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Planning and Paying for Long-Term Care

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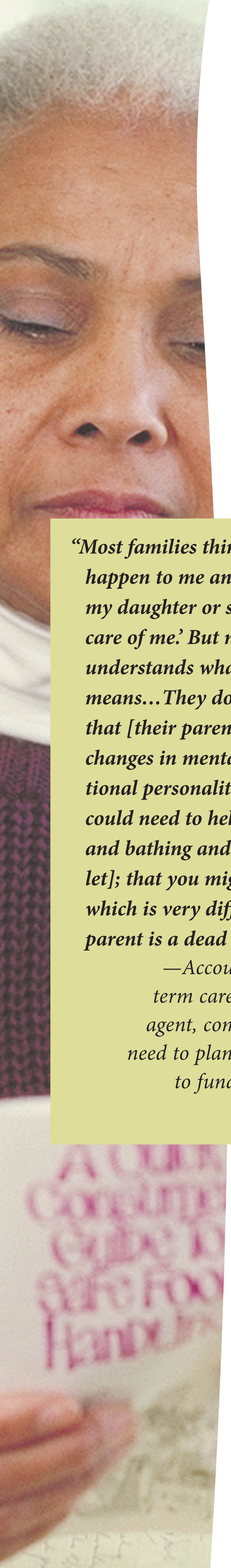
Overview of the Financial Caregiving Series

The publications in this series are based on research conducted with adult child caregivers and caregiving professionals. The series provides practical insights and strategies for adult children (and other family members or friends) who are concerned about or caring for their aging, ill, or disabled loved ones. Financial caregiving tasks are organized and prioritized for caregivers according to three possible scenarios: when there is time to plan, when you observe that some assistance may be needed, and when there is a crisis. Caregiver resources include step-by-step implementation plans, consumer checklists, worksheets, and locations for finding more information. The series contains seven publications:

1. *Introduction to Financial Caregiving and Glossary* (Publication 8379)
2. *Communicating with Your Parents about Finances* (Publication 8380)
3. *Getting Organized: Bill Paying and Record Keeping* (Publication 8381)
4. *Understanding Long-Term Care* (Publication 8382)
5. *Planning and Paying for Long-Term Care* (Publication 8383)
6. *Estate Planning* (Publication 8384)
7. *Financial Fraud and Abuse* (Publication 8385)

The information presented in the Financial Caregiving Series is for general educational purposes only and is not intended to substitute for professional advice regarding legal, tax, or financial-planning matters.



Planning and Paying for Long-Term Care

Importance of Planning for Long-Term Care

Although not everyone will need expensive long-term care (LTC), financial planners recommend that everyone should at least consider planning for the possibility, since LTC is expensive and can quickly deplete a lifetime of savings. If a lengthy nursing home stay is needed, expenses can be financially catastrophic (Merlis 2006). The average rate for a private room (single occupancy) in a nursing home is $209 daily or $76,460 annually (Kaiser Commission on Medicaid and the Uninsured 2006; Genworth Financial 2007). If both of your parents need long-term care, the cost might be double ($152,920 per year).

Benefits of Planning

By planning ahead, your parents are less likely to use up their financial resources by paying for long-term care. Instead, they may be able to save their assets and income for uses other than long-term care, including preserving the quality of life for a remaining spouse, passing on an inheritance to loved ones, and supporting favorite causes through their estate.

> ***"Most families think 'it will never happen to me and if it does, my daughter or son will take care of me.' But nobody really understands what that really means…They don't understand that [their parents] could have changes in mental and emotional personalities; that you could need to help with washing and bathing and [using the toilet]; that you might need to lift, which is very difficult if your parent is a dead weight."***
>
> *—Accountant and long-term care insurance sales agent, commenting on the need to plan ahead for ways to fund long-term care*

Characteristics Influencing the Need for Long-Term Care

While every elder and their situation is unique, certain personal and family characteristics affect the likelihood of needing long-term care. These factors include the elder's age, gender, marital status, health status, and the availability of a personal support network.

