

### LONG TERM CARE

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*This is one of a series of Research Briefs created by Brinton Eaton to keep our clients informed about key developments — in financial planning, tax strategy, and investment management — that we research and implement as appropriate on your behalf.*

Life expectancy in the U.S. has been steadily increasing. People born in 1900 could expect a lifespan of 49 years; for those born today, it is almost 80<sup>1</sup>. Continuing advances in medicine will likely foster even greater longevity going forward. The probability that we will need some form of long-term care during our lifetime is growing — as is the length of time we will likely need it<sup>2</sup>. Moreover, the cost of such care is subject to greater-than-average inflationary pressure. The cost for a typical nursing home stay already exceeds \$200 per day in some states.

These facts require that we face some difficult questions. Who will take care of us when we are no longer able to care for ourselves? What will be the short-term and long-term effects on the caregiver? How much will extended caregiving cost and how will we pay for it? In this *Brief*, we will focus primarily on the third question and, in the process, touch upon the first two.

#### Financing the Cost

There are basically three options for funding long-term care needs: government assistance, self-insurance, and commercial insurance.

Medicare covers a portion of the first 100 days in a nursing home — and only if the care is skilled, in an approved facility, within 30 days after at least a 3-day stay in a hospital, and restorative in nature. Clearly this does not cover the majority of long-term care needs. Medicaid is an assistance program for the poor. Our typical client will not qualify, and this option will not be considered here. Self-insuring means paying out of your (or your family's) own pocket. It often, though not always, involves relying on a loved one to provide at least part of the care. If paying for care for potentially many years will not materially affect the financial support that you would like to ultimately provide your surviving spouse or others (including heirs and charities), then self-insuring is a viable option.

Before opting to self-insure however, you should consider the fact that your most devastating health risk is not physical (or sudden or traumatic), it is gradual mental impairment. Unlike most physical ailments, dementia often requires 24-hour supervision to assist with activities of daily living and to make sure that the person does not wander off or pose a hazard to himself or others. And while dementia does impair life expectancy somewhat, it is not nearly as life-shortening as physical trauma — it is truly a long-term, indeed a lifetime, affliction. Caregiving for someone who has dementia is extremely exhausting — both physically and emotionally. Caregivers who are also in the workforce may need to either quit their jobs or considerably reduce their hours, which imposes a further financial drain. (Another factor to consider when self-insuring is that you may have to invest your assets more conservatively than would otherwise be advisable, to provide for large regular outflows.) For quite a large number of people, particularly married couples, insurance is the preferred alternative. Several insurance options exist for funding long-term care needs. The most common is long-term care insurance (LTCI).

## LTCI

LTCI policies are structured to cover at least a 12-month stay in a non-hospital setting for diagnostic, preventive, rehabilitative, maintenance, medical necessity, and personal care. Care may be provided in a nursing home, assisted living facility, adult day care center, or at home. The triggering event is usually the individual's inability to perform at least two of the six "activities of daily living"<sup>3</sup>. The major determinants of premium cost are: age (don't wait too long — the premium for a 70-year-old can be triple that for a 50-year-old); health history; starting daily allowance (i.e., benefit amount — this should depend on the area where care will be given); cost-of-living adjustment (and whether simple or compounded — simple can be a cost-effective choice at later ages); duration of benefit (usual options are 3-, 5-, 10-year, or lifetime — the 10-year option can be significantly less expensive than lifetime); and waiting period until benefits start (ranges from immediate to 180 days — consider self-insuring the first 90-180 days to reduce premium). Some portion of LTCI premiums (based on attained age) qualify as a medical expense deduction for income tax purposes. Benefits received are generally tax-free.

As suggested earlier, LTCI may be particularly advisable for married couples, to provide asset protection for the healthy (and, presumably, surviving) spouse. Being married also may qualify you for a "partner's discount" on the premium. And a "shared benefit" option may be available, under which you can tap into your partner's benefits when yours are exhausted.

### What's Best for Me?

The best way to plan for and fund long-term care needs will depend on each person's support network of family and friends, as well as the family's financial situation. The issues and alternative solutions are complex. Since we sell no products (insurance or other) at Brinton Eaton, we can objectively assist you in exploring your options, so that you and your loved ones are well provided for at your most vulnerable times.

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<sup>1</sup> While some of this rise can be attributed to the dramatic improvement in infant mortality since World War II, the longevity increase among adults has also been substantial. 20-year olds in 1900 were expected to live to age 63; 20-year-olds today, to about 80. The rate of lifespan expansion for adults has been quite steady at roughly 1.5 years for each succeeding decade.

<sup>2</sup> Many statistics are quoted about length-of-stay in long-term care facilities — these need to be approached with caution. People who are receiving injury rehabilitation are often lumped together with elderly people who will require care for the remainder of their lives. For example, of those over 65 who are in nursing homes, half will leave within three months. However, the average stay for the other half is two-and-a-half years. For people over 70, 70% will eventually need nursing home care, and one out of five people between the ages of 85 and 94 will stay in a nursing home for at least 5 years. The stay for dementia sufferers will likely be for the rest of their lives, which can be a decade or more.

<sup>3</sup> ADL includes dressing, eating, toileting, transferring, bathing, and continence.