

# RISK MANAGEMENT WORKSHOP SERIES

Center for Rural Affairs ◊ North Central Risk Management Education Center ◊ University of Nebraska, Lincoln

## LONG TERM CARE

*Your need for legal and tax advice: While the information contained in this document is thought to be accurate, it should not be used as a substitute for legal advice on matters related to business organization, taxation, estate planning, farm or business transition planning, gifting of assets, life insurance, long-term care, long-term care insurance or other business and financial management matters. Consult your legal and tax advisers before making decisions.*

By Dave Goeller, University of Nebraska Transition Specialist

### **What is long-term care?**

According to the Family Caregiver Alliance, individuals need long-term care when a chronic condition, trauma, or illness limits their ability to carry out basic self-care tasks, called activities of daily living (ADLs), such as eating meals, bathing and personal hygiene, dressing, and using the bathroom. Assistance may also be needed for instrumental activities of daily living (IADLs), such as preparing meals, doing household tasks and using the telephone.

### **An aging population**

There are more than 36 million Americans over the age of 65. Projections estimate this segment of the population will double to 72 million in the next 25 years. Long-term care for America's aging population is an important consideration in estate and business transition planning. Many have become increasingly aware how easily the cost of long-term care can wipe out a lifetime of savings or hamper the transfer of a family farm, ranch or business to future generations.

### **What are the odds of needing long-term care?**

Approximately 6.4 million, or 18% of the 36 million Americans over age 65, are in need of some type of long-term care. Of the 6.4 million who need long-term care, 1.5 million reside in long-term care facilities (nursing homes). The remaining 4.9 million utilize either paid options such as assisted living or adult day care, or unpaid alternatives such as home and community based care provided by family, friends, neighbors, or community volunteers.

- Table 1 illustrates that only 4.5% of those over 65 reside in a nursing home facility.

Table 1. Nursing home residence as a % of the age group

<u>Age</u>	<u>%</u>	<u>Number</u>
65-74	1.1%	210,159
75-84	4.7%	574,909
85 +	18.2%	772,733
Over 65	4.5%	1,553,800

- Table 2 illustrates that 46% of nursing home residents are age 85+.

Table 2. Nursing home residence % by age group

<u>Age</u>	<u>%</u>
85+	46%
75-84	33%
65-74	13%
Under 65	8%

- 2/3 of all men over age 65 and 1/3 of all women over age 65 will never stay a single day in a nursing home facility
- Over 50% of all nursing home facility stays will last less than 6 months
- Only 25% of all women over age 65 and 10% of all men over age 65 will stay more than one year in the nursing home facility
- Only 10% of those over 65 will stay more than 3 years in a nursing home facility
- The average length of stay in a nursing home facility is between 18 and 20 months

Historically, most people do not need extended long-term care. Only 18% of those over age 65 are receiving some type of long-term care, and statistically 2/3 of men over 65 and 1/3 of women over age 65 will not spend a single day in the nursing home. The older an individual, the greater the chances are of needing long-term care.

**What are the costs of long term care?**

When examining costs one should consider not only the potential cost of nursing home facilities, but also other paid alternatives such as assisted living or adult day care, as well as the unpaid options, such as home and community based care provided by family, friends, neighbors or volunteers.

Base rates for nursing home facilities vary widely. In recent surveys of Nebraska nursing homes, costs range from \$1,728/month to \$4,350/month. The national average in 2004 was \$2,525/month. In addition to the base rate, most nursing homes charge extra for any additional care or services that may be needed. Estimates for “full care” rates, depending on location and extent of services, range from \$3,000/month to \$5,000/month.

Assisted living in one's home may cost less out-of-pocket; however, when the housing, the health care professional assistance, and the food costs are considered, it may also be quite expensive.

A somewhat less expensive alternative is adult day care, but, again, the housing, the transportation to and from adult day care, as well as the time commitment from a family member, neighbor or volunteer, must be considered.

Home and community based care provided by family, friends, neighbors and volunteers may, on the surface, appear to be the least expensive option. However, one must consider the time commitment, added stress and opportunity cost for the person providing the care or transportation.

### **What are some strategies for providing for long-term care?**

Many people wish to leave personal property, cash, investments, or a farm or business to their heirs. To protect the heirs' inheritance from potentially devastating long-term care costs, it is important to examine both the "worst case scenario" and the "most likely alternative." As the statistics in the previous section demonstrate, most individuals will not need extensive long-term care. The most likely alternative therefore is that most people will not need to earmark large amounts of cash, assets, earnings or insurance coverage to protect their estate against the unlikely event of extended long-term care. The "worst case scenario," on the other hand, includes the unlikely event that long-term care will be needed and perhaps be needed for an extended period of time. What might the potential cost be? It is difficult to accurately predict future long-term care expenses. Health care costs have been rising at a faster rate than most other areas of the economy. Thus the funds needed to offset the costs of long-term care are also very difficult to predict. Currently \$5,000/month to \$6,000/month seems to be a planning point for the "worst case scenario".