Age

The likelihood of needing long-term care increases with age, as does the probability of entering a nursing home (Family Caregiver Alliance 2005). About 70 percent of individuals over age 65 will require at least some type of long-term care in their lifetime, and over 40 percent will need care in a nursing home (the most expensive type of LTC) at some time (National Clearinghouse on Long-Term Care 2008). Regardless of health status, the very old (age 85+) may need assistance with activities of daily living, such as household chores or transportation.

Gender

Due to their longer life expectancy, women are more likely than men to need LTC. Women typically need care for a longer period of time than men (3.7 years versus 2.2 years, on average) (National Clearinghouse on Long-Term Care 2008). About 75 percent of elderly, nursing home residents are women (Genworth Financial 2006).

Marital Status

A single or widowed elder is more likely to need long-term care than one who has a spouse or partner at home to assist him or her with everyday tasks. Eighty-three percent of female nursing home residents do not have spouses (Genworth Financial 2006).

Health Status and Lifestyle

Someone who has functional limitations because of illness, disability, or cognitive impairment is more likely than a healthy elder to need long-term care (Henry J. Kaiser Family Foundation 2003). Lifestyle choices such as smoking, sedentary living, and poor nutrition increase the risk of needing long-term care and may also result in a need for more extensive long-term care services at the end of life.

Family, Friends, and Support System

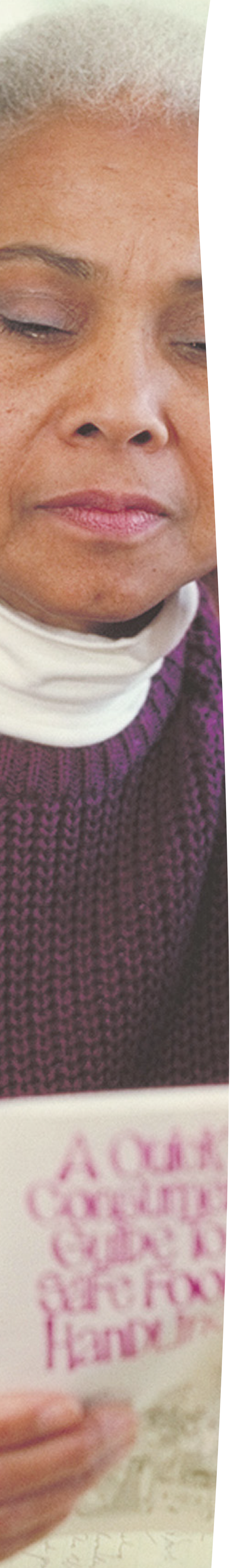
Family circumstances and the availability of a personal support network influence the risk of needing long-term care. About 80 percent of those needing long-term care are cared for at home by family and friends who volunteer their assistance (National Association of Area Agencies on Aging 2007b). Elderly people who have few family members or friends to help them, or whose family members live at a distance, are more likely to need nursing home care than those who have a strong, local support system of family and friends (National Association of Area Agencies on Aging 2007b).

Factors Influencing Long-Term Care Expenses

If your parents need long-term care, their actual expenses will be influenced by the type and amount of care needed; whether they receive care at home, in the community, or in a facility; how long they need long-term care services; and where they live.

Frequency and Intensity of Care

Over time, many elders experience a progression in the level of care needed (National Clearinghouse on Long-Term Care 2008). For example, they might need occasional assistance once or twice



a year for certain activities such as traveling, then periodic assistance monthly or weekly for activities such as cleaning and shopping for groceries, then daily assistance with tasks such as preparing meals, bathing, and dressing, and, finally, assistance and supervision 24 hours a day. Homemaker services, which provide assistance with instrumental activities of daily living(activities that support independent living, such as house cleaning, grocery shopping, and laundry) are generally less expensive than home health care, which usually costs less than skilled nursing care.

