ServantLiving

Who Cares for Us When We Can No Longer Care for Ourselves?

by Gregory S. DeJong

One of the most challenging areas of personal financial planning is how to provide the care which is often needed late in life. The topic is an uncomfortable one for most people, and thus few take the time to research alternatives, get sound advice, discuss options with their loved ones, and formulate a realistic plan before events overtake them.

We all hope to live to a ripe old age in nearly perfect health and then die peacefully in our sleep one night. But a survey of the elderly members of your extended family tree, both living and deceased, will probably reveal that such an outcome is rare. With life expectancies typically stretching into one's eighties and nineties, most Americans will live out their final years with significant physical impairments, mental limitations, or both. While most married couples hope to stay in their own home and care for each other until their earthly days are ended, failing to plan for alternative scenarios can create substantial hardships for the couple and their family.

The purpose of this paper is to provide an overview of the issues, challenges, and options involved in planning for late-in-life care needs, or what we will call "long-term care." We will explore:

- Who can provide such care?
- Where might I receive such care?
- What are the cost considerations of various types of care?
- Is such care provided by government or community-based programs?
- Is insurance available which covers long-term care expenses?

As you will quickly discover, this topic is complex, both in the sense that there are many different options to weigh and in the recognition that such planning involves unknowables and must be conducted in a spirit of "if the Lord wills." As the Puritans put it, "Man proposes, God disposes."

Who Might Provide Additional Care for Me?

For a married couple, the most common answer is "my spouse." Wedding vows typically include "in sickness or in health . . . 'til death do us part," so looking to your spouse is a reasonable place to start. There may, however, be many circumstances where your spouse, despite a fervent desire to help, simply cannot provide the support needed. He or she may end up with physical limitations of their own. A 140 lb. wife may be incapable of helping her 200 lb. husband dress, bathe, or recover from a fall. A healthy husband may find that the constant demands of a wife suffering from dementia overwhelm him, thus impairing his health due to stress or lack of sleep.

A second common assumption is "the kids will help us out." Certainly, many adult children do contribute significantly to the care of their parents. Whether this is a desirable arrangement which was entered into willingly by all parties may be another matter. Adult children have their own responsibilities, increasingly with their own children and grandchildren, who also may have significant needs. Adult children in their fifties and sixties are often expected to provide significant leadership in their local church or may have career obligations which cannot be easily shed. Intra-family dynamics can also create challenges. If one child lives nearby and the rest are scattered around the country, how is it practically possible for all of the children to share equitably in caring for a parent?

Friends, including members of your local church family and your church's deacons, may also be a source for some assistance, but within reasonable limits. If you will, at some point, need daily physical assistance, specialized care, or regular monitoring (such as with a cognitive impairment), most local congregations would be taxed or overwhelmed covering these needs.

Another group which may be of some help would be community-based resources. For example, there may be a senior citizens transportation service which could provide rides to the doctor or grocery store. There may also be "senior centers" with daily activities to help fill some of your time, provide social engagement, and give relief to your other caregivers. Such centers may also be an excellent source of information for other programs and benefits in your area.

Beyond these sources, those who can assist you fall into various categories of professional caregivers. This might be someone who comes into your home to cook or clean, or a home health aide. Professional caregivers would also encompass the staff of an assisted living facility, memory care facility, or nursing home. Or it could be professional medical personnel such as nurses, doctors, or therapists. The common theme in this group is that they will be compensated for the services they provide you, whether by you or by another.

Where Might I Receive Care?

The desirable answer for most of us would be "in my home." Fortunately, there are a wide variety of care services which can be provided in the home. In fact, insurance companies which provide long-term care insurance are generally eager to see you receive care in your home if possible. Remaining in familiar surroundings can provide important psychological and sociological benefits.

If care in your home is not feasible, or the ability to maintain your home properly is beyond you, it may be that one of your children has a residence which could provide separate living quarters for you. This decision should not be made lightly nor unilaterally, as it can have significant ramifications for the host family.

If your home or a child's home is not viable, a residential care facility of some sort will provide your remaining options. As most seniors know, there are a variety of facilities or "care communities" available, starting with independent living arrangements, continuing with assisted living, memory care, and if needed, full skilled nursing care facilities. So-called “continuing care communities” (CCC) have become popular, in that they allow their residents to stay within a residential community and transition to more advanced levels of care if needed. This can be a significant benefit if both spouses are alive but need differing levels of care. Some CCC’s may also guarantee you lifetime care even if your own financial resources end up being exhausted.

