The Unintended Consequences of Waiting to Plan for Long Term Care

Overcome the obstacles that thwart our good intentions

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When hurricane season is upon us, people will be thoroughly informed on the development of many tropical storms. We will learn their names plus the when and the where of each storm. Unfortunately, there is a different type of storm coming and its effects will go well beyond our nation's coastal states and may be felt for generations to come. For the most part, no one is informing us, and little information or warnings are being issued.

This storm is long-term care. Specifically, concern is around affordability and accessibility to long-term care. Long-term care (LTC) is the range of services and supports a person requires to meet their daily living needs. Generally, it is not medical care. The personal care includes transferring, dressing, feeding, bathing, toileting, and continence. The demand for long-term care is expected to grow exponentially as our nation's demographics change. These changes include baby boomers approaching retirement, changes in the medical and insurance industries, and increased longevity. At present, it appears that planning and preparations for long-term care will be borne by individuals. In order to properly plan, we need good information.

Four Myths of LTC

Myth #1—Grandma can move in with us.

A common solution in the past has been to move Grandma in with the family. This option does have its emotional benefits. On the other hand, costs may include alterations to the house and purchasing medical equipment. Genworth, the largest insurers of long-term care, has conducted extensive surveys and studies of long-term care. Their 2013 survey reported that the average caregiver spent $8,000 of their own money to provide care of loved ones. However, many families are unaware of the impact home care can have on family caregivers beyond the initial dollars.

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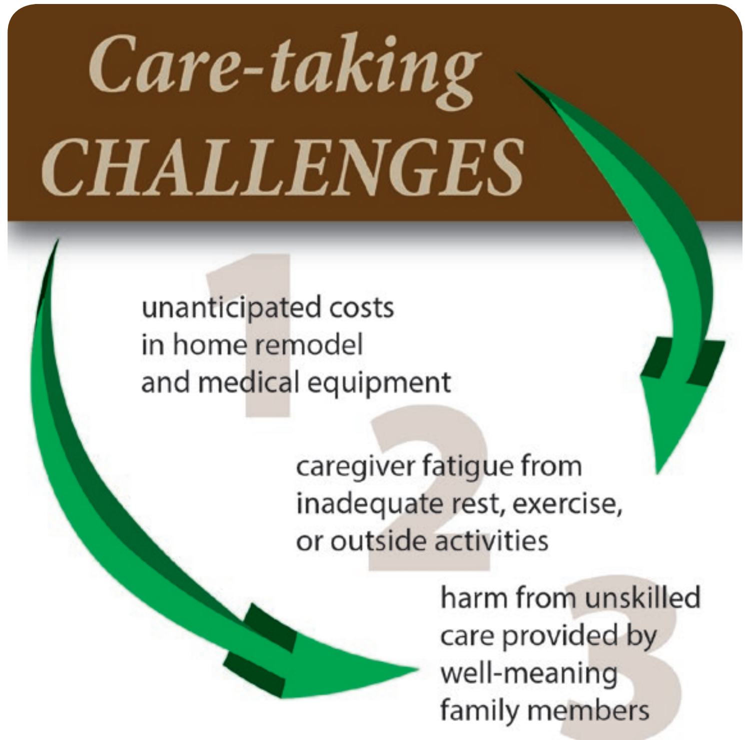
Due to the advances in medical care and new insurance guidelines, there are more outpatient procedures and less time spent in hospitals. This leads to an unintentional, but nonetheless, real cost on the elderly in terms of unskilled care provided by well-meaning family members. Challenges for a caregiver include managing prescriptions for multi-chronic illnesses and assisting in transferring locations, such as from bed to chair. The demand for skilled health care at home is only going to increase.



Family caregivers must also contend with the physical and emotional demands on themselves. Common issues are back problems and depression. Because the support for the caregiver is usually nonexistent, the caregiver often does not get adequate rest, exercise, or outside activities. While there is little research on unpaid family care providers, it is relevant to note the toll exacted upon paid aides. The risk of injury to a paid aide is greater than the risk of injury to a coal miner. According to the Family Caregiver Alliance, the likelihood of depression in the caregiver is twice as high when the recipient suffers from dementia.