Setting Where Care Is Provided

Often the need for increasing levels of care coincides with a progression of care settings. An older person may initially receive care at home and in the community, followed by a move to an institutional setting (such as an assisted-living facility, or board and care home), and then enter a nursing home for the remainder of his or her life (Kahn 1997). As indicated in table 1, the cost of long-term care varies according to the setting. Depending on caregiver qualifications and the number of hours and days care is received, home health care may be more or less expensive than the same type of care in an assisted-living facility. Assisted living in a board and care home is generally less expensive than care in a larger assisted-living facility that offers more amenities, such as a nurse on site 24 hours a day. Not-for-profit, long-term care facilities are often less expensive and provide more hours of care than corporately owned LTC facilities (McGrail et al. 2007).

Length of Time Care Is Needed

A person may receive long-term care services for weeks, months, or years. The age at which one begins receiving long-term care may influence how long care is needed. For example, someone who begins long-term care at age 65 may need care for more years than one who begins long-term care at age 88.

If your parents have a family history of illnesses causing cognitive impairment, it is a good idea to plan for a longer-than-average duration of care. Some diseases that cause cognitive impairment, such as Alzheimer's, affect the ability to live independently but do not necessarily shorten one's life.

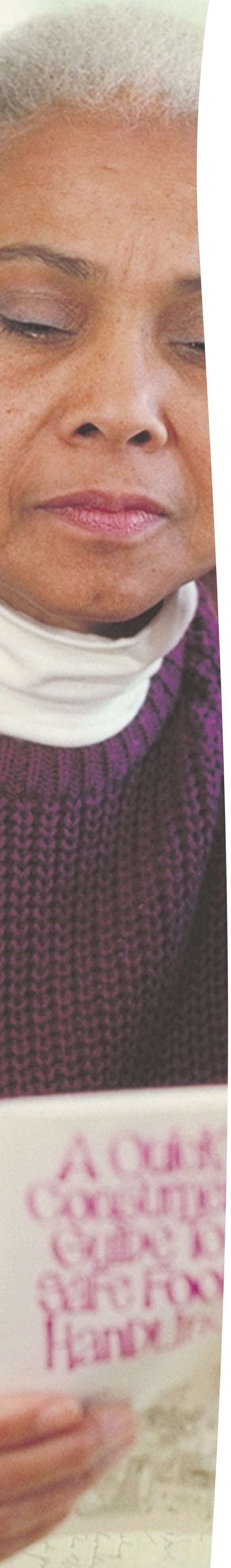
On average, someone who is now 65 years old will need some type of long-term care services for about three years. Among those age 65 and older, there is a 40 percent chance of entering a nursing home at some time. The average stay in a nursing home is 2.5 years, but about 10 percent of people who move to nursing homes will stay there 5 years or more (National Clearinghouse on Long-Term Care 2008; U.S. Department of Health and Human Services 2006).

Table 1. Average cost of long-term care in the United States by type of care

Type of care	Cost per day	Cost per month	Cost per year
nursing home* private room	$209	6,372	76,460
nursing home* semiprivate room	$187	$5,701	$68,408
assisted living* (retirement community, private 1 bedroom)	$99	$3,008	$36,090
home health aide (Medicare certified; $38/hr; 5 hrs/day x 5 days/wk)	$190	$4,117	$49,400
home health aide (licensed; nonMedicare certified; $19/hr; 5 hrs/day x 5 days/wk)	$94	$2,031	$24,375
adult day health care	$59	1,795	21,535

Source: Genworth 2008.

Note: *Rates exclude any one-time community or entrance fees.



Cost of Care in the Local Area

The cost of long-term care varies regionally across the United States. The price your parents will pay depends on where they live. Table 2 shows the states with the highest and lowest annual costs for a private room in a Medicare-certified nursing home, and a private one-bedroom unit in a state-licensed, assisted-living facility.

Costs also vary between urban and rural areas. A national survey found that, on average, assisted-living facilities cost about 15 percent more in urban areas than in nonurban areas. The biggest differences between urban and nonurban areas were in New York (53 percent), Texas (43 percent), and Pennsylvania (42 percent) (Genworth Financial 2007).

Planning for Long-Term Care

How much will your parents need to pay for long-term care (if needed)? This is hard to predict because service and support needs vary from person to person and may change over time. The process of estimating long-term care requires consideration of personal as well as financial issues, knowledge of the options and costs, and decision-making about services that most people are not familiar with. The following steps may help you and your parents estimate their potential lifetime costs for LTC (National Clearinghouse on Long-Term Care 2008).

