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Long-term care insurance is not always affordable

Long term care is not a popular topic for discussion. Although statistics show that at least half of us will require long term nursing care, most people do not do anything to prepare for such an eventuality. As a result, long term care insurance policies have been a tough sell. The long term care insurance industry was one of the strongest advocates for the Deficit Reduction Act of 2005 (DRA), hoping to reform Medicaid so that would people would be forced to take more personal responsibility for bearing the cost of long term care. The National Academy of Elder Law Attorneys (NAELA), in their February issue of "Eye on Elder Issues," points out that these reforms will most likely result in *fewer* American purchasing long term care insurance policies.

Why this ironic turn of events? The DRA includes a provision to increase the "look back" period from three years to five years. Those individuals who purchased three year policies will find them inadequate to cover the new look back period. The change in the look back period would not be as large an issue but for the change in the start of the transfer penalty period. For instance, an older man retires, and transfers the family farm to the son who is now working the farm, and then enters a nursing home one year from the date of the gift. A three year long term care insurance policy will still result in a penalty period that this man will not have sufficient funds to cover. However, a five year policy, with its significantly higher annual premiums, may be more than the man can afford. Therefore, the higher price to purchase adequate long term care insurance will actually hinder the sale of policies.

While elder law attorneys had long been recommending long term care insurance policies with coverage for three years, many are now recommending policies to provide coverage for at least five years, or better yet, with a lifetime benefit. However, a 58 year old client purchasing a policy in Pennsylvania with 100 days elimination period, \$150 a day benefit, and a 5% compound rider, for three years will pay approximately \$2,200 per year on premiums, assuming no significant health problems. The same policy with a five year coverage period increases to over \$3,000 per year. The lifetime benefit cost for this policy is \$4,500 per year. These premiums increase with age and health risks. For instance, in 2002, the average cost in the U.S. for a typical long term care policy for those who were 65 years old was \$2,862; the same policy was \$8,899 for those aged 79 years. A study by the Kaiser Foundation reveals that nearly one-third of people age 65 to 69 would not pass the underwriting test.

Long term care insurance policies are not affordable for most seniors, and not available for many of those who can afford them. NAELA believes that our aging population and the long term care industry would be better served by Long-Term Care Partnerships. Currently, four states have adopted this model where insurance buyers can protect a certain level of assets and still qualify for Medicaid when the policy runs out. This can be an option for some seniors and future seniors. Those who are young and healthy enough to afford the premiums on long term care policies should consult a qualified financial advisor as soon as possible. For everyone else, Medical Assistance will continue to grow as the primary source of payment for long term care services despite the DRA. Unfortunately, the long term care insurance industry may also be a victim of this legislation, as a result of the industry's short sightedness in advocating for the DRA.