

Navigating the growing long-term care crisis



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The next 20 years is going to put a strain on our nation's ability to provide care for our aging population. Americans are living longer than ever before. Within the next 20 years, the United

States population of age 80+ is projected to more than double. This will highlight a growing financial and caregiving challenge that 86% of today's retirees have not planned for.

A System Under Pressure & the Medicaid Component

The nation's long-term care infrastructure is struggling to keep pace with demand for care. Professional care providers across the country face staffing shortages, rising costs, and Medicaid reimbursement challenges. Medicaid is the #1 payer for long term care expenses. Medicaid is a government program that is meant to be a safety net for our nation's impoverished population, yet it is being over utilized. Because Medicaid reimbursement rates are low, our dedicated professional care providers struggle financially. People in our aging population whose care is being paid for by Medicaid are at a disadvantage over those who can pay for their own care. The Medicaid enrollees have limited control over their care decision. This dichotomy of the quality of care will be magnified in the years ahead as the professional care provider shortage grows.

As the age 80+ population doubles, experts believe the long-term care system will face increased pressure and it is being identified as a future crisis. The families relying on Medicaid for the funding source will be left with fewer care choices and reduced access to high-quality care. It is also hard to predict the future of the Medicaid system as it is subject to government policy changes.

The Rising Cost of Care

Long-term care expenses can place enormous pressure on retirement savings. Ranging from in-home care to full nursing home care, the direct costs of long-term care are expected to rise as the supply of professional care providers providing this service is already failing to keep pace with the needs of our aging community.

The direct costs of care is only part of the financial cost. Many retirees face additional "hidden costs" when trying to pay for care. These "hidden costs" include:

- Withdrawals from traditional IRAs may increase taxable income, potentially pushing retirees into higher tax brackets and triggering higher Medicare premiums through IRMAA surcharges.
- Families may also be forced to sell appreciated assets such as farmland, investment properties, or brokerage accounts, creating capital gains taxes and sacrificing the stepped-up tax basis heirs might otherwise receive at death.
- Retirees may be forced to liquidate investments during unfavorable market conditions, creating a financial "fire sale" at exactly the wrong time.
- People may be underinvesting assets to keep their money liquid to pay for the potential need for long-term care. This leads to lost investment returns that they may otherwise have had the opportunity to receive if they had continued to properly invest their money.

Why Traditional Long-Term Care Insurance Struggled

Long-term care insurance was more popular several decades ago, but consumers became skeptical after experiencing rising premiums and uncertain policy outcomes. Traditional policies require lifetime premium payments and operate with a "use-it-or-lose-it" structure, meaning policyholders could spend their lifetime paying premiums and never receive benefits if care was not needed. For the insurance companies offering the insurance, they made mistakes in their actuarial projections that led to financial strains that the industry could not support. Today, neither the consumer nor the financial industry want to even consider traditional long term care insurance. This has led to a significant financial planning gap today and partially why 86% of today's retirees do not have a plan to address this risk. Financial professionals don't help guide today's retiree through the difficult risk planning conversation related to the long-term care.

The Rise of Hybrid Long-Term Care Planning

In recent years, a newer generation of "asset-based" or hybrid long-term care insurance policies have emerged. These products combine life insurance or annuities with long-term care benefits. Instead of paying premiums solely for insurance protection, policyholders reposition existing assets into a plan designed to create a larger pool of money earmarked specifically for future care expenses. If long-term care benefits are never used, the premium that was paid to fund the insurance policy is returned to heirs as a death benefit.

Hybrid policies have several advantages:

- Guaranteed premiums with limited payment periods
- Tax-advantaged leveraged long-term care benefits
- Greater predictability for financial outcomes
- Protection against "use-it-or-lose-it" concerns
- Flexibility to help families access higher-quality care options.
- Minimizes the "hidden financial costs"
- Improved health outcomes. Create earmarked money to be available as a spending bucket as care needs arise. No value to wait to spend the money. Waiting and delaying care results in adverse health outcomes.

Federal legislation, particularly the 2006 Pension Protection Act, helped accelerate the growth of these products by expanding favorable tax treatment for certain long-term care funding strategies.

Planning Before a Crisis

Long-term care planning includes creating a funding source. The hybrid long term care insurance is a funding source that can create predictable outcomes, avoid adverse financial outcomes, and minimize the reliance on the Medicaid program meant for our impoverished population. Creating the funding source is a good place to start, but planning also involves legal preparation. Experts recommend that retirees establish financial and healthcare powers of attorney, update legal will, complete HIPAA authorizations, review asset titling, and consider revocable living trusts where appropriate. The most important step, however, may simply be starting the conversation early. Families who plan often preserve more flexibility, maintain greater control over care decisions, and reduce the likelihood that a health event becomes a financial and emotional crisis.