

# Navigating Long-Term Care:

Legal and Financial Considerations



# Long-Term Care: Legal and Financial Considerations

- Long-Term Costs
- What Are the Chances?
- Funding Long-Term Care
  - Goals Based Approach
  - Funding Strategy
  - LTC Insurance
  - Medicaid

# Elder Care: Legal and Financial Considerations

## Elder Care

Adult  
Day  
Care

Assisted  
Living  
Care

Nursing  
Home  
Care

At -  
Home  
Care

Hospice  
Care

# Long-Term Care Costs

# Long-Term Care Costs: at a Glance

Annual Costs (as of 12/31/2020)*	National Average	Lafayette, LA Average
Assisted Living Care	\$51,600	\$46,200
Nursing Home Care (Private Room)	\$105,850	\$70,565
At-Home Care	\$209,664	\$146,328

% Change in Costs (from 2019)*	National Average	Lafayette, LA Average
Assisted Living Care	6.15%	5.62%
Nursing Home Care (Private Room)	3.57%	6.42%
At-Home Care	4.35%	-1.47%

Average Inflation Rate for All Items in U.S. (Last 10 Years) = 1.6%\*\*

\*Source: Genworth Cost of Care Survey

\*\*Source: Federal Reserve Economic Data (FRED) Consumer Price Index for All Urban Consumers: All Items in U.S. City Average (2011 – 2020)

# Long-Term Care Costs: Why So Expensive?

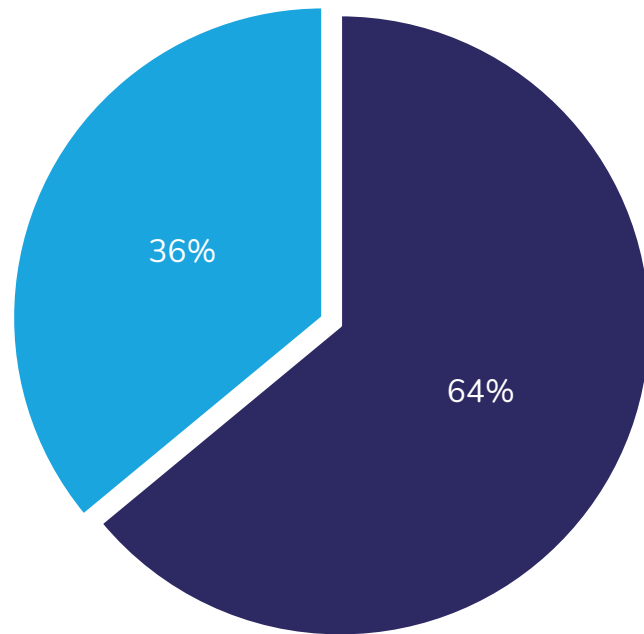
- Aging Population = Increase in Demand
- Labor Shortages
- Increased Personal Protective Equipment (PPE) Costs
- Wage Pressures
- Regulatory Changes (i.e. updating CDC guidelines)
- Lower Interest Rates

*Source: Genworth Cost of Care Survey*

# What Are the Chances?

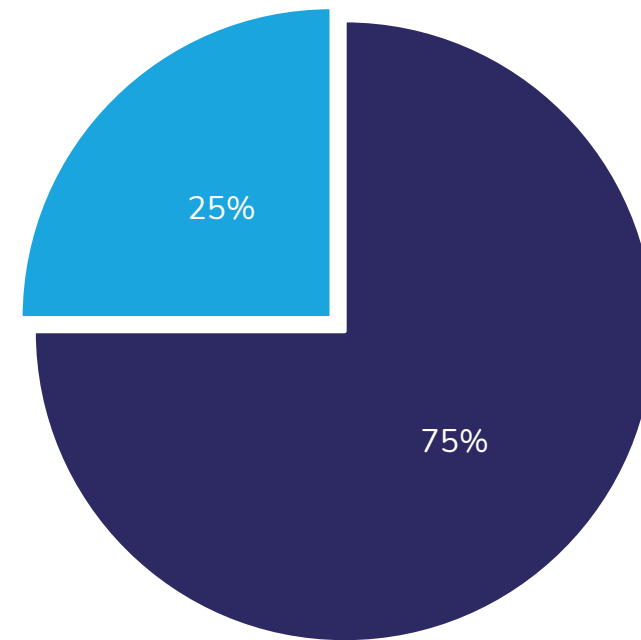
# What Are the Chances? (Need of At Least 90 Days of Care)