1. Assess your parents' risk of needing long-term care services

Your parents can talk with their doctor(s) to learn if they are at increased risk based on their medical and family history or lifestyle choices. If so, the doctor may be able to help them decrease their risk. They could also evaluate the risk factors discussed earlier in this publication.

2. Find out where your parents want to receive care

If your parents were to need care for an extended period, do they want to stay at home and receive care in the community? Move to a different location that is more accessible, offers more services, or is closer to family? What are their feelings about assisted living or other types of institutional care? If your parents need more information on long-term care services, the *Eldercare Locator* provided by the U.S. Administration on Aging Web site (www.eldercare.gov) can help them find out what services are available in their community.

3. Talk with the family about long-term care

Are there family members (spouse, adult children, siblings) or friends who would be willing and able to care for your parents if they become ill or disabled for a long time? How do your parents think they would feel about relying on help from these people?

4. Help your parents review their current or expected insurance coverage

Will your parents' health insurance pay benefits if they need home care or assisted-living care for an extended illness? Most health insurance plans (including Medicare, Medicare supplemental plans, and HMOs) provide few, if any, benefits for long-term care. If your parents have limited resources and meet the eligibility requirements, Medicaid may pay for their long-term care.

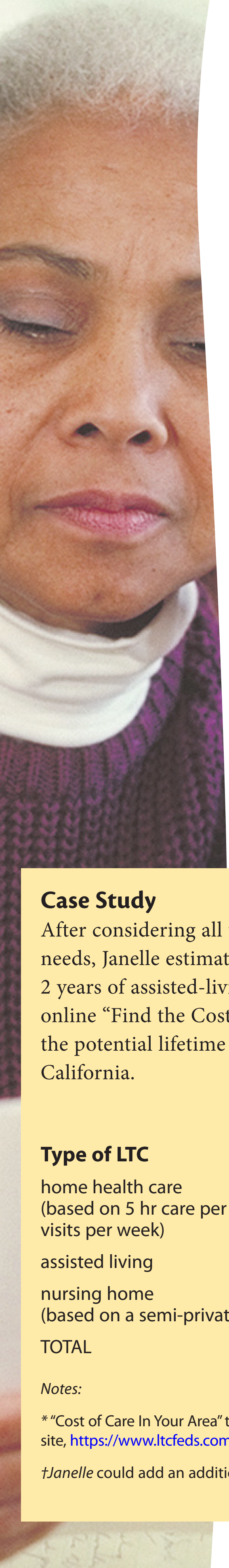
5. Investigate the cost of long-term care where your parents live

For current information about the costs of home care, assisted-living care, and nursing home care where your parents live (or want to receive care), use the "Find the Cost of Care in Your Area" tool online

Table 2. States with highest and lowest annual cost of LTC by type of care

Type of care	Highest annual cost	Lowest annual cost
nursing home (private room)	$187,975 (Alaska) $145,270 (New York City)	$45,625 (Louisiana) $45,990 (Missouri, excluding St. Louis and Kansas City)
assisted living	$54,804 (Alaska) $54,048 (Boston)	$23,772 (Arkansas) $25,656 (Oklahoma)

Source: Genworth Financial 2008.



at the Federal Long Term Care Insurance Program Web site, http://www.opm.gov/insure/ltc. Another place to look is the National Clearinghouse for Long-Term Care Information Web site, www.longtermcare.gov. (See “Paying for Long-Term Care: What Does Care Cost Where I Live?”) For an example of the information that is available, see table 3 which reports the average cost of three levels of long-term care in San Diego, California, and Fort Worth, Texas.

6. Estimate your parents’ lifetime cost of care

The federal government’s Medicare Web site (www.medicare.gov) has a calculator that you and your parents can use to estimate their lifetime cost of care. The “Long-Term Care Planning Tool” uses a confidential survey and national usage data to create a customized estimate of the amount a specific person (your mother or father, for example) can expect to pay for long-term care. In addition, it suggests the types of long-term care services that might be most appropriate and the financing options available to support the costs.

