

Long-term care insurance options

As the generation of baby-boomers nears their golden years, they will need to address a new set of financial issues. Sure to be among them is the question of how to pay for long-term health care costs and whether to purchase a long-term care insurance (LTCI) policy.

A numbers perspective

In 2007 approximately 9 million people over the age of 65 needed long-term care, according to the U.S. Department of Health and Human Services. By 2020 that number is likely to reach 12 million.

Genworth Financial, a major provider of long-term care insurance, reported in its 2007 Cost of Care Survey that a single year in a private nursing home room in 2007 cost, on average, \$74,806 nationally. Care at home, a preferable choice for many, may cost more than people realize. The survey found that the average hourly rate for a certified and licensed home health aide was \$25.47 per hour (\$52,977 per year for a 40-hour work week).

In another Genworth survey released last April, 44% of Americans said that they believed (incorrectly) that Medicare or their private health insurance would pay for long-term care. That belief may, to some extent, explain why almost seven in ten people have not made any plans for their own, a spouse's or another relative's long-term care needs, as reported in a recent national survey conducted by Public Opinion Strategies and the Mellman Group. Yet, of those surveyed, over one-half of them have had a loved one who needed some form of long-term care.

But look at it from a personal perspective, too

The need for long-term care is, of course, unpredictable. Still, there are some indicators that may influence whether you should seek coverage, and if so, how much.

One is your family medical history. A look at the family tree is a good place to start. A family history of early onset of dementia, heart disease or stroke suggests that you may be more likely to need the kind of care for which LTCI will pay.

Longevity is another indicator. If your parents, grandparents or their siblings lived

into their 90s or beyond, at some point they probably required some form of assistance at home or in a residential health care facility. It is a realistic assumption, then, that you well enjoy may a long life and need care yourself.

What to consider when looking at policies

Understanding the basics of LTCI coverage will make the decision-making process easier as well. LTCI can cover more than care in a skilled nursing facility. For example, the policy may help defray the costs of an assisted living facility or for care in your home.

Because LTCI policies tend to be somewhat flexible, you may be able to fashion a plan for your long-term care that meets your specific needs. You may, for instance, be able to absorb the cost of aides who come to your home regularly, but not the cost of a residential facility. Therefore, you would want the terms of your policy explicitly to cover just a residential facility.

There are other options that may be appropriate in your circumstances and affect the cost of the premiums that you will pay. For instance, does the policy permit the use of unlicensed caregivers so that you can use your insurance to pay for a friend or relative to help you? Do you want inflation protection? For how long do you want coverage (one year, two years, longer)? Do you want a long or short waiting period between the time that you become eligible for coverage and coverage actually begins? Another key consideration will be whether or not your premiums are locked in or may be adjusted in certain circumstances.

Tax issues

If an LTCI policy is “tax qualified” (i.e., meets established government standards), the payments received for your care will not be taxed. The premiums from a tax-qualified LTCI are tax deductible in the same manner as your regular health insurance premiums. That means that the premiums that you pay are added to your other deductible medical expenses. You are entitled to deduct the amount of expenses that exceeds 7.5% of your adjusted gross income.

For many that threshold may be a barrier to the deduction. But even if you exceed the 7.5% threshold, there is a cap on the amount of the premiums that you can deduct.

The amount that you can deduct is based upon your age. For 2008 the deduction ranges from \$310 for individuals who are age 40 or younger to \$3,850 for those who are older than age 70.

More state governments now are offering some form of tax incentives for LTCI policyholders as well. For tax issues involving LTCI, contact your tax advisor before taking any action.

Additional solutions

Purchasing an LTCI policy is not a complete solution. It offers no substitute for a comprehensive plan that will provide you with the assets and income that can be employed to defray the costs of health care in your later years.

The best way to ensure that you can pay for your care and still maintain your financial security is having an integrated financial plan that views LTCI in the perspective of your wealth level and your investment, retirement and estate planning.

For example, when you have sufficient assets and income, you may want to “self-insure.” Self-insurance essentially means that instead of focusing on insurance, you make the cost of long-term care one of your goals for wealth accumulation. Or you can plan for a combination of your personal resources along with limited coverage under an LTCI policy.

Because LTCI policies usually do not build up equity, it well may turn out that you never derive any financial advantage from obtaining coverage. But that fact may not necessarily rule out purchasing an LTCI policy. If one of your goals is long-term peace of mind, knowing that such insurance is in place should you need it may help you reach that goal.

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