How Will the Expense of My Care be Covered?

The first line of defense will of course be your own savings, investments, retirement accounts, and whatever sources of income you receive, such as Social Security, pension benefits, or perhaps rents or royalties.

Since a home may be one’s largest asset, the value it represents may also help pay for needed care. A reverse mortgage can, in the right circumstances, be an effective way to extract the value from your home over time in order to pay for needed in-home care. Among other important considerations, a reverse mortgage can only continue as long as you reside in your home. Despite your firm intention of remaining in your home the rest of your earthly days, this plan could collapse if your final year on this earth requires full nursing care, with potentially dire financial consequences. Reverse mortgages should only be considered with the assistance of knowledgeable professional advisors. The value of your home could also be tapped to finance some of your care needs by selling your home and using the sales proceeds to cover the entrance fee, or a portion of it, for a CCC.

Will federal government programs such as Medicare, or will a Medicare supplement insurance policy, cover long-term care expenses? Generally not. Many people are under the impression that Medicare will pay for nursing home care, but on closer examination this is true only for a limited period of no more than one hundred days. For such care to be covered, it must follow a period of hospitalization (of not less than three days), and the nursing care must be for medical needs directly related to the cause of hospitalization. Certainly, this is a valuable, albeit limited, benefit if you qualify, but it does not fit the progression of health impairment experienced by most with long-term care needs.

Medicaid is another possible source of funding. Medicaid is a program administered by the states with funding from the federal government, which is designed to pay health care costs, including nursing home and certain personal care services. However, Medicaid is a “safety net” program which is available only to individuals with very low incomes and minimal assets. Since Medicaid provisions vary by state, it is best to consult the particular details of one’s own state of residence as well as the federal government’s website (www.medicaid.gov).

Due to the limitations of what Medicaid will reimburse, some nursing care facilities may not accept Medicaid patients, and facilities which have a large percentage of Medicaid patients will generally provide a lower level of amenities and may be less appealing than facilities populated primarily by private-pay or insured residents. In order to qualify for Medicaid, a couple will first need to spend down most of their own assets. This is true even if only one spouse needs care and the healthy spouse is capable of continuing to live independently. At the death of the second spouse, the state may recoup some of its Medicaid outlays for care through a lien on your personal residence. In short, Medicaid should be viewed as the payer of last resort when your savings have been largely depleted.

Can I Purchase Insurance to Cover Long-Term Care Expenses?

Insurance has been available for at least thirty years to help individuals transfer some of the financial risk of a long-term care need to an insurer in exchange for paying premiums on an insurance policy. For individuals without a spouse, such policies can help pay for the care that they might have otherwise received from their husband or wife. For married couples, long-term care insurance can prevent the care needs of one spouse from draining the couple's savings and leaving the surviving spouse impoverished. Originally, these policies were referred to as "nursing home insurance," but policies quickly evolved to cover expenses incurred for in-home care as well as various types of in-facility care. Such insurance today takes the form of either a stand-alone long-term care insurance (LTCI) policy or a hybrid policy where a long-term care rider is added to either a life insurance policy or an annuity policy.

Whether coverage is provided through a stand-alone policy or a hybrid, several key principles will most likely apply:

- Your health needs to be good enough to qualify for coverage.
- Premiums are higher for older applicants than for younger; many insurance advisors suggest that age 50–65 is the "sweet spot" for obtaining this type of insurance.
- For stand-alone policies, premiums are *not* guaranteed to remain level as the years go by, and existing policyholders have endured unexpected (and often substantial) rate increases over the past 15–20 years.
- Benefits will be paid as a reimbursement for long-term care expenses incurred, capped either by a maximum amount payable per month and a maximum number of months or by an overall dollar limit.
- Benefits become available after a waiting period, commonly known as an "elimination period," which may be as short as thirty days but typically would be ninety or one hundred eighty days. The concept is that you should be able to cover expenses from your own savings for a time, after which the insurance benefits kick in. Selecting a longer elimination period will yield a lower premium.
- You qualify for benefits by filing a claim with the insurance company; your claim would ordinarily be approved if you are unable to perform two or more "Activities of Daily Living" *or* your doctor attests to your having a severe cognitive impairment (such as Alzheimers or dementia) requiring substantial supervision. Activities of Daily Living are generally defined as eating, bathing, dressing, transferring/mobility, toileting, and continence.
- The insurance company will often provide a "care coordinator" who will, in conjunction with you, your medical professionals, and your family, develop a "plan of care" which is appropriate to your needs. While a care coordinator is there in large part to keep the insurer from paying for unnecessary services, you will also find them to be a valuable resource in helping you find the right kind of help.

