An Insurance Policy Can Help Pay for a Nursing Home, Assisted Living

Planning for Long-Term Care

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One of the major concerns our senior clients worry about is the possibility that as they grow older, failing health will require long-term care either at home or in a nursing home. They're not alone. A report from the Department of Health and Human Services last year indicated that nearly 70% of 65-year-old people will need long-term care services or support of some kind.

What are the odds you'll need long-term care? The answer depends on your sex, health, family history and family relationships. But the fact is we're living longer, the cost of long-term care is going up and many of us cannot (or will not) rely on family members to care for us.

According to a recent study by Genworth, the average annual cost for care in a private room in an assisted-living facility was $51,600 and $105,850 for a private room in a nursing home. The cost can be higher in major metropolitan cities. Recent data suggests the average stay for women is 3.7 years, while men average 2.2 years in a facility.

Unlike medical policies that reimburse you for a portion of a covered medical expense, long-term care insurance pays a daily benefit to help offset costs when care is needed. The long-term care coverage available today has fewer restrictions and offers more types of care than was offered in the past. Currently, covered expenses include not only those for nursing homes but also for home care, adult day care and assisted living.

Remember that long-term care insurance is an insurance policy. Therefore you can be declined coverage, especially if you have any kind of health history that will make claims on the policy more likely. The older you are when applying for coverage, the higher the chance of being declined.

Key Decisions to Make When Selecting Long-Term Care Insurance

In a typical long-term care policy, you will have several policy options to consider, each of which affects both your premiums and how benefits are paid.

- **Elimination Period:** The length of time you must be in a nursing home or receiving home care before the insurance company starts paying benefits. Typically, you may select 30, 60, 90 or 180 days, The longer the waiting period, the lower the premium. Keep in mind that the need for short-term convalescent care is increasing as hospitals and insurers limit the length of hospital stays.
- **Daily Benefit:** The dollar amount of the daily or monthly benefit. Coverage for long-term care should be 100% of the daily benefit or monthly benefit up to the amount of actual charges for room and board. Typically, you can select a monthly benefit ranging in increments from $1,500 to $15,000 or a daily benefit from $50 to $500. There are a number of "cost of care" calculators online that allow you to enter your ZIP code and find median cost estimates for your area. For more concrete data, we recommend calling care facilities in your area and ask for their average daily costs. Depending on the number of hours required, home care could be more expensive than nursing home coverage.
- **Inflation Protection:** The rate at which benefits are increased annually for inflation. Typically benefits will increase between 1% and 5% per year to keep up with inflation. This inflation rider maybe "simple" or "compound," with compound increasing your benefits more rapidly, while at the same time raising your premium more.

Skilled care costs are increasing at an annual rate of roughly 4% per year. If you take out this insurance when you're 55, you may not use it for 20 to 30 years. Costs could easily triple during that time. An inflation rider enables you to keep up with rising costs.

- **Length of Coverage:** You can select the number of years you're entitled to receive benefits. These can range from one year of benefits to coverage that provides benefits for the rest of your life. Here again, the longer time period you choose to receive benefits, the more costly the insurance. In our experience, policies offering three years of coverage are a common sweet spot.
- **Qualification to Receive Benefits:** To qualify for benefits, you must require substantial assistance with two or more activities of daily living (such as bathing or dressing) for a period expected to last 90 days or have a cognitive impairment (memory loss) requiring substantial supervision. This assessment for benefits is completed by an independent health care professional.
- **Type of Long-Term Care to Be Reimbursed:** Coverage should apply at home, in an adult day care center, nursing home or assisted-living facility up to the maximum benefit selected. Assisted-living coverage is important, as these facilities are a transitional alternative between home and a nursing home and may be sufficient for many who would otherwise be forced into a nursing home. Many policies cover "care advisory" services, which allows you to hire and pay for a trained represen-

tative who can work on your behalf to develop the optimal plan of care to address your specific needs.

If the nursing home stay is interrupted for any reason, actual benefits should continue to be paid for up to 60 days per calendar year to assure that your facility bed is held for you.

- **Premium Reductions:** Some companies will offer reduced premiums if you're in good health or if you're married, or if both you and your spouse have applied and are eligible for coverage. Make certain to find out whether the insurance carrier allows you to maintain all applicable discounts for the duration of coverage.Some insurance companies withdraw marital discounts at death or divorce.

Current Challenges With Long-Term Care Insurance

Since we last wrote about this topic nearly nine years ago for *Better-Investing Magazine*, there has been significant consolidation in the industry and premiums have risen substantially.

According to the National Association of Insurance Commissioners, there were more than 100 insurers selling LTC policies in 2004. Today there are less than 15. You want a company that's demonstrated long-term commitment to the long-term care industry. We think it's crucial to seek the advice of a financial planner or insurance agent who really understands this kind of coverage and knows which companies that have demonstrated their reliability.

In addition, the cost of insurance has risen substantially, due to a variety of factors including low interest rates, increasing health care costs and longer lifespans, among others. This has resulted in new policies being priced substantially higher than similar offerings from the prior decade. At the same time, existing policies are seeing regular and significant premium increases.