Finally, the default of moving in with children will not be a viable option for a growing segment of our population - child-free couples and households. From 1976 to 2008, the number of women that have never given birth has nearly doubled. The significance of the growing trend is that more people will not be able to rely on family members for assistance with long-term care.

Myth #2—I can buy LTC insurance at the last minute.

If reliance on family members may not be as common going forward, it would appear that long-term care insurance (LTCi) would gain popularity in the future. Generally, LTCi premiums are made for a lifetime unless a claim is made. At first glance, it would appear to be prudent to delay getting a policy and, therefore, delay the start of making lifetime premium payments. However, this strategy comes with significant risks.

First, the longer a person waits to purchase a policy, the closer one comes to prepaying for long-term care rather than buying insurance. Another risk is that as a person gets older, the likelihood increases of developing medical conditions that could cause them to be uninsurable.

A third issue with the delay of the purchase of LTC insurance is that insurance companies are reducing their risks by limiting their exposure. This past summer, Genworth discontinued offering long-term care benefit periods greater than six years in many states. A benefit period of six years means that you could purchase a pool of money of $432,000. Currently, a person can purchase a long-term benefit period up to ten years, which provides a pool of money of $720,000. To further illustrate the trend of long-term insurance carriers, ten years ago you could purchase a policy with unlimited benefits, which means the monthly benefits would last indefinitely. According to Bill Wetmore, a long-term care specialist, insurance carriers are tightening the underwriting requirements. Thus, fewer applicants will qualify for coverage in the future. Other insurance carriers have limited their exposure by getting out of selling long-term care insurance all together.

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Myth #3—Long-term care can only be used for old age.

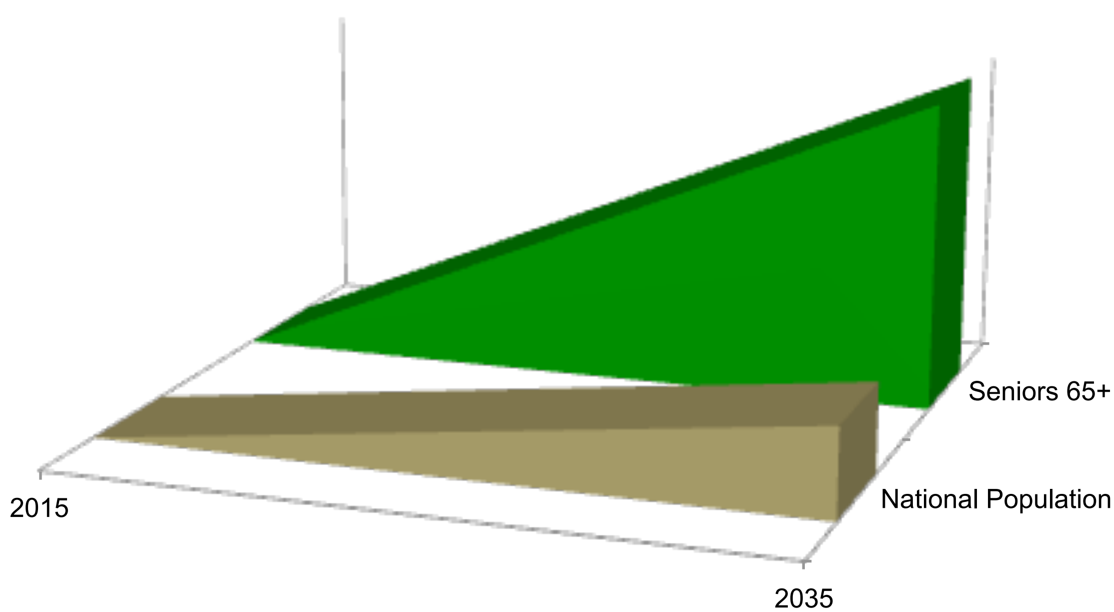
Another fallacy regarding long-term care insurance is that it can only be used for old age expenses. There is some sensitivity about long-term care insurance. To bring up the LTC insurance implies one is approaching old age or at least "over the hill," which can be insulting to some. It is similar to receiving AARP membership application when you haven't yet reached the age of 50. However, long-term care insurance does not require that one reach a certain age. To be eligible for long-term care insurance benefits, the recipient is required to need assistance with at least two of the six activities of daily living. Thus, it can be used to overcome the needs associated with sudden accidents or chronic illnesses that may not necessarily be associated with old age.

