LONG-TERM CARE INSURANCE

By Pamela Ann Diamond

Long-term care insurance (LTCI) can help provide for individuals when they are old and infirm. Purchasing LTCI can—

- protect one's retirement and estate assets,
- preserve one's independence and avoid nursing home care,
- protect one's standard of living if long-term care services become necessary, and
- avoid dependence on welfare and other government programs.

Two out of five individuals age 65 can expect to spend some time in a nursing home. The average nursing home stay is 2.5 years, and one in four people stay more than three years. In 1999, the daily average rate in a New York State nursing home ranged from $183 upstate ($67,000 annually) to $255 in New York City ($93,000 annually). LTCI can be an effective hedge against these often unanticipated costs.

LTCI should be viewed within the context of an individual's overall financial plan. Alternate LTC financing strategies include self-insuring (best if net assets exceed $2–3 million), using a reverse mortgage or an outright sale of the personal residence, or relying on family members for care and support.

As a general rule, no more than 10% of one's income should be used for LTCI premiums. Reducing the daily or annual benefit (e.g., self-insuring up to 50% of costs), increasing the elimination (waiting) period, and reducing the maximum lifetime benefit all result in lower premiums. For example, coverage for only five or six years is usually as effective as expensive, full-lifetime coverage—unless the family has a history of certain diseases, such as Alzheimer's or Parkinson's. One national study determined that only one in 11 people that turned 65 in 1990 would spend five years or more in a nursing home. In addition, LTCI coverage for nursing home care is almost the same in all LTCI contracts: full room, food, and care costs. Home care coverage—which can include skilled nursing care; speech, physical, or occupational therapy; or home health aide services—varies greatly. A cost/benefit analysis of the services and facilities covered by the policy is essential.

Tax Treatment

In 1996, the federal government amended the IRC to allow favorable tax treatment of premiums paid for qualified long-term care policies [IRC section 312 (d)(10), Revenue Proceeding 99-42]. A portion of LTC premiums is deductible as medical expenses, depending upon age. For 2000, the inflation-adjusted maximum deductible amount ranged from $220 for someone age 40 or less to $2,750 for individuals age 70 or older. New York State allows similar tax treatment for federally qualified policies. Any LTCI policy approved in New York and issued before January 1, 1997, also qualifies for favorable tax treatment.

Effective January 1, 2002, a New York State tax credit will be allowed for LTCI premiums paid during the taxable year. The credit will equal 10% of the long-term premiums paid for the purchase of an LTCI policy approved by the Superintendent of Insurance. The credit may not reduce the tax below zero, although any unused credit may be carried forward indefinitely.

New York State Partnership

In New York State, the Robert Wood Johnson Foundation Public/Private LTCI Partnership is available. Individuals who purchase these policies and meet the other requirements may apply for Medicaid extended coverage without regard to their resources, and they are exempted from the transfer of resources penalty regulations. In other words, the partnership allows people to qualify for Medicaid based on income only, regardless of assets: There is no spend-down requirement for assets. One requirement is to support the costs of one's long-term care through some combination of partnership insurance coverage and out-of-pocket payments for three years of nursing home benefits or its equivalent (two days of home care counts as one day of nursing home care). One caveat is that all Medicaid income rules in effect at the time of application for Medicaid extended coverage will apply, although, as noted above, the usual Medicaid resource and transfer of resource rules do not apply.

The partnership may be a worthwhile strategy for New York residents who are single or widowed or who may have significant resources but not a substantial income. Married couples may have difficulty meeting the necessary requirements, because the income of both spouses is considered when determining eligibility. More information is available at www.nyspltc.org or by calling (888) 697-7582.

Benefit Triggers

Qualification to receive benefits under an LTCI policy is contingent on certain "benefit triggers." Generally, a physician must certify one of two types of impairments: Either the individual must be physically unable to perform certain activities of daily living (ADL), or the individual must have a serious cognitive impairment.

The activities of daily living (in order of the degree of impairment) are: bathing, dressing, mobility and transferring (e.g., getting out of bed), toileting, feeding oneself, and continence.

A serious cognitive impairment is defined as—

- a loss of short- or long-term memory,
- a loss of orientation as to person (who you are), place (where you are), or time (day, date, year), or
- a loss of deductive reasoning.

Some policies will not allow a serious cognitive impairment to be used as a benefit trigger until it interferes with an individual's ability to perform the ADLs. This requirement, as well as requirements on the number of ADLs unable to be performed and the definition of an inability to perform a particular activity, are important variables to consider in choosing the LTCI policy that will best make one's golden years truly golden. ❑

Pamela Ann Diamond, CPA, *is a sole practitioner in West Hempstead, N.Y., specializing in financial planning and elder care services.*