If you already own a policy and are presented with a premium increase, you do have options to reduce your costs. Typically, you can reduce the daily benefit, the inflation rider or increase the elimination period in order to keep your premium level. This is a trade-off, however, as you will then have lower benefits should you need them. It's important to consider the trade-off and whether it may be better to simply pay the higher premium.

Group or Individual Coverage

Individual coverage is more expensive than group insurance but group coverage tends to cover less. Specifically, group insurance tends to include more gatekeepers (reasons to refuse you coverage) and is more stringent about which preexisting conditions it'll accept before it will insure you and what it will pay for when you do need assistance.

Individual long-term care insurance can have some tax advantages if you itemize deductions, especially as you get older. Federal and some state tax codes let you count part or all of long-term care insurance premiums as medical expenses, which are tax-deductible if the policy meets the requirements necessary to be considered a "tax-qualified plan."

Alternatives to Long-Term Care Insurance

Many think that Medicare will pay for these costs. Medicare is health insurance and doesn't pay for long-term convalescent care. The program pays for 20 days in a skilled nursing home after hospitalization and then a small percentage of the next 80 days.

Medicaid meanwhile will pay for nursing home care, but only after you have depleted the majority of your other assets.

One option is to simply "self-insure," which is just another word for paying out of pocket. But to do this you must have the ability to set aside a significant amount of money. As noted above, the median annual cost of a private room was $105,850 in 2020. Over three years, this would add up to more than $315,000 in room and board expense alone.

If you have a permanent life insurance policy, such as whole life, you may be able to tap the benefits early, either through the cash value in the policy, or via an "accelerated death benefit," if your policy includes that provision. Doing so would mean reduced benefits to your beneficiaries when you pass.

You can also sell your permanent life insurance policy via a viatical or life settlement, which usually provides more in proceeds than the policy cash value. But these settlements can be tricky to navigate as the proceeds may be subject to taxes, and they carry a number of risks beyond the scope of this article.

Of all the alternatives, perhaps the newest and most popular is the hybrid, or life/long-term care insurance policy. In essence, the policy builds cash value for long-term care expenses if necessary, and if those are not exhausted, a death benefit is paid out to your beneficiaries. Thus, there will be a benefit ultimately paid, whether or not you need long-term care. The challenge with these policies is that they typically require a single lump sum premium upfront, or else premiums accelerated over 10 years or less, so you have to make a larger cash commitment upfront.

A Way to Protect Your Assets

As you can see, conditions for long-term care insurance can vary widely. The younger you are when you buy this coverage, the lower the annual premiums. The coverage you buy should be renewable for life and noncancellable except for nonpayment of premiums. We suggest clients look into coverage when they're in their fifties, when there is less chance of having a preexisting health condition that prevents eligibility. And it is not uncommon to see adult children who have steady cash flow step in and pay premiums on a policy for their senior parents.

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Comparing First Trust Water's Performance to the S&P 500

	1 year	3 years	5 years	10 years	Since inception	Value of $10k invested 10 yrs ago
FWI	49.67%	21.00%	19.85%	15.72%	11.79%	$43,180
SPY (S&P 500 ETF)	40.90	18.51	17.51	14.71	N.A.	42,944

Source: Morningstar and Yahoo Finance

Performance

Looking at the table of returns at the top of the page, it's pretty obvious that this is a trendy investment that has experienced investors diving into the pool feet first over the past year.

You're getting rewarded for an investment in FWI over the same money in a simple passive index S&P 500 fund. The risk isn't outsized on paper: SPY's standard deviation is 18.45; FWI is 19.

Costs

Even though FIW is actively managed, it's still an ETF with relatively moderate management costs: 0.54%. As with all ETFs, there is no minimum purchase to open a position. The fund has experienced a relatively wide spread between bid and ask prices, however.

As of this writing, the bid was $83.34, the ask was $92.85 — that's a 10.80% spread, a pretty big gulp for an investor, although it may matter less to a long-term investor.

Such a wide bid/ask spread is an indicator that there may not be a great volume of trading in the fund, so don't use this fund to make a quick buck for a down payment on a house.

These funds are mentioned for educational purposes only; no investment recommendations are intended. The author and some of her clients may have positions in some of the funds mentioned in this article.

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Talk to your financial adviser about how long-term care insurance might fit in your plan, so that you can understand your options. In our experience, while some choose to self-insure, many don't want to deplete all their assets paying for health care.

While the cost of long-term health insurance is more expensive than in years past, in many cases long-term care insurance is the best option to protect your assets and enable you to leave a legacy for your heirs. You may choose a compromise solution, buying coverage for some of your anticipated costs and self-insuring the rest.

If the answer is yes, your adviser should help you find the best coverage currently available.

If you already have coverage, you should ask your adviser to evaluate it periodically to make sure it's still relevant.

The key is to understand your costs and options, in order to best protect your assets and your future.

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