65-Year Male



■ Will Need Care ■ Won't Need Care

65-Year Female

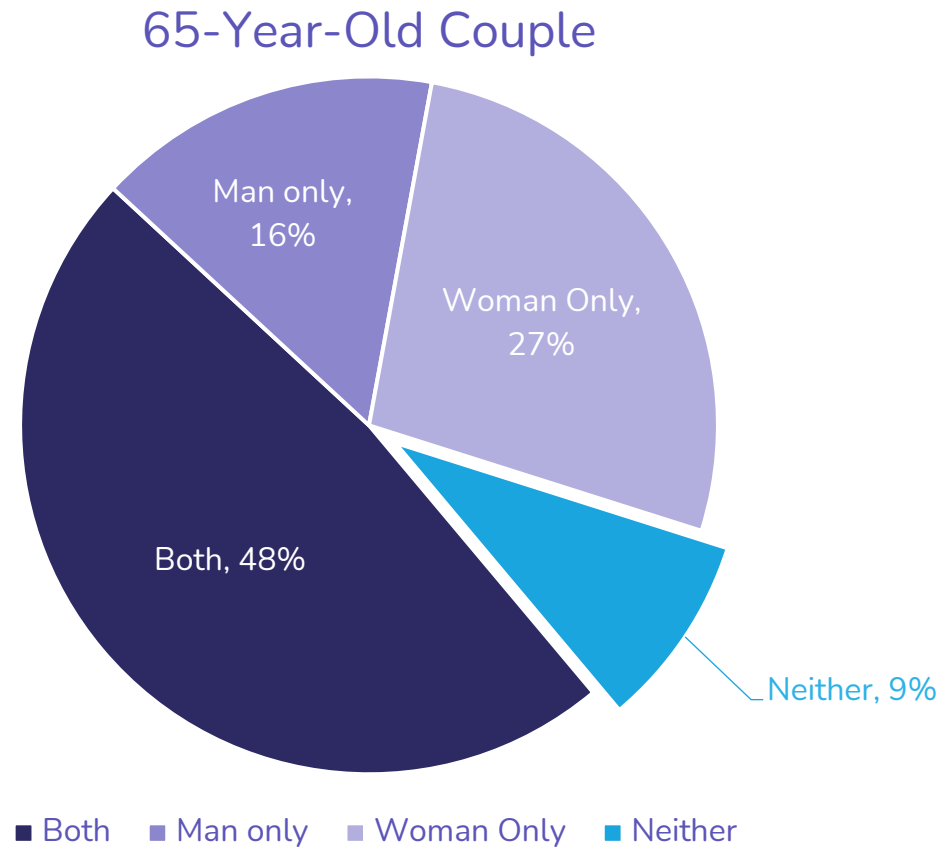


■ Will Need Care ■ Won't Need Care

Johnson, Richard W. 2019. "What Is the Lifetime Risk of Needing and Receiving Long-term Services and Supports? *U.S. Department of Health and Human Services. Office of the Assistant Secretary for Planning and Evaluation (ASPE), Research Brief, April 2019: 1–26.*