7. Help your parents decide if they can (or want to) pay for LTC privately

If your parents don’t have long-term care insurance or prefer to pay for LTC out of their own resources, could they cover all the costs from their retirement income and savings? What financial resources do they have and how do they feel about using them to pay for long-term care? Their resources might include various sources of income such as Social Security, pensions, interest income, dividends from investments, payments from an IRA or 401(k), as well as cash, savings, stocks and bonds, and their home or other real estate.

Case Study

After considering all the factors affecting her father’s long-term care needs, Janelle estimated that he would need 2 years of home-based care, 2 years of assisted-living, and 3 years of nursing-home care. She used the online “Find the Cost of Care in Your Community” tool* to calculate the potential lifetime costs of long-term care for her father in San Diego, California.

Estimated Costs Over Time

Type of LTC	Number of years	Total costs
home health care (based on 5 hr care per visit and 5 visits per week)	2 years	$ 52,000
assisted living	2 years	$ 68,000
nursing home (based on a semi-private room)	3 years	$215,000
TOTAL		$335,000†

Notes:

* “Cost of Care In Your Area” tool can be found at the Federal Long Term Care Insurance Program Web site, https://www.ltcfeds.com/ltcWeb/do/assessing_your_needs/costofcare?action=costofcare.

†*Janelle* could add an additional 3 to 5 percent per year to cover inflation.

Table 3. Average cost of LTC in two cities by type of care

Type of care	San Diego, CA	Dallas, TX
home health care*	$20/hr$26,000/yr	$19/hr $24,700/yr
assisted living	$2,811/mo $33,732/yr	$2,861/mo $34,332/yr
nursing home†	$190/day $69,350/yr	$126/day $45,990/yr

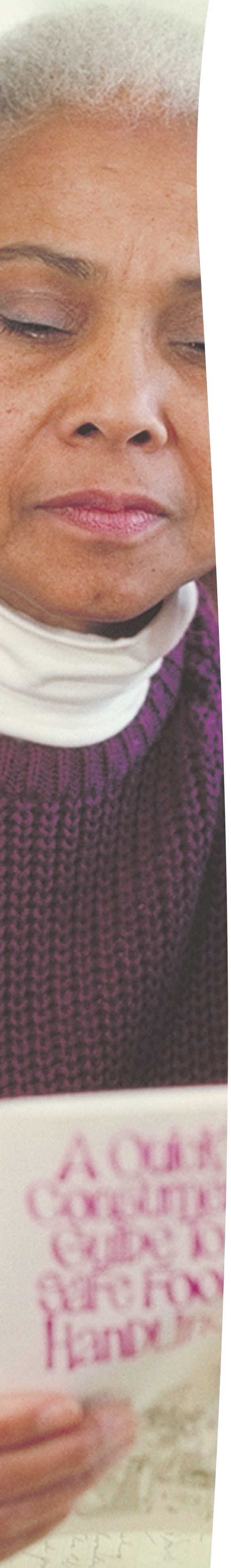
Source: Federal Long-Term Care Insurance Program 2009.
Notes:
* Cost of home health aide (Medicare certified) is based on 5 hours/day, 5 days/week, for 52 weeks.
† Nursing home costs are based on a semiprivate room.

8. Find out what future insurance or benefits your parents may qualify for

If your parents are still working, it is important for them to learn about any future benefits and what they will cover. If they only have Medicare, even with a Medicare supplemental plan (often referred to as “medigap” insurance), most of their long-term care services may not be covered. If your parents’ resources are limited (or they anticipate limited resources after they retire), Medicaid may pay for long-term care.

9. Find out if there are other resources that might help cover your parents’ LTC expenses

Most people currently don’t have coverage or enough private funds to pay for all their long-term care needs, particularly if they need extensive services or care for a long time. To meet this need, an increasing number of private payment options are available, including long-term care insurance (LTCI). When considering private financing options it is important to understand all the details, eligibility requirements, and costs (National Clearinghouse on Long-Term Care 2008). (Some of these options are described later in this financial caregiving series.)



