OLD NORTH STATE TRUST, LLC

Think ahead to weigh long-term care insurance, and alternatives

As lifespans steadily increase, but debilitating conditions like Alzheimer's Disease become increasingly prevalent, many older adults are facing the question of how to pay for long-term care. The first, most obvious answer, is long-term care insurance. That isn't cheap, and it isn't always easy to get. But useful as it can be, insurance isn't the only solution to ensure safety and comfort for yourself or a loved one after independent living isn't possible any longer.

Long-term care isn't exclusively for the elderly. Younger people with disabilities, or who have suffered a serious illness or accident, may also need some level of continuing care. While we tend to think of some form of residential assisted living, the spectrum of options actually ranges from a few hours a week of in-home assistance to full skilled nursing. What level is appropriate depends on how capable a person is of carrying out the normal requirements of daily life.

Long-term care insurance typically specifies the level of care it will cover, and a dollars-per-day sum or lifetime total for that care. Most policies also set lifetime limits on how long those payments will continue. Unfortunately, that means the money may stop coming. Up front, would-be buyers need to prove they are insurable. In good health, in other words. Which means not everybody who needs a long-term care policy will be able to get one. But assuming you qualify, and can afford the premiums, here's how the coverage works. The key term most policies use is "activities of daily living," or ADL. These include eating, dressing, bathing, getting in and out of bed, and getting on and off the toilet. If the policy's beneficiary can't perform several of those ADLs, benefits begin. Failure to pass certain cognitive tests – important for people with dementia but otherwise in good health – may also trigger the start of benefits. In some cases, a policy may require that a doctor declare long-term care to be medically necessary.

If you're considering this kind of coverage, you'll want to know about several important details that will vary from policy to policy. Those include waiting periods before benefits are available; caps on the dollars paid out or days of care offered; how much the policy provides per day; the level of care covered; and any exclusions for pre-existing medical conditions or cognitive impairments. Be aware that, just as with life and health insurance, premiums are a lot lower if you buy the policy when you're younger. A few other important technicalities deserve attention, too. For example: will the premium increase while the policy is in effect? Can the policy be renewed, even if the owner's health deteriorates? Does the policy protect against inflation, either as a standard feature or as an extra-cost option? Does the policy require a hospital stay before paying for long-term care?

There's one other wrinkle: some hybrid policies combine long-term care and life insurance, offering the best of both worlds. If you never use the policy's LTC portion, then there's no harm, no foul, and the life insurance portion is still there to do its job. Because of these complexities, and the costly potential downsides, it's an excellent idea to consult with an unbiased expert.

So, what about the alternatives if you can't afford or can't qualify for insurance? One possibility is to draw on the cash value of a whole-life insurance policy. Usually, the owner can extract cash, either as a loan or as a straightforward withdrawal. Many complexities surround this subject, however. Those include the specifics of the insurance contract, as well as possible tax consequences. So before planning to use a life insurance policy's cash value, it's a good idea to consult with both your insurance agent and a qualified financial planner.

It may be possible to sell your policy for cash. In what's called a viatical settlement, a buyer gives you something like 40 cents on the dollar of the policy's eventual death benefit. Thus, you enjoy a portion of the proceeds while still alive. The viatical buyer ultimately collects the full benefit when you die. Somewhat similar is a reverse mortgage, a way to tap accumulated equity in your home. I won't go into a lot of detail here, because I discussed reverse mortgages in an article in July 2018.
http://www.wilmingtonbiz.com/insights/susan__willett/reverse_mortgage_can_be_helpful_but_beware_of_pitfalls/2122

The important point we want to emphasize here is that while this can be a lifesaver for a "house poor" senior, a reverse mortgage can come with a number of potential "gotcha" complications. One of the most pertinent is that one of the owners needs to continue living in the house. But that rule could permit one spouse to be in assisted living or a nursing home while the other remains at home. Also, the money drawn from a reverse mortgage, whether as a lump sum or in monthly installments, might prevent the owners from qualifying for Medicaid. That, of course, is the ultimate fallback solution for financing expensive residential care. Medicaid, the government health-care program for the poor, can pay for a nursing home or other long-term care. No, not Medicare. That universal health insurance for the elderly doesn't cover what's called "custodial" care, whether provided in or out of the home. And because Medicaid was designed for people with limited incomes and assets, it's often necessary to use up your savings and retirement accounts before Medicaid becomes an option. That also means exhausting the coverage from a long-term care policy. (There is a footnote about Medicare, and most "Medigap" policies: they do cover a portion of so-called skilled nursing care for a limited period after a hospital stay. This is for treatment of a specific medical condition, rather than the sort of daily living help that many elderly or disabled people need.) Medicaid provides for all levels of care, from basic custodial assistance with ADLs to skilled nursing care, on essentially the same basis that a long-term care policy would.

So, who should be thinking about long-term care insurance? Ideally, anyone past the age of 40. And certainly, anyone close to retirement age, or with a disabled family member. It's especially important if your family history suggests you'll live a long time after retirement, can expect to experience years of declining health, or both. For guidance in making the best decisions, you can consult the retirement-planning experts at Old North State Trust.