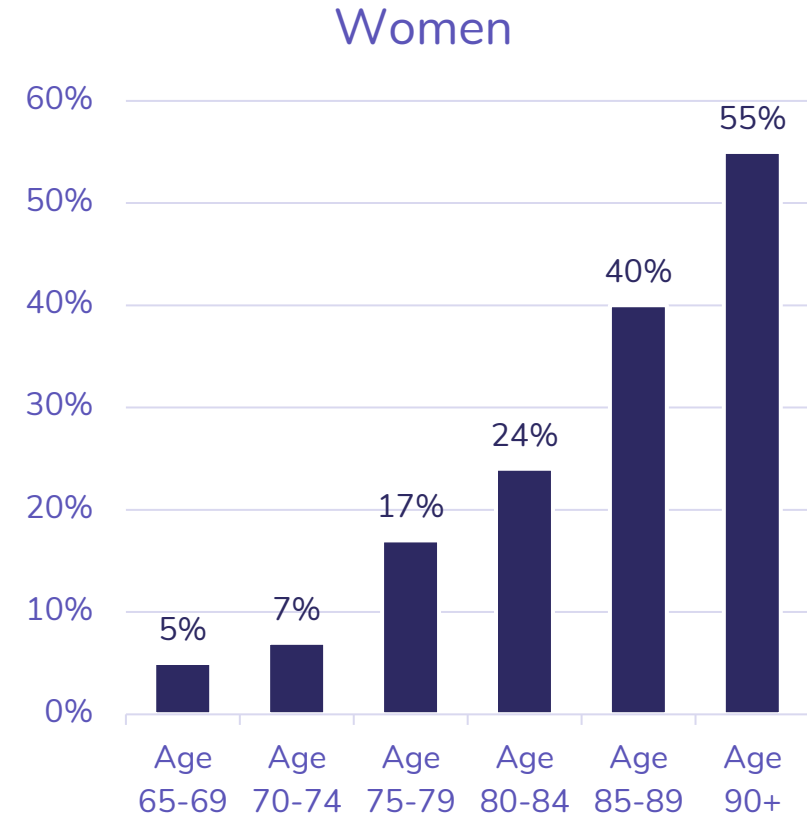
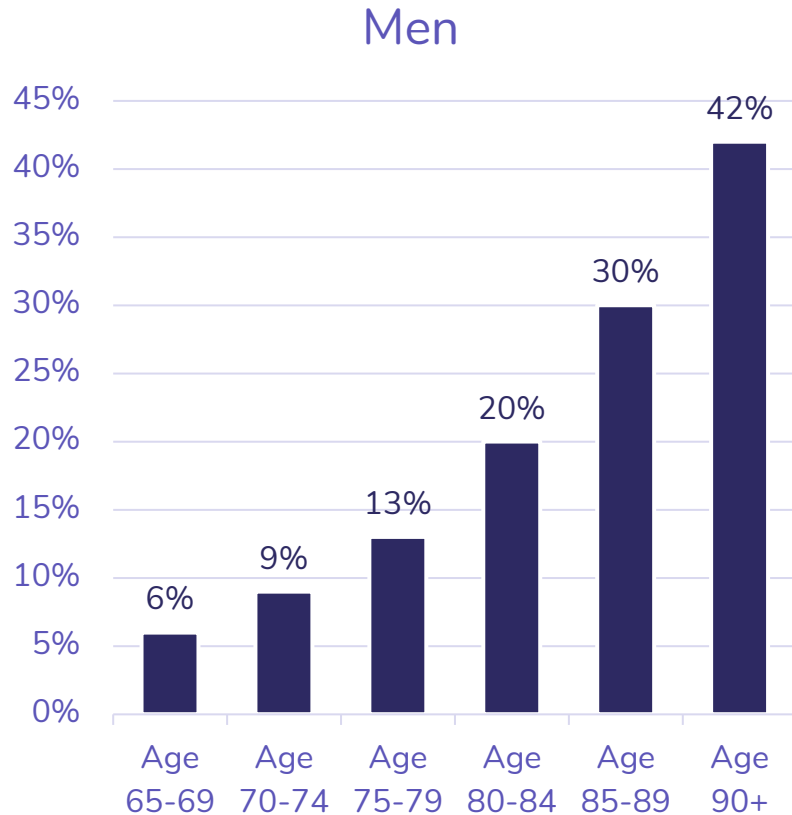


