten years of coverage that can be utilized by one or both of you. Lastly, many adult children have purchased LTC insurance for their parents and loved ones once they realize all the benefits it provides.

Action Step – Establish Long-Term Care Insurance. Establishing LTC insurance immediately reduces the financial and psychological burdens that will ultimately plague most families when the need for long term care arrives. Like most insurance, the earlier you start your policy the lower your cost of the policy.

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