Stand-alone policies are not inexpensive, depending of course on the level of benefits selected. For example, a couple aged sixty purchasing a policy which, after a ninety-day waiting period, would provide a $7,000/mo. benefit[1] for up to 48 months[2] would likely pay premiums of more than $600/month. People of average financial means may find that paying the ongoing premiums of a stand-alone policy simply is not affordable. Hybrid policies attempt to address affordability concerns by pairing some coverage for long-term care needs with either life insurance or an annuity. Hybrid Life/LTC policies will be based on permanent cash value life insurance, not low-cost term insurance. If the policy has had, or will have, sufficient premiums paid into it, then the insurer can be confident that they will pay out the insurance policy face amount eventually. Normally this would be at the death of the person insured, but with the LTC component, should you incur qualifying long-term care expenses, the insurer can in essence pay a portion of the eventual death benefit to you early. While it becomes very difficult to assess whether LTC insurance is "a better deal" through a stand-alone policy or a hybrid, the hybrid approach has understandable appeal. The hybrid policy owner knows that they or their heirs will receive a financial return one way or another.

Hybrid Annuity/LTC policies are fundamentally different in that you are not offloading financial risk to the insurance company. Instead, you are using your own cash to purchase an annuity from the insurer, and in addition to the normal means by which you might later withdraw your funds from that annuity, you can also withdraw funds to pay for long-term care expenses. The benefit is that such LTC withdrawals will be tax free, where any other withdrawals may be taxable. A simple example will illustrate: when James was age fifty he received a $100,000 inheritance and decided to invest this money in a deferred interest annuity. As the years went by, the annuity earned interest and the value grew. James is now age eighty, and the annuity has grown to $225,000. If he begins withdrawing money, he will have to declare all of the earnings ($125,000) as taxable income and pay taxes at his then-current income tax rate. The original $100,000 comes back as his principal and is tax free, but the taxes on the $125,000 of earnings could be as much as $30–40,000. In contrast, should James have qualifying long-term care expenses, those withdrawals would be tax free, potentially allowing annuity proceeds which otherwise would have gone to the IRS to instead pay for his LTC needs. As you might surmise, the Annuity/LTC hybrid will provide the greatest benefit to someone who has had money invested and growing in an annuity for many years.

A final consideration regarding LTC insurance, whether stand-alone or hybrid, is that these financial products are generally provided by an insurance agent or broker who will be compensated through a commission arrangement. Typically, their pay will be some

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[1] The national average for a single bedroom assisted living facility was $4,800/mo. in 2020, and the national average for a semi-private room in a nursing home was $8,177/mo. Source: Mutual of Omaha, "The Cost of Long Term Care Services, 2021 Update."

[2] For this example, a "shared benefit" approach is assumed. The husband's policy provides for 24 months of benefits, as does the wife's policy. If one spouse exhausts all of their benefits, they can use as much as 12 months of their spouse's policy benefits. This policy also adjusts future benefits upward by 3% yearly to partially offset inflation. Many other policy configurations are possible. This example is meant to illustrate a fairly modest level of coverage. The annual premium is $7,993. Pricing current as of September 2021, for an Illinois resident.

percentage of the premiums that you pay. While there is nothing inherently wrong with such an arrangement, it does create the possibility of a conflict of interest between you and the agent. Deal with someone whom you know to be trustworthy, and who is part of an organization that is likely to be able to continue servicing your policy for years into the future.

Concluding Thoughts

As was promised, planning for late-in-life long-term care needs and expenses is complex. It is rare that anyone arrives at a plan which can be executed with 100% certainty as to the outcome. But as Christians, we are called to be wise stewards, not to guarantee results. In that light, make a plan carefully and prayerfully. Involve your children as well as trusted professional advisors. But make a plan and communicate it to those whose lives may be impacted. Then leave it to your sovereign Lord to provide for you as only he can. If his eye is on the sparrow, then we know he watches over you.

Resources

Brian L. De Jong, *Honoring the Elderly: A Christian's Duty to Aging Parents* (Sheboygan, WI: Brian L. De Jong, 2017).
Carol Levine, *Planning for Long-Term Care for Dummies* (Hoboken, NJ: John Wiley & Sons, 2014).
Joy Loverde, *Who Will Take Care of Me When I'm Old?* (New York: Da Capo Press, 2017).
Medicare, www.Medicaid.gov
Medicaid, www.Medicare.gov

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