> ***"I have made contact with a Vets organization and plan to attend a meeting to learn how Dad can receive vets benefits since he served during a foreign war."***
>
> *—Caregiver, discussing possible ways to pay for her father's long-term care*

Paying for Long-Term Care

Once your parents have estimated their lifetime cost of care, the next step is to identify resources they have available to pay for long-term care. Elders and their families generally use one or a combination of the following resources to provide for long-term care:

- assistance from family and friends (unpaid)
- personal savings and assets
- government programs: Medicare, Medicaid, PACE, and veterans benefits
- long-term care insurance (LTCI)

Table 4 compares the various ways that families pay for LTC.

Support from Family and Friends (unpaid)

About 80 percent of all long-term care is provided at home by family and friends (unpaid) who assist their loved ones with everyday tasks such as transportation to medical appointments, grocery shopping, banking, and bill paying (National Association of Area Agencies on Aging 2007b). Volunteer caregivers typically rely on community services to supplement what they can provide. The availability of community services varies by location and should be factored in when planning for your parents' care.

With the help and supervision of paid professionals such as visiting nurses and home health aides, family members can often assist with the activities of daily living and health-care tasks such as injections, treating wounds, replacing dressings, and supervising medications to be sure they are taken according to the doctor's instructions (Clapp 1993). Family caregivers may also hire and supervise paid caregivers such as homemakers and home health aides.

If you or other caregivers live near your parents, have the time and skills to provide necessary care, and are willing to help, this may be an option for your parents. However, if you or other family caregivers work full-time or live at a distance, you may not be able to provide the care your parents need to remain at home.

Personal Savings and Assets

Some elders *self-insure* for long-term care. They save and invest throughout their lives, then use their accumulated wealth to pay for long-term care. Personal savings and assets may include

- current income
- money in checking and savings accounts
- stocks, bonds, or other investments
- certain types of life insurance policies
- pensions and retirement accounts
- a home or other real estate

Given the high costs of LTC, using savings and assets (alone) to pay for care is only an option for those with above-average resources. If your parents can afford to self-insure, there are definite advantages: they can choose where and how they receive care, and they don't have to worry about *qualifying* before receiving care (as they must do with Medicare, Medicaid, and long-term care insurance). If they don't need long-term care or don't spend all their assets paying for long-term care, they can pass their remaining assets to their heirs. Use the interactive "Long-Term Care Savings Calculator" provided by the National Clearinghouse on Long-Term Care at http://www.longtermcare.gov/LTC/Main_Site/Planning_LTC/Considerations/Savings_Calculator.aspx?rand to get an estimate of the amount your parents need to save each month to pay for their care. If your parents decide on self-insuring, it is important to recognize that even with careful planning they may not have enough money to pay all their long-term care expenses. This is particularly true if one of them develops a disease such as Alzheimer's that requires care for a longer-than-average period of time (Clapp 1993).

In addition, your parents may have other assets they can use to finance their long-term care. These include life insurance policies, the equity in their home, and veteran's benefits, if eligible (National Clearinghouse on Long-Term Care 2008).

Life Insurance

If your parents own whole life or universal life insurance policies, they should check to see if the policies include options allowing them to access their life insurance benefits while they are living. (Term life insurance does not have a cash value). These options are described in the following paragraphs.