# What Are the Chances? (Need of At Least 90 Days of Care)



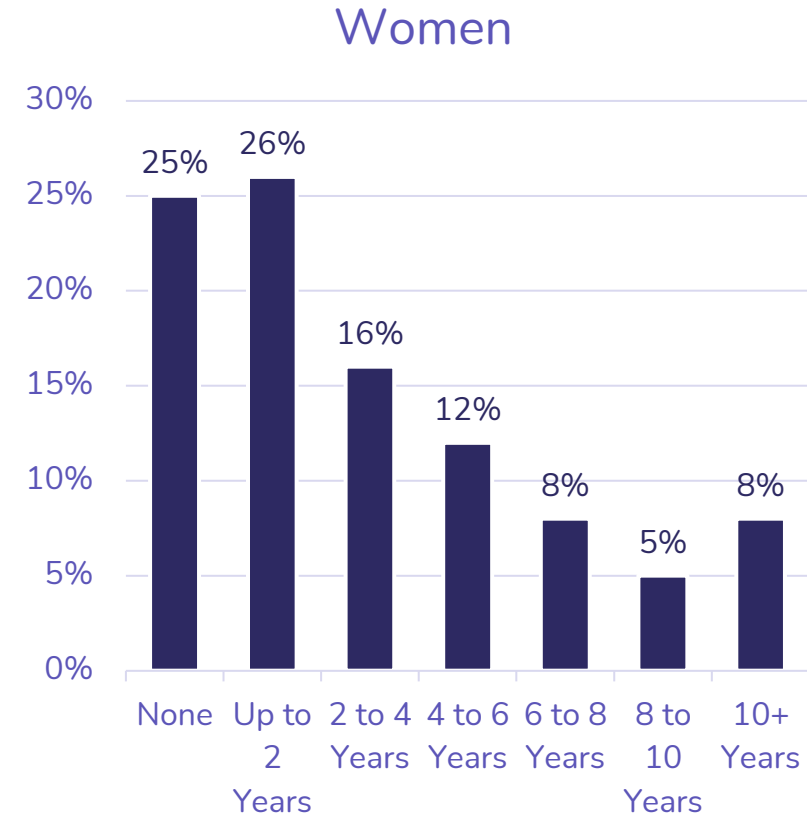
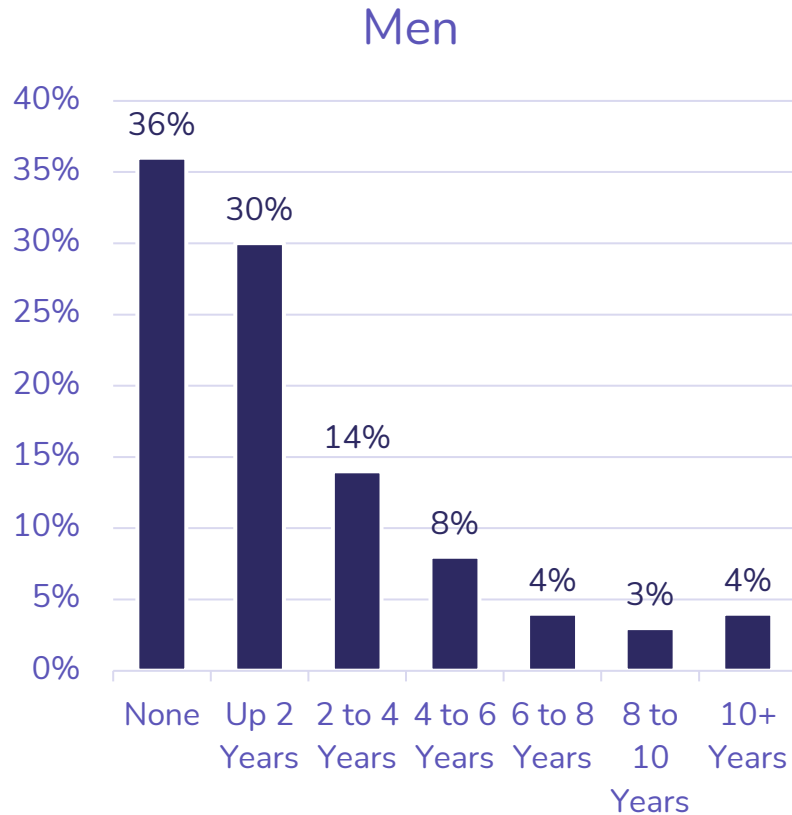
Source: Pokorski, M.D., Robert. 2021. "Data-Based Approach to Engaging Clients in a Discussion of Long-Term Care. *Journal of Financial Planning. Special Report, July 2021: 66-82*

# What Are the Chances? (Age Care is Needed)



Source: Pokorski, M.D., Robert. 2021. "Data-Based Approach to Engaging Clients in a Discussion of Long-Term Care. *Journal of Financial Planning. Special Report, July 2021: 66-82*

