

Long-Term Care Options

HERE'S AN OVERLOOKED FACT OF RETIREMENT:

Without proper planning, paying for long-term care — be it a nursing home, assisted-living community or care provided in the home — when an individual or family member faces chronic illness, disability or old age can drain a lifetime of savings in a few years or even months.

In May 2003, the national annual average cost of a nursing home was \$57,700, a seven percent increase over late 2001, according to an official at GE Financial's Long-Term Care Insurance unit in Richmond, Va.

And even if a person is healthy enough to live at home with some assistance, that help doesn't come cheap. MetLife's Mature Market Institute in Westport, Conn., found that the average national hourly rate for a home-health aide is \$18.12, up 2.9 percent from 2002.

Such staggering costs aren't news to Olga Lipshitz, who runs Cobble Hill Health Center Inc., a nursing home in Brooklyn, N.Y. She says she has good reasons to be among the 6.3 million individuals who have long-term care (LTC) insurance policies in force this year, according to the Washington, D.C.-based Health Insurance Association of America (HIAA).

"You buy it so your heirs should have something when you're gone. You get in a nursing home for two or three years, and your savings are gone," Lipshitz says. "Why should I work all my life and not leave my children anything?"

The most comprehensive LTC policies cover the spectrum of needs, from nursing homes to home care. Nearly one-half of these policies have lifetime coverage. "But, on average, people need long-term care for less than three years, so a three- or four-year policy is adequate," says Joyce Ruddock, vice president of long-term care at MetLife.

According to HIAA, the increasing popularity of LTC coverage is fueling an average annual growth rate of 18 percent a year in the number of policies. "It isn't an exotic product. Part of your retirement plan-

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ning simply *must* include the issue of how you will fund long-term care," says Nancy P. Morith of N.P. Morith Inc. in Princeton, N.J., which specializes in LTC planning.

THE EMOTIONAL FACTOR

Although long-term care insurance makes financial sense for many middle-income families with assets to protect, it still isn't an easy sell. "It forces the individual to confront the possibility of actually needing it," admits Daniel Veto, chief marketing officer at Bankers Life and Casualty Co., a Chicago-based provider of LTC insurance.

One recent trend, however, promises to chip away at the emotional issue of confronting disability and death, what insurers label the "ick" factor. LTC insurance offered through employers is on the rise, making it accessible to thousands of younger workers. Only 20 percent of policies are sold through employers or groups such as AARP, but more than 5,000 businesses now include the benefit. And last year, the federal government began offering LTC coverage to employees for the first time.

Employers increasingly "understand that people can do all kinds of planning for retirement, but unless they take this one piece into account, they can be financially devastated," Ruddock says.

Indeed, LTC policies are a fairly easy benefit to offer because the employee usually pays the premium. The average premium for a long-term care policy bought in the group market is less than half that of the individual market — \$733 compared to \$1,677 for the year 2001, according to HIAA. "The employer provides information, ease of enrollment and you can get a better premium when you buy at an earlier age," says Dr. Donald Young, HIAA's president.

Employer-sponsored plans also can be structured so that premiums are paid by health reimbursement accounts. There are some plans available that are unique. "Employees may get help in funding



long-term care insurance, a form of financial protection that is critical to sound financial planning. Employers can provide a wide range of valuable employee benefits while still managing their own costs,” says Ray Welnicki, head of risk management and long term care at Aetna Group Insurance, in Hartford, Conn.

Another advantage of employer-sponsored plans is that medical underwriting — the assessment of the policyholder’s health and insurability — can be less stringent. “Individuals will do better from a financial standpoint by buying through a group. And there also is a better chance of concessions from medical underwriting,” says Chris Perna, president of MedAmerica Insurance Co., an LTC insurer in Rochester, N.Y.

One way around the issue of insurability is reverse mortgages, which convert home equity into cash. The money can be used to pay for care while a senior continues to live at home. An estimated \$1.5

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— Nancy P. Morith, N.P. Morith Inc.



trillion is locked up in the home equity of Americans aged 62 and older, 76 percent of whom own their homes free and clear.

Mortgage origination fees are hefty, but reverse mortgages show enough promise to earn a closer look by the National Council on the Aging (NCOA). The council wants lawmakers to boost the use of reverse mortgages to pay for long-term care. “It is a particular concern for people with few options except spending down their assets for Medicaid eligibility,” says Barbara Stucki, a project manager for the NCOA.

FOOTING THE BILL

About half of the U.S. population will need some form of long-term care after age 85, including home, assisted-living and nursing-home care, according to Georgetown University’s Health Policy Institute (HPI). Home care can encompass nursing care, rehabilitative therapy and help with activities of daily living (ADLs), which include such tasks as bathing, dressing and eating. Nursing homes are appropriate for

people who need assistance with at least three ADLs.

Last year, 18.2 percent of seniors aged 85 or older lived in a nursing home, according to AARP. But Medicare pays only for the first 20 days of care in a nursing home. Beyond 20 days, the patient pays part of the bill and after 100 days picks up the entire tab. The federal government’s National Nursing Home Survey determined that the average person lives in a nursing home for about two and a half years — an expenditure of \$144,250.

Roughly two-thirds of all assisted-living residents also pay with their own funds. That figure dwarfs both the nine percent who pay with Medicaid, the federal health insurance program for people over 65 and the disabled, and the one percent who pay with long-term care insurance, according to the National Center for Assisted Living (NCAL), a trade association based in Washington, D.C.

Average Americans are not alone in grappling with the crushing cost of elder care. State and federal governments jointly foot much of the bill through Medicaid. In fact, HPI found that Medicaid is the major payer for nursing home care and paid out \$75.3 billion on long-term care in 2001, up sharply from an inflation-adjusted \$44 billion a decade earlier. But the Institute also determined that Medicare shouldered only 16 percent of the \$173 billion spent on long-term care in 2001, while individuals spent nearly \$40 billion of their own money on these services — nearly a quarter of the total.

Neither Medicare, nor supplemental policies or health insurance foots the entire bill for long-term care — a fact that makes a powerful argument for LTC insurance to be part of any financial plan. ■

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