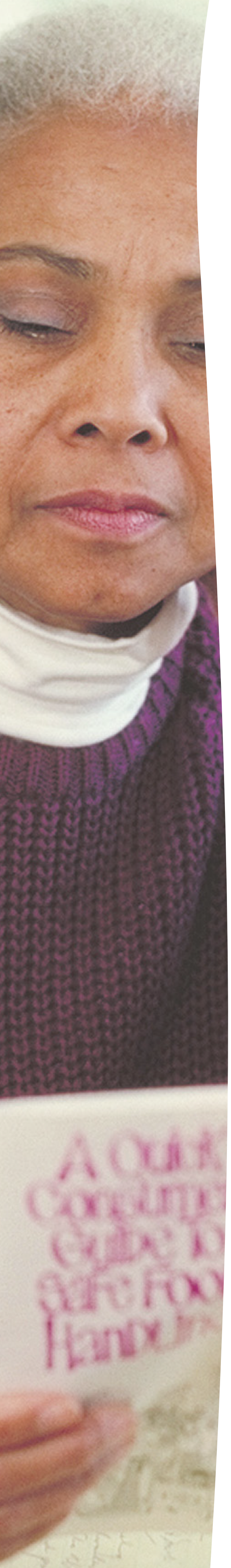
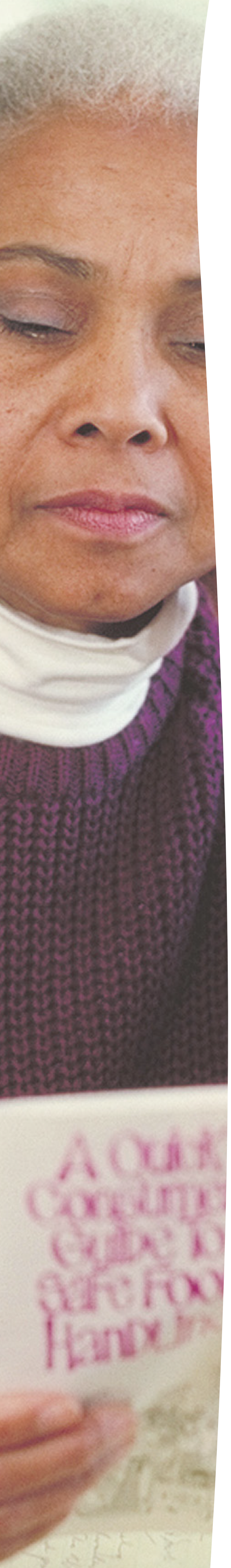


Table 4. Comparison of financing options for long-term care*

Financing option	Remaining funds available to heirs	Eligibility requirement	Risk of insufficient funds	Cost
family support and caregiving	no	no	Family members may be unable/unwilling to provide care.	You pay for services that family members are unwilling to provide.
personal savings	yes	no	Long-term care costs can exceed your personal savings.	You are responsible for creating private savings.
long-term care insurance	no	yes	Long-term care costs could exceed original coverage amount.	Monthly premiums for the life of the policy.
limited long-term care insurance	no	yes	Long-term care costs could exceed original coverage amount.	Large one-time or short-term monthly premium.
life settlement	no	yes	Amount received from benefit may not pay all long-term care costs.	none
viatical settlement	no	yes	Amount received from benefit may not pay all long-term care costs.	none
accelerated death benefit	no	yes	Amount received from benefit may not pay all long-term care costs.	none
reverse mortgages	yes	yes	Amount received from benefit may not pay all long-term care costs. Home maintenance costs still exist.	Processing and origination fees to establish mortgage.
continuing care retirement community (CCRC)	yes	yes	Additional care provided as needed in CCRC assisted living or nursing facility.	High purchase price and fixed monthly payment required of CCRC property.
veterans benefits	no	yes	Amount received from benefit may not pay all long-term care costs.	none
Medicare	no	yes	Amount received from Medicare may not pay all long-term care costs.	co-payments and deductibles
Medicaid	no	yes	Amount received from Medicaid may not pay all long-term care costs. Recovery of Medicaid may be made against estate.	You pay for services not covered by Medicaid.
PACE	no	yes	Amount received from benefit may not pay all long-term care costs.	You pay for services not covered by PACE.

Source: U.S. Department of Health and Human Services 2007a.

Note : * The cost of long-term care can vary quite a bit depending on what kind of care you need, where you get the care, and where you live.



Accelerated death benefits. If your parents have life insurance policies with accelerated death benefits, they may be able to get part of the death benefit in cash while they are living and use it to pay for their long-term care expenses. (The death benefit is the money that would be paid to beneficiaries after the insured dies.) To access this benefit, most life insurance policies require that the policyholder meet one of the following criteria:

- Is unable to perform several activities of daily living.
- Has a terminal illness (requires medical diagnosis).
- Needs nursing home care for the rest of his or her life.