# What Are the Chances? (Duration Care is Needed)



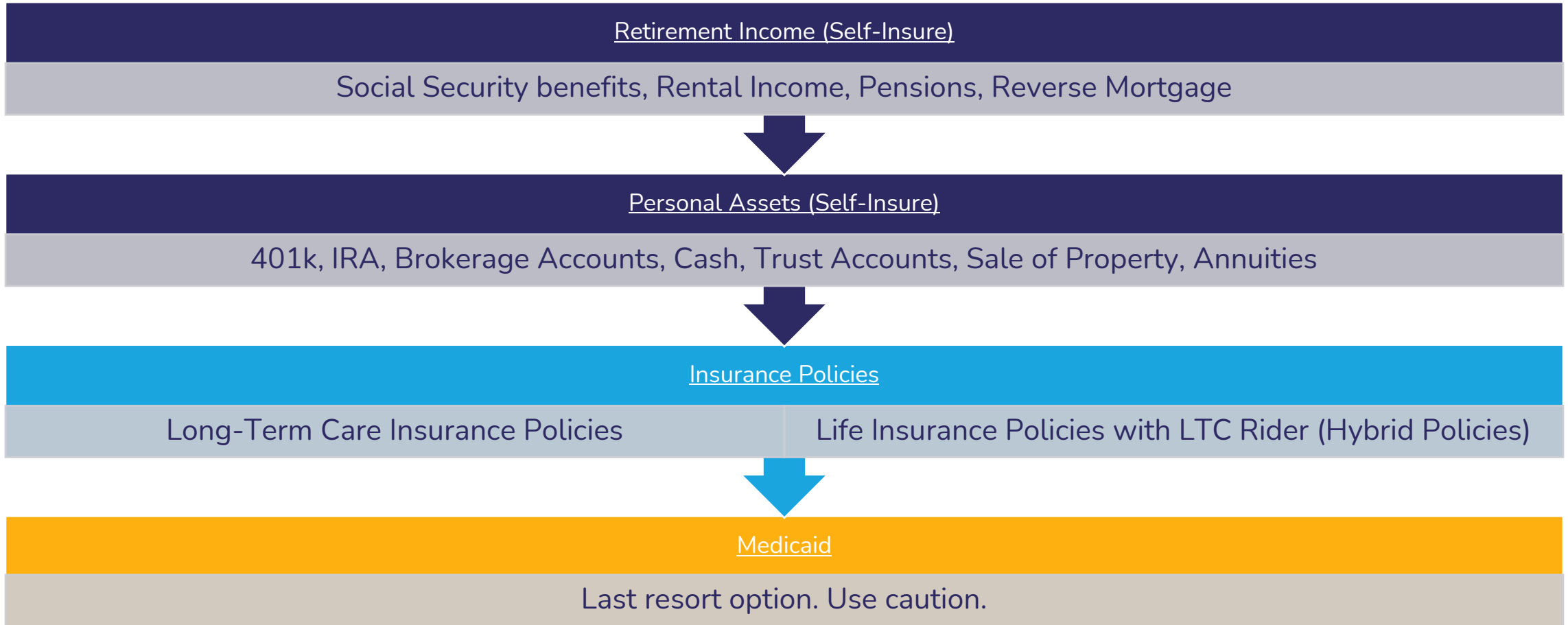
Source: Pokorski, M.D., Robert. 2021. "Data-Based Approach to Engaging Clients in a Discussion of Long-Term Care. *Journal of Financial Planning. Special Report, July 2021: 66-82*

# Funding Long-Term Care

# Funding Long-Term Care: Goals-Based Approach

1. Determine Desired Level of Care
  - Assisted Living, Home Health Aid, Nursing Home
2. Determine Cost Odds
  - Should you factor in the average length of care?
  - Do you have family members that experienced extended care needs?
3. Determine Risk Tolerance
  - Would you rather play the assumptions conservatively or aggressively?
  - How much chance are you willing to take?
4. Determine Willingness to Use Personal Assets for LTC Costs
  - Would you be willing to use your personal assets for LTC costs?
  - Is it important to pass assets to future generations?

