



## Three Ways To Fund Long-Term Care

**Only 11% of Americans think they can afford long-term care for themselves or loved ones.** This is a key finding of "America Talks: Protecting Our Families' Financial Futures," a national survey conducted earlier this year by Genworth Financial and Age Wave in conjunction with Harris Interactive.

The survey also reported that confusion is the biggest barrier regarding long-term care and planning for this expense. Consumers are confused about what long-term care is and how it differs from traditional medical care, the cost of long-term care insurance, what Medicare covers, what Medicaid covers and what long-term care insurance covers.

Last month we detailed how healthcare and long-term care differ. Healthcare and Medicare are curative or rehabilitative care and usually acute or short-term in nature. Healthcare insurance covers expenses like hospitalization, doctor services, lab fees and drugs. Long-term care is custodial care and this insurance covers expenses for assistance with activities of daily living like bathing or dressing or supervision due to cognitive impairment.

Medicare pays for the first 20 days of care in a nursing facility if specific requirements are met. It pays a portion of the next 80 days but very little for custodial care after 100 days. Tax-qualified long-term care insurance requires that care would be needed for a minimum of 90 days. There may be some overlap in coverage between healthcare and long-term care, but very little.

If Medicare is not a funding source for long-term care, how do most people pay for long-term care? There are basically three ways to fund long-term care expense:

- 1) Self-fund or pay for care using income and savings or liquidate assets. Keep in mind liquidating assets may be untimely in the life of the asset and result in

unfavorable tax implications. In the U.S. about 19% of the cost of long-term care is paid using personal income and assets.

2) Another way is to transfer the risk of the expense to an insurance product. In the U.S. only 7% of the cost of long-term care is paid by private insurance. This is because so few Americans have included long-term care expense as part of their financial plan.

3) The third way to fund long-term care is to qualify for Medicaid. Medicaid is funded by states and the Federal Government through tax revenues. In Arizona the Medicaid long-term care program is known as ALTCS, Arizona Long-Term Care System. In order to qualify, an applicant must spend down income and assets as defined by the government and this must be done in accordance with government regulations to avoid penalties and prosecution. About 49% of the cost of long-term care in the U.S. is paid by Medicaid.

Two recent pieces of legislation have changed the rules regarding Medicaid long-term care eligibility. The Omnibus Budget Reconciliation Act of 1993 strengthened and lengthened the transfer of assets rules and mandated estate recovery. This was followed by the Deficit Reduction Act of 2005 (DRA) which made qualifying for Medicaid far more challenging. For example, in most states one cannot qualify if he/she has \$500,000 in home equity.

The DRA also allowed 46 states to join the original four states in implementing long-term care Partnership programs. The purpose of these programs is to incentivize consumers to purchase private insurance rather than rely on Medicaid. In return, consumers have added protection from Medicaid spend down requirements.

Okay, if you've been adding up the percentages so far they total 75%. Medicare covers an additional 19% given specific requirements. Lastly, private charities and other government agencies including the Bureau of Indian Affairs, Veterans Affairs and National Institutes of Health fund the remaining 6%. But most of us can't qualify for these funding options.

The CLASS Act or the Community Living Assistance Services and Supports Act which is a component of the Patient Protection and Affordable Care Act signed into law in March 2010 will create a fourth funding option if implemented. Set to become effective January 1, 2011, eligibility requirements and plan designs are not due until sometime in 2012. Rollout is estimated to be mid 2013. CLASS is a new voluntary entitlement program and legislation has already been introduced to bar its implementation.

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