

Financially Speaking

With Trisha Arndt

Misconceptions About Long Term Care

“What should I be worried about?”

One of my most cautious and thoughtful clients recently made the decision to officially retire. He had been contemplating it for over two years, preparing for it with me for almost ten years and saving for it since the day he started working. We have done multiple types of analysis, looked at countless cash flow projections and gone over his investments with a fine toothed comb. He finally ran out of “what if” scenarios, felt completely comfortable that he could afford to retire and was ready to pull the trigger.

But before he did, he wanted one more meeting to ask me what he should still be worried about. After all his planning and analysis, what could possibly affect the financial security that he had worked so hard to achieve?

My answer: a future need for extended long term care.

He and I had talked about long term care before. It’s something that I bring up with all of my clients at some point as part of our comprehensive planning. It is not unusual for the client to ultimately decide that they are going to continue to retain the risk of paying for care personally but I want to make sure that they fully understand what that decision means.

Long term care (LTC) can take a lot of different forms but broadly speaking it is when someone develops either physical or cognitive functional limitations such that they require substantial assistance with living out their daily life. A lot of people associate needing LTC with living in a nursing home but in fact LTC can also be provided in assisted living facilities, at home by professional care providers or even by family members.

There are a lot of misconceptions about LTC, starting with the belief that very few people will need it. In fact the AARP put forward “A Report to the Nation on Independent Living and Disability” several years ago and in it said that the lifetime probability for someone 65 or older developing a need for care is 68%. While for many of those the care need will be temporary or can be provided by family, for others it can stretch into a long term need.

For those that need to engage professional care services the cost can be startling. Genworth Financial, a long term care insurance provider, puts together a Cost of Care Survey annually and subdivides it by state and type of care. Their 2016 survey places

the average monthly cost of an assisted living facility in Wisconsin at \$3,870 and nursing home care (in a semi-private room) at \$7,710.

But health insurance will pay for that right? That's perhaps the biggest LTC misconception of all.

Most forms of health insurance follow the same general rules as Medicare with regard to LTC. They will only cover skilled, short-term, medically necessary care. What does that mean? Generally speaking it means that they may cover some costs for temporary care while someone is recovering from an illness or injury but that is basically it. They do not cover custodial or personal care services at all.

In practice that means that most people facing a need for extended LTC are going to be getting a bill. It doesn't take a math whiz to figure out that expenses of several thousand dollars a month can pretty quickly deplete someone's savings. Often times that is exactly what happens – people pay for their care until they literally run out of money¹ at which point they can apply for Medicaid assistance. Medicaid is commonly referred to as the payer of last resort because that is what it is but when Medicaid is paying they are also setting the rules – they decide where and what type of care the individual receives.

Over time a number of different types of insurance products have evolved that can assist with paying for the cost of LTC. These policies can be designed to pay for a certain dollar amount, a set portion of LTC care needs and/or for a defined time frame. They range from traditional premium policies that require premium payments in perpetuity and expire if not paid; to hybrid policies that can be funded with a lump sum deposit and may combine aspects of both LTC and life insurance policies. None of them are inexpensive but for those who can afford the confidence that comes from being insured and are willing to pay to transfer that risk there are a number of options that are worth considering.

Those that do not purchase LTC insurance are instead choosing to risk paying for the care themselves, known as “self-insuring”. There are certainly people who have the financial ability to pay for their own care and for those, like my recently retired client, choosing not to buy LTC insurance is a calculated risk that can be knowingly made.

Making an informed decision about a plan for addressing a potential LTC need starts with understanding how it works. For more information visit the Wisconsin Department of Health Services at www.dhs.wisconsin.gov.

¹ Medicaid eligibility rules are set by state and often include some provision for retention of a limited amount in personal assets and separate provisions for asset retention for a spouse or dependent.