# Funding Long-Term Care: Funding Strategy



# Funding Long-Term Care: LTC Insurance Considerations

- Premium Costs
  - Cost of maintaining the policy
  - Several options available (continuous, single premium)
  - Cost increases
- Elimination Period
  - Amount of time before benefits kick in
  - Anywhere from 0 days to 365 days
- Benefit Amount
  - Amount covered per day
  - Maximum lifetime benefit amount
- Cost of Living Adjustments
  - Simple/Compounding
  - 0 to 5% annually



Take Note!

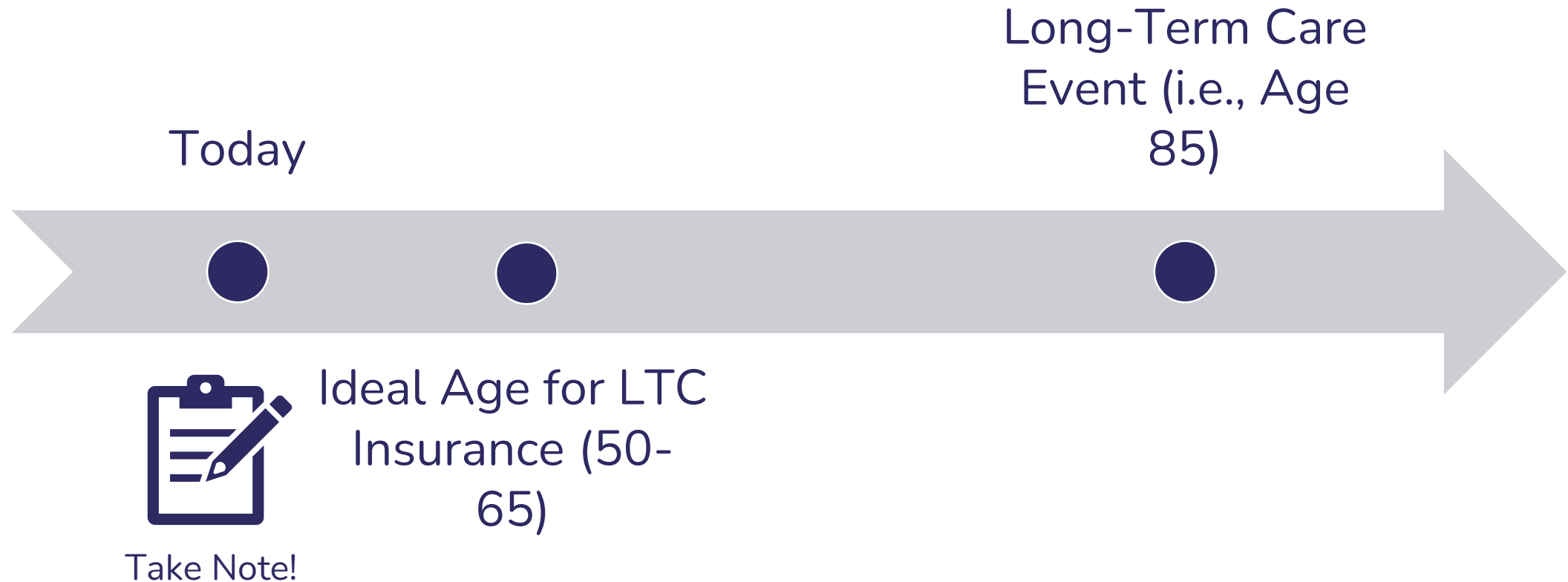
When considering LTC Insurance, most insurance companies limit the amount of coverage they will write. You may not be able to cover all LTC costs with insurance alone.

# Funding Long-Term Care: LTC Insurance Considerations

Lower Policy Premiums	Higher Policy Premiums
Longer Elimination Periods	Shorter Elimination Periods
Less Coverage Amounts	More Coverage Amounts
Shorter Coverage Durations	Longer Coverage Durations
Lower/ No Cost-of-Living Adjustments	Higher Cost of Living Adjustments (3% or 5%)



# Funding Long-Term Care: LTC Insurance Considerations



Source: Schwab-Pomerantz, Carrie. 2021. "Should You Purchase Long-Term Care Insurance?". Charles Schwab. Retirement Insights, March 2021.