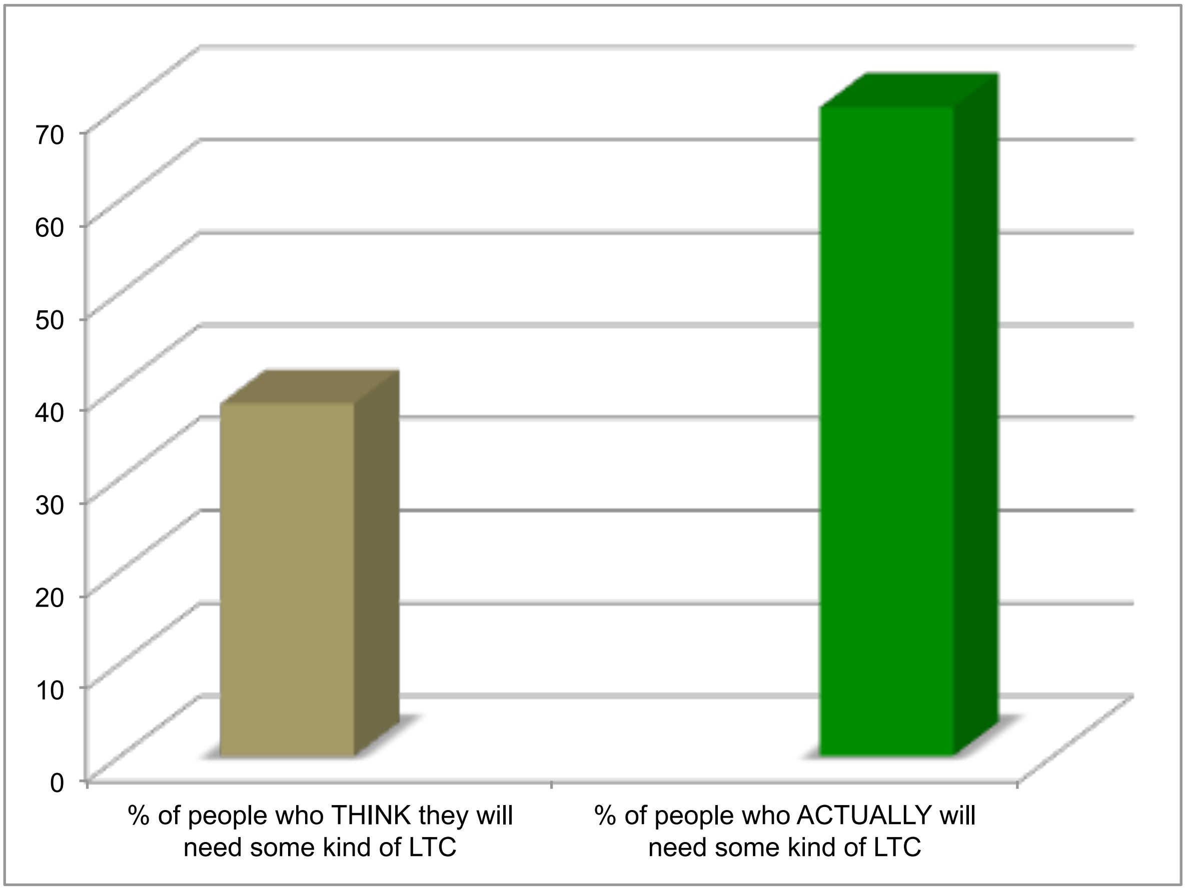
Myth #4—The government will provide assistance or fallback position.

