

---

# Paying for Long-Term Care

---

Long-term care (LTC) is the term used to describe a variety of services in the areas of health, personal care, and social needs for individuals who are chronically disabled, ill, or infirm. LTC may include services such as skilled nursing home care, assisted living, home health care, or adult day care.

LTC in the United States today is, without doubt, expensive. In 2019, for example, the national median rate (regional costs can vary widely) for a semi-private room in a nursing home was \$247 per *day*, over \$90,000 per year. This 2019 figure represents a five-year compound growth rate of 3.10%.<sup>1</sup>

How long do most people need LTC? One federal study estimated that on average men will need 1.5 years of long-term support services, while women will need 2.5 years of such care.<sup>2</sup> Of course, not everyone will need LTC. And, in many cases, LTC will be needed for only a limited period of time. However long the need exists, for many individuals, paying for LTC can be a major challenge. Some resources which have been used to pay for LTC include:

## Personal Resources

Method	How It Works	Pros	Cons
<b>Personal assets</b>	Assets that an individual (or a family) has managed to accumulate through work, savings and investment, or inheritance.	<ul style="list-style-type: none"><li>• Allows you to choose when, where, and how you receive care.</li><li>• No concerns about being healthy enough to qualify for LTC insurance or other types of insurance policies.</li><li>• Funds not needed for LTC can be used for other purposes or left to family or friends at your death.</li></ul>	<ul style="list-style-type: none"><li>• Investment returns are variable and subject to both gain and loss.</li><li>• May need to sell illiquid assets (such as the family home) to free-up the cash needed to pay LTC costs.</li><li>• LTC expenses may exceed the amount of available assets.</li></ul>

---

<sup>1</sup> Source: The Genworth 2019 Cost of Care Summary, page 3. Downloaded November 5, 2020. The five-year compound growth rate is based on surveys conducted from 2014 to 2019.

<sup>2</sup> See Long-Term Services and Supports for Older Americans: Risk and Financing. Department of Health and Human Services, Office of Disability, Aging and Long-Term Care Policy. Updated February 2016.

---

# Paying for Long-Term Care

---

## Personal Resources

Method	How It Works	Pros	Cons
<b>Family caregiving</b>	Family members provide the direct “hands-on” effort needed to care for the individual.	<ul style="list-style-type: none"><li>• No need to pay for care provided by family members.</li><li>• Family support may also be available to meet other needs besides LTC.</li><li>• To the extent that personal funds are not spent on LTC, they can be left to family or friends at your death.</li></ul>	<ul style="list-style-type: none"><li>• Family members may be unwilling or unable to provide the needed care.</li><li>• Some family members may feel that the burden of providing care is unequally on their shoulders.</li><li>• You must pay for care that family members cannot or are unable to provide.</li></ul>

---

## Insurance-Based Resources

Method	How It Works	Pros	Cons
<b>Long-term care insurance</b>	Private insurance designed to help pay for many types of LTC services.	<ul style="list-style-type: none"><li>• Provides a known benefit for a specified period of time. Benefits paid under a “tax qualified” LTC policy are generally received income tax free.<sup>1</sup></li><li>• Gives you more control over where, when, and how you receive care.</li><li>• Funds not spent on LTC can be used for other purposes or left to family or friends.</li></ul>	<ul style="list-style-type: none"><li>• Insured must generally be healthy to qualify for the policy.</li><li>• Continuing premiums required to keep the policy in force.</li><li>• Premiums may increase over time, benefits may decrease, or both.</li><li>• If the insured does not use the policy benefits, there is a sense the money was not well spent.</li><li>• LTC costs could exceed policy coverage amount.</li></ul>

---

<sup>1</sup> The discussion here concerns federal income tax law. State or local income tax law may vary widely.