# Funding Long-Term Care: Medicaid

- Medicaid is a program funded jointly by the states and the federal government.
- Medicaid for Long-Term Care is where Medicaid helps pay for the cost of a nursing home for eligible individuals.
- Medicaid for Long-Term Care, also, includes helping pay for home and community-based services for eligible individuals.

# Funding Long-Term Care: Medicaid

## Income Test

Asks whether the applicant's income is sufficient to cover the cost of the nursing home.

Note: individuals that qualify for Medicaid for Long-Term Care do not keep their monthly income because the income goes to pay for the nursing home. Instead, each individual is allowed to pay for health insurance costs and to keep \$38.00/month under the personal needs allowance.

**The spend down period and the penalty period cannot run at the same time!**

## Asset Test

Asks whether the applicant has more than the allowed amount of countable assets.

Limit: \$2,000 for a single individual, or \$3,000 for a couple.

If a Medicaid Applicant is over the Asset Limit, then the Medicaid Applicant will have to spend his/her assets until the Medicaid Applicant only has the allowed amount of countable assets.

## Look-Back Test

Asks whether the applicant gave away assets for less than fair market value during the five (5) years before the applicant filed for Medicaid. If an asset was given away in the last five (5) years for less than fair market value, then the applicant will be subject to a penalty period.

During the penalty period, the applicant must pay for nursing home care.

Penalty Period = FMV of asset / \$5,000

# Funding Long-Term Care: Medicaid (Example)

- Andy, a married individual, applies for Medicaid for Long-Term Care on January 1, 2020, but Andy's spouse, Andrea, does not apply for Medicaid for Long-Term Care.
- Andy has monthly income of \$4,000, and Andrea has monthly income of \$2,000.
- Andy and Andrea's exempt assets include their house, household goods, personal effects, and a car.
- Andy and Andrea's countable assets include a bank account with \$5,000, a bank account with \$75,000, an investment account with \$250,000, and a retirement account with \$200,000.
- Andy gave his car to his granddaughter on June 9, 2018, and Andy's car had a value of \$7,000.

# Funding Long-Term Care: Medicaid (Example)

- **Income Test:** Under the Minimum Monthly Needs Allowance, Andy can transfer income to Andrea in the amount of \$1,259.50 so that Andrea has monthly income of \$3,259.50. Since Andy will now not have enough monthly income to pay for the cost of the nursing home, Andy passes the Income Test.
- **Asset Test:** Andy will be put into a spend down period, until Andrea has countable assets equal to or below \$130,380 and Andy has countable assets worth \$2,000. This means that before Andy qualifies for Medicaid, Andy and Andrea will have to spend \$399,620.
- **Look-Back Test:** Since Andy gave his car to his granddaughter within the five (5) years before Andy applied for Medicaid, Andy will be subject to a penalty period. The penalty period will equal 1 month and 12 days. So, Andy will have to private pay for the nursing home for 1 month and 12 days *after* Andy and Andrea spent \$399,620 of assets.

# Funding Long-Term Care: Medicaid (Example)

## Qualifying for Medicaid with No Planning

- Option 1: Andrea has to spend \$399,620 (\$530,000-\$130,380), and then private pay for 1 month and 12 days for the penalty period.
- Option 2: In this option, the retirement account is the biggest problem. (This is where the financial advisor comes in to help with options regarding the retirement account.) Ultimately, \$399,620 of countable assets need to be given away, which will cause an even larger penalty period. Once Andy is told of the penalty period, numbers are run, and a portion of the \$399,620 is given back to Andy, which will reduce Andy's penalty period. The goal is for what is given back to equal the amount needed to cover the nursing home during the reduced penalty period.

## How Planning For Needing Medicaid Helps

- 5 years before Andy or Andrea needs Medicaid, Andy & Andrea determine that with their monthly incomes, they will only need the retirement account to live on for the next 5 years. So Andy and Andrea give \$325,000 to a trust.
- Neither Andy nor Andrea can be the trustee of the trust, which means giving up control over the assets in the Trust.
- Funds will be withdrawn from the retirement account over the next 5 years. This will help spread out the tax hit, and reduce the retirement account to the amount equal to the Community Spouse Resource Allowance.
- The kids, as beneficiaries of the trust, ultimately receive the \$325,000 because it didn't have to be spent on the nursing home.



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