Medicaid is the largest single payer of long-term care. The program has become so popular that it is crowding out the demand for long-term care insurance. Retirees and near-retirees have been more inclined to try and spend down their nest egg in order to qualify for Medicaid assistance rather than funding a long-term care plan. It does require planning. Attorneys that have experience in this type of planning are sought out for their expertise in determining which assets should be transferred and which assets can be retained in order to qualify. However, the recipient's transfers to other family members are subject to a five-year look back.

If one is determined eligible for Medicaid, one may not receive the quality of care that is desired in the future. The medical profession provides an indication of what happens when there is a strong demand and a shortage in supply. There is a shortage of doctors and the shortage is expected to worsen. In light of this shortage, many physicians have changed their business models. Today, it is much more common for doctors to provide concierge medical services. In addition, there are an increased number of physicians that are no longer taking Medicaid or medical insurance. We might expect the same type of trend with senior housing, whereby nursing homes and assisted living facilities will not accept Medicaid patients. According to the U.S. Census Bureau, the number of Americans aged 75 and older will increase from 18.8 million in 2010 to 33.3 million by 2030, which is a growth rate that is four times the growth rate of the overall

Projected Population Growth Comparing Overall Population to Population of Seniors 65 and Older





U.S. population. This demand for senior housing will increase, not only because the American population is getting older, but because people are living longer. Medicaid will not be able to continue to keep up with demand. Medicaid is already putting strain on state budgets. Moreover, some states are going after heirs' assets for healthcare bills.

What You Need to Know About Long-Term Care

Let's face it. Long-term care planning is not pleasant for a plethora of reasons. The scenarios are not appealing. There are so many other things we would like to do while we are enjoying our good health rather than spending time considering the effects of getting older and losing independence. In fact, if we are presently in good health, we naturally extrapolate the belief that the good health will extend way into the future. This leads to the disparity between what research indicates and what individuals believe.

Hard to talk about planning for old age

Various studies reflect 70% of people will actually need some type of long-term care, such as home care, assisted living, or nursing home care, after they reach age 65, while only 35% of people believe they will need such care. A reason we don't like to plan for long-term care is there are so many variables, such as how much care will one need and how long one will need care. Planning for risk mediation or risk reduction is difficult. In my industry of financial planners, where we would expect higher than average contingency planning, only 6% of all financial planners have a continuation plan. Thus, you should ask a financial planner what happens to you if something happens to them. You might hear something like I did from a fellow planner, "Nothing is going happen to me for a long, long time." In a recent survey of individuals 40 years or older, 19% reported only doing a moderate amount of long-term care planning. The problem is that if we don't plan properly, then the default plan is to rely on family members or the aforementioned government plan. When we don't have a plan, the hurdles seem to come at us fast and high as depicted in the following story.

Unaware of impact on family caregiver

Gretchen, 52, married, and a mother of two, grew up in a family that believed one should not discuss money, which might help explain the reluctance of many to discuss the financial aspects of long-term care. Gretchen quit her job where she worked for a political consultant in order to take care of her two aging parents. According to a recent long-term health care conference sponsored by American Enterprise Institute, Gretchen is the stereotypical non-spouse, non-paid aide, and is a daughter in her fifties. Because she is the full-time caregiver, she will forgo approximately $300,000 cumulatively of wages and retirement benefits.

Initially, Gretchen and her family felt good about their decision as her parents regained the independence they lost when they could no longer drive. She transitioned well into her new role. She anticipated the number and type of social interactions would be different. However, overnight, she felt like she went from being a social director to a caregiver that needed to be on her game. She did not anticipate the quick progression of her parents' needs. In a short period of time, Gretchen noticed the requirements and demands increased for her. The time Gretchen spent coordinating the care for her parents and monitoring their health crowded out time for her husband, children, and herself. As demands increased in caring for her parents, the options for a way out diminished. Gretchen recalled the relative ease of getting babysitters for her children when they young. Today, she does not know where to

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turn to get the equivalent of a babysitter for her parents. Consequently, she spends very little time away from her parents, as there is no one to relieve her from taking care of them. Gretchen's most recent plans of putting her parents in an assisted living facility and re-entering the job force were obstructed when Gretchen found out that her parents did not meet the health requirements of the assisted living facility. Last week, Gretchen called a prospective employer to inform the firm that she could no longer continue with the interview process because of her parents' needs.