## Paying for Long-Term Care

Method	How It Works	Pros	Cons
<b>Life insurance policy surrender</b>	A life insurance policy with accumulated cash values is “surrendered” to the life insurance company.	<ul style="list-style-type: none"> <li>• Provides cash needed to pay for LTC.</li> <li>• Cash gives you control over where, when, and how you receive care.</li> <li>• Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death</li> </ul>	<ul style="list-style-type: none"> <li>• Cash surrender value is usually less than the policy’s death benefit.</li> <li>• A portion of the proceeds from the sale may be taxable.</li> <li>• LTC costs could exceed the cash received.</li> </ul>

### Insurance-Based Resources

Method	How It Works	Pros	Cons
<b>Accelerated death benefit</b>	Some life insurance policies will pay a portion of the death benefit if the insured becomes “terminally” ill. <sup>1</sup>	<ul style="list-style-type: none"> <li>• Provides cash needed to pay for LTC.</li> <li>• Cash gives you control over where, when, and how you receive care.</li> <li>• Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.</li> </ul>	<ul style="list-style-type: none"> <li>• You generally receive only a portion of the policy’s death benefit.</li> <li>• LTC costs could exceed the cash received.</li> </ul>
<b>Borrow from accumulated cash values</b>	Cash-value life policies typically allow the owner to borrow from the accumulated cash value, often at favorable interest rates.	<ul style="list-style-type: none"> <li>• Provides cash needed to pay for LTC.</li> <li>• Cash gives you control over where, when, and how you receive care.</li> <li>• Funds not used to pay for LTC can be used for other purposes or left to family and friends at your death.</li> </ul>	<ul style="list-style-type: none"> <li>• When death occurs, outstanding policy loans and interest will be subtracted from the face amount.</li> <li>• LTC costs could exceed the cash received.</li> </ul>

<sup>1</sup> If certain requirements are met, the policy proceeds are received income-tax free.

---

# Paying for Long-Term Care

---

## Insurance-Based Resources

Method	How It Works	Pros	Cons
<b>Life insurance-LTC combination policy</b>	A life insurance policy that links a traditional cash-value life policy with a LTC benefit.	<ul style="list-style-type: none"><li>• Provides cash needed to pay for LTC.</li><li>• Cash gives you control over where, when, and how you receive care.</li><li>• If LTC benefits are not needed, life insurance policy proceeds pass to named beneficiaries at your death.</li></ul>	<ul style="list-style-type: none"><li>• Insured may be required to qualify for the underlying life insurance policy.</li><li>• Typically funded with a large, single premium payment.</li><li>• Insured must be either “critically” ill or “terminally ill” to qualify for tax-free accelerated death benefit treatment.</li></ul>
<b>Annuity-LTC combination contract</b>	An annuity contract that links a traditional annuity with a LTC benefit.	<ul style="list-style-type: none"><li>• Provides cash needed to pay for LTC.</li><li>• Cash gives you control over where, when, and how you receive care.</li><li>• If LTC benefits are not needed, annuity can provide additional retirement income or pass to named beneficiaries.</li></ul>	<ul style="list-style-type: none"><li>• Typically funded with large, single cash payment.</li><li>• Accumulated values within the annuity are used first to fund LTC expenses.</li><li>• Tax-free LTC distributions typically require that an individual be “chronically ill.”</li></ul>

---

# Paying for Long-Term Care

---

## Government Resources

Method	How It Works	Pros	Cons
<b>Medicare</b>	A health insurance program operated by the federal government.	<ul style="list-style-type: none"><li>• Part A helps pay for a limited amount of skilled-nursing or home health care.</li><li>• Part B covers doctor's services and certain medical services/supplies.</li><li>• Part B home health care is available if not covered under Part A.</li><li>• Part D can help pay for needed medications.</li><li>• Supplemental (Medigap) policies can help meet some expenses not covered by Medicare.</li></ul>	<ul style="list-style-type: none"><li>• Part A skilled nursing facility care is limited to a maximum of 100 days.</li><li>• Medicare does not pay for custodial care.</li><li>• Individual is responsible for paying costs not covered by Medicare.</li></ul>
<b>Medicaid</b>	A federal-state program which provides medical care to those with very low resources and income.	<ul style="list-style-type: none"><li>• For qualifying individuals, Medicaid pays for LTC services at home, in the community, and in a nursing home.</li></ul>	<ul style="list-style-type: none"><li>• Individual must meet Medicaid standards for low income and resources.</li><li>• Nursing home services usually limited to a Medicaid licensed facility with an available Medicaid bed.</li><li>• State may seek post-death recovery of amounts paid for LTC.</li></ul>

## Seek Professional Guidance

Finding adequate resources to pay for needed LTC services can be difficult. Failing to meet this need can result in essential care being unavailable or, when existing resources are exhausted, in an adverse change in the type or quality of care already being provided. For some individuals, the funds to pay for necessary care will come from multiple sources. The guidance of trained financial professionals can help in creating a program to meet this challenge.