- **Providing for long-term care through income or a reduction of assets:** Individuals have a variety of sources that can be drawn upon to help provide the income to pay for long term-care, if the need arises. Most people have some income from retirement sources, such as Social Security, pensions or other retirement accounts. Many receive income in the form of dividends, interest, rents, installment sales payments, reverse mortgages, and profits from farms or businesses. If income alone is adequate to pay potential long-term care costs, the preservation of assets should be possible and the desire to pass an inheritance to the heirs will not be adversely affected. If income alone is not adequate, then assets will need to be liquidated and the proceeds used to pay long-term care costs. Today, \$5,000/month to \$6,000/month may be adequate, but how long will we live and what changes are in store?
- **Providing for long-term care through the use of long-term care insurance, also called nursing home insurance:** Should you buy long-term care insurance? Depending on your financial situation, there may be other investments that might provide a better return with greater liquidity, while at the same time contribute protection against long-term care costs. However, each individual has a different tolerance for risk, and each individual must decide how much of their income they are willing to spend for insurance or how many of their assets they are willing to risk on the chance that they will incur

substantial long-term care expenses. For those who wish to purchase long-term care insurance most experts advise spending no more than 5% of disposable income on premiums. Premiums paid for long-term care insurance are determined by the age, health and domicile of the applicant. The length of benefit payments and the daily payment amount represent the most expensive features in long-term care insurance. Other factors that contribute to premium rates include:

- Are payment benefits restricted by the periods of confinement?
- Is home care, assisted living and adult day care coverage included?
- What are the “triggers” or covered events that activate payments to the policy owner?
- Is there an elimination period included before payment begins, such as 0, 20 or 100 days, the most common periods in which no payment is made under a policy? (This elimination period amounts to a deductible.)
- Is there an inflation rider that increases coverage as time passes?
- Is indemnity paid out on a dollars/day basis or as a reimbursement of incurred expenses?
- Is there a waiver of premium option that allows the owner to stop paying premiums once a nursing home stay begins?
- Is there a premium refund option that would return all or part of the premiums paid if benefits are not needed?

When buying nursing home insurance it pays to shop around. Find the answers to the above questions. Companies vary and most offer several products with a vast array of features and options. Find a reputable company with a good track record. Choose the policy that best fits your situation at a price that you can afford. And remember, the Nebraska Long-Term Care Insurance Act regulates long-term care policies. Among the most important regulations of this Act, insurance policies may not require prior hospitalization before nursing home care is covered; Alzheimer’s and related diseases may not be excluded from coverage; and policies may not provide coverage for skilled care only.

In Nebraska, there exists a Long-Term Care Ombudsman Program which is administered by the Department of Health and Human Services through its Aging and Disability Services. The Program serves as the advocate for long-term care facility residents. Ombudsmen investigate any concern on behalf of a long-term care facility resident and mediate and negotiate to resolve the complaint to the resident's satisfaction. The Ombudsmen Program may be reached at:

HHS Aging and Disability Services  
 Office of the Long-Term Care Ombudsman  
 P.O. Box 95044 Lincoln, NE 68509-5044  
 Phone: (402) 471-2307, 1-800-942-7830 (Nebraska only)

- **Providing for long-term care in the absence of income, assets or insurance:** Medicaid acts as a safety net for those that are not otherwise able to provide for the expenses incurred through long-term care. To qualify for Medicaid, individuals must meet a strict series of eligibility requirements. Tests regarding status, resources and income must all be met before Medicaid will step in to pay for nursing home costs. Originally designed as a program for the impoverished, state and federal Medicaid funds

are available only after all other sources are exhausted. For more information regarding Medicaid, see the publication entitled *Medicaid: Planning for Long-Term Care in the Farm and Ranch Context*.

## Conclusion

Long-term care for an aging population will become increasingly important to the stability of Nebraska's farms, businesses and communities. An extended nursing home stay may have an extremely serious impact on a family farm or business. Individuals must carefully weigh the costs and the risks associated with such a stay, in spite of its statistical improbability. Education and planning can assist parents and their families with the process of transferring farms, business and estates to the next generation.

### Sources:

- U. S. Census Bureau, Current population survey
- AARP Foundation
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- National Center for Health Statistics
- National Vital Statistics System
- American Society on Aging
- Family Caregiver Alliance
- Administration on Aging
- U. S. General Accounting Office
- MetLife, Mature Market Institute, Market Survey 2004
- U. S. Department of Health and Human Services
- NOLO.com
- National Association of Area Agencies on Aging

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