Due to the difficulties of being a caregiver, Gretchen may be starting a cycle of poor health and impoverishment for generations to come. With no outside support, the stress greets Gretchen in the morning and stays around longer than she wishes. It has been months since her family has seen Gretchen smile. Gretchen has done a dutiful job, but often wonders if there was a better way for her to honor her parents.

How the partnership program benefits you

Long term care planning is a challenging subject matter. Complexity of the many variables can make the process exhaustive, as it appears to require the skills of a prognosticator and an actuary, among others. The Deficit Reduction Act of 2006 did provide some good news by creating a partnership of Medicaid and private insurance resources. There are several benefits for the insured that live in a participating state. By purchasing a Partnership-qualified long-term care insurance policy, they will be able to retain more assets than would otherwise be allowed by the state's Medicaid eligibility requirements. For participating states, the asset protection is dollar for dollar. This means that if a qualified insurance policy provides a pool of $360,000, the insured would be able to keep $360,000 of assets in addition to the assets the state already allows the insured to keep. Secondly, the insured does not have to exhaust the long-term care insurance in order to be eligible for Medicaid in most states.

Conclusion

There are two significant points in Gretchen's story. First, long-term care planning is paramount to families. The lack of planning can have significant effects on the recipients, caregivers, and, possibly, future generations.

Second, in order to effectively plan for LTC, families need to become aware of consequences of each possible scenario. It is understandable for individuals to run when looking down the barrel of long-term care premiums or nursing home expenses, especially if they are unaware of the financial and nonfinancial cost of relying on family members or the government.

This storm, perhaps a perfect storm, will combine a population that is getting older, living longer, changes in the insurance guidelines and medical industry, and the potential shortage of senior housing. As with any potentially devastating disruption, it is important to make preparations and get ahead of the storm. Folks cannot afford to stick their heads in the sand and hope for the best. The costs are increasing by the day and, at the same time, the options are diminishing. Families need to initiate the planning process, or at least the discussions, today. People are five times more concerned about being a burden to their family than dying. This may provide the motivation to initiate the hard conversation.

Wealth managers can facilitate this discussion. Wealth management goes beyond investment counseling to maximize cash flows, reduce taxes, protect assets from being unjustly taken by third parties, and assist in the transfer of assets to family or charity. Said differently, wealth managers, utilizing a team of experts, help guide clients on the path towards their desired goals and help manage the risks along the way.

When near-retirees talk about retirement, they commonly express the desire to be financially comfortable and physically active, including traveling, volunteering, and spending time with family. However, good planning also needs them to talk about where they see themselves when they are less active and more dependent on others. The earlier these types of conversations occur, the more options everyone will have. ■

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With more than two decades of experience in public accounting and wealth management, Kevin is committed to providing and implementing prudent, personalized, and integrated solutions. Kevin earned his undergraduate degree in Finance and MBA from Oklahoma State University. He has been granted the CERTIFIED FINANCIAL PLANNER™ designation by the International Board of Certified Financial Planners (IBCFP). He has also earned the Personal Financial Specialist designation by the American institute of Certified Public Accountants (AICPA). With more than 25 years of being a CPA, Kevin is a member of the AICPA and the Maryland Association of Certified Public Accountants (MACPA).

Kevin enjoys the outdoor activities of running, golfing, and kayaking. He also likes reading about behavioral management and American History, especially the Civil War. Rich in beautiful landscapes, history, and culture opportunities, Kevin, his wife, and three sons enjoy living near Annapolis, MD.

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