

## Who Pays for Long-Term Care?

It is important to understand who pays for long-term care. A high likelihood exists that long-term care will impact each of us in some way. If it doesn't affect us directly, it may potentially impact us through our spouse, parents, in-laws or grandparents.

The perception of many individuals is that the government will bear the cost of long-term care through either Medicare, Medicaid (Medi-Cal in California), or some other type of government program.

These programs pay just a portion of the overall cost. This is primarily due to stringent qualification criteria and limited benefits of both programs.

### ***Medicare's requirements and benefits***

Medicare, "The Health Insurance for the Aged Act, Title XVIII of the Social Security Amendments of 1965," is a federal entitlement program designed to pay expenses associated with the health care needs for individuals age 65 and over as long as they meet the requirements set forth by the Social Security system. Different rules and benefits for nursing home care and home care exist and an overview is provided below. (Complete details on the rules and benefits can be found in the "Guide to Health Insurance for People with Medicare," which can be obtained from your state Insurance Department or Agency on Aging[, the «XYZ Company» Employee Benefits Department, or your «XYZ Company»'s Northwestern agent].)

The Medicare program consists of two parts: Part A - Hospital Insurance, and Part B - Medical Insurance which is supplemental and optional coverage.

Medicare's Part A coverage will pay for skilled care in a nursing home or for home health care if certain requirements are met. The requirements for skilled nursing home care are:

- ◆ A prior three-consecutive-day hospital stay (not including day of discharge) upon entering a skilled nursing home facility is required. The same medical cause must exist for both hospital and skilled nursing facility admission.
- ◆ The patient must generally be admitted to the skilled nursing home facility within 30 days of hospital discharge.
- ◆ A Medicare-certified skilled nursing home facility is required.
- ◆ A physician must certify the need for this skilled care on a daily basis.

The amount Medicare will pay for skilled care in a nursing facility is:

<b>Days</b>	<b>Medicare Pays</b>
1 - 20	Up to 100% of approved amount
21- 100	All but [\$101.50]* per day
100+	Nothing

\* Based on 2002 figures which are adjusted annually.

Medicare will pay benefits for unlimited home health care visits, provided it is determined to be medically necessary. To qualify for benefits:

- ◆ The patient must be confined to the home.
- ◆ The patient must be under a physician's care and have a plan of care set up and periodically reviewed by the physician.
- ◆ The health care agency must be Medicare approved for home health care.
- ◆ The patient must need intermittent skilled nursing care, physical therapy, or speech therapy. Medicare will not pay for full-time at-home care.

Medicare was designed to pay benefits for "acute" medical conditions. Acute conditions require immediate, short-term treatment for a serious illness or injury that is provided in a hospital or at a skilled nursing facility. In reality, Medicare pays for only a small portion of nursing facility costs, and pays for only intermittent skilled nursing home health care costs.

### ***Medicare supplemental insurance***

Medicare supplemental insurance (referred to in some states as Medigap) is available for purchase as private health insurance from various insurance companies and organizations.

The supplement's purpose is to provide additional coverage to fill the "gap" between Medicare's reimbursement and the actual cost of medical services. For example, based on the supplemental plan chosen, the [\$101.50]\* co-payment could be covered from day 21 through day 100 for a skilled nursing facility. (\*This amount is indexed annually and reflects the 2002 amount).

An important point to consider is that while the supplemental coverage can assist in paying additional expenses to fill the gap left by Medicare, the Medicare supplements do not "add" benefits to Medicare by extending the length of time Medicare pays. Therefore, Medicare and its supplemental coverage remain insufficient at meeting the costs associated with long-term care needs.

### ***Medicaid's requirements and benefits***

Medicaid (Medi-Cal in California), also known as Title 19, is a joint federal and state means-tested program. This means that it pays health care expenses only for low-income individuals.

The federal government drafts broad guidelines for states to use in administering the program. Each state develops their own specific rules for medical and financial requirements in order to qualify for benefits. For example, most states require that a

physician certify care is necessary and the individual must provide evidence that he or she does not have the financial means to pay for care.

*(Government agencies on aging or the Medicaid office in your state can provide complete details on program administration, restrictions and available services.)*

To qualify for benefits under Medicaid, applicants must meet Medicaid's eligibility requirements that measure both the applicant's assets and income.

A Medicaid applicant is required to have assets below a certain stated level (many states require less than \$2,000). The spouse is able to keep additional resources to remain independent within the community but is also limited in the amount he or she may keep (this amount varies by state and changes each year). The couple's other assets, such as the primary residence, household furnishings, one car and other personal items, may also be kept, but the circumstances in which they may be kept vary by state.

Medicaid also has income minimums and maximums that may apply to both the Medicaid recipient and the spouse who continues to live in the community. While the Medicaid recipient can keep a small portion of monthly income, known as a "personal needs allowance", (many states limit this amount to less than \$50 per month) the spouse can keep income for living and housing expenses. (The state maximum for the spouse's income is typically \$2,000 per month but can vary based on state limits.)

Clearly, relying on Medicaid to pay your long-term care costs can significantly reduce your choice of health care facilities. Additionally, Medicaid requires the state to approve your program of care. Care may be delivered in skilled, intermediate, or custodial nursing facilities, but only if they are Medicaid certified.

Limited custodial and skilled home health care services are also covered but the services provided must be made by a Medicaid-certified agency. (Medicaid does not approve care that is delivered in alternate living facilities.)

### ***Personal Resources***

No one likes to think about a long-term care event, but considering your options while you're healthy is the best time to plan. Ask yourself the following:

- Could your present income and assets pay for your long-term care expenses (today, in 10 years, in 30 years)?
- How might that potential cost impact your college funding, charitable giving or estate planning goals?
- If the income generated before and during retirement is unable to keep pace with the increasing cost of care in your area, where might the additional dollars come from?

To better illustrate this, the annual, projected cost of long-term care services for a home health care aide increased from \$34,000 per year in 2001 to approximately \$195,000 in

2030.<sup>1</sup> For nursing home coverage the figures are even more dramatic. Based on national averages, the annual nursing home stay in 2001 cost \$55,000, but will climb to \$315,000 in 2030.<sup>2</sup>

### **Long-Term Care Insurance**

After carefully examining the previous options, many individuals decide that a personalized, long-term care policy offers the best solution. Here's why:

Long-term care insurance . . .

- ◆ enables you to receive care in your home, the community, an alternate living facility\* (e.g. Alzheimer's Facility), or in a nursing facility.
- ◆ protects you from depleting your assets and diverting your retirement income in order to receive the necessary care.

People purchase long-term care insurance for a variety of reasons. Some buy to preserve assets they have worked hard to accumulate. For others, long-term care insurance offers a sense of independence – freedom from having to rely on children or the government to provide care.

Regardless of the reason you purchase long-term care insurance, it affords all who purchase it a greater sense of financial security, dignity and choice when it's needed most.

\*Also known as residential care facilities (California only) or assisted living facilities.

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<sup>1</sup>National Association for Home Care. "Basic Statistics About Home Care: Updated March 2000." NAHC Web site Table 17.

<sup>2</sup> General Accounting Office, "Long-Term Care Insurance: Better Information Critical to Prospective Purchasers." Sept. 2000: GAO/T-HEHS-00-196:1.

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Northwestern Long Term Care Insurance Company. Milwaukee , WI  
Policy forms RS.LTC.(0708) and RS.LTC.ML.(0708).  
Form RS.LTC.ML.(0708) is only available  
in New Jersey, New York and Pennsylvania.