Insurance companies charge an administrative fee to activate the benefits, and there may be spending limits (caps). Typically, the policyholder continues paying the life insurance premiums while receiving payments from the accelerated death benefit. The policy's death benefit is reduced by the amount paid to the policyholder.

Living benefit rider. Some life insurance policies have a *living benefit* rider, and under certain conditions the insurance company will pay a reduced death benefit to the policyholder who is still living. Conditions are spelled out in the policy. For example, an insurance company might pay living benefits if the policyholder has a major organ transplant, is diagnosed with a terminal illness, or if a medical evaluation concludes that the insured is expected to stay in a nursing home for the rest of his or her life. The insurance company pays benefits as a lump sum or in periodic payments, and the money can be used for any purpose, including long-term care, mortgage payments, or health insurance premiums.

Viatical settlement. If none of the previous options are available, there may still be a way for your parents to get cash from their whole or universal life insurance policies while living. Under a viatical settlement, a company buys the life insurance policy from a terminally ill person at a discounted price. The purchasing company pays a lump sum in exchange for a percentage of the death benefit (generally 50 to 80 percent of the total). The original policyholder (your parent) gets cash to pay for long-term care, but no longer has life insurance coverage. The purchaser continues paying the life insurance premiums, and then collects the death benefit when the policyholder dies.

Other options. Even if your parents' life insurance policies don't have these features, it is a good idea to contact the issuing company and ask about the possibility of receiving part of the death benefit while they are living to pay for their long-term care expenses (Clapp 1993).

Consumer Warning about Viatical Settlements

Arrangements to accelerate financial benefits from life insurance policies, whether they are called living benefits or viatical settlements, have complicated legal, financial, and tax consequences, and may affect eligibility for some public benefits. For people who are considering selling their life insurance policies in order to get funds to pay their bills, the advice from the Federal Trade Commission (FTC) is to proceed cautiously, comparison shop, and consult professional advisors to review the contract before signing. For more information, see the FTC consumer advisory at the FTC Web site (http://www.ftc.gov).

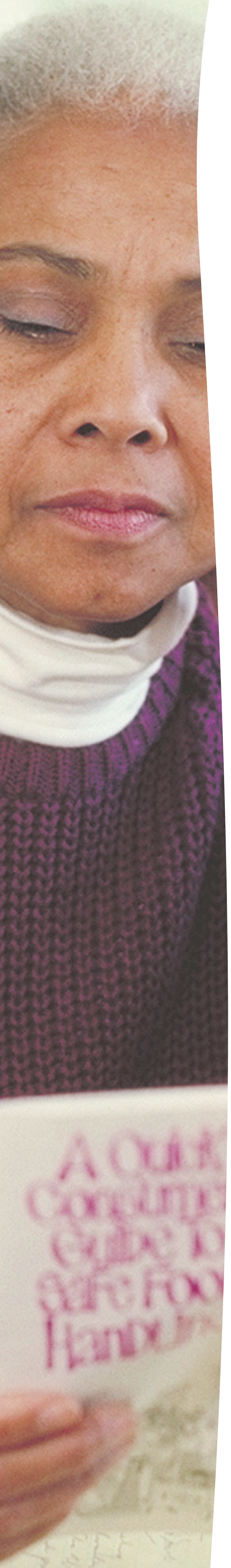
Home Equity

Homeownership is the main source of accumulated wealth for most families. If your parents own a home, their home equity—the market value of the home minus the balance they owe on any home loans—could possibly be used to finance their care. They can access their equity in three ways.

- Selling the house

If your parents want or need to move, the easiest way for them to access their home equity is to sell their house. The advantage is that they can move anywhere they want to, including a location nearer their adult children or to a community with better or more affordable services for seniors. If your parents don't need the proceeds from the sale to pay for long-term care immediately, they can use it to buy LTC insurance, save or invest the money to pay for long-term care (if and when it is needed), or buy into a continuing care retirement community.

However, before selling their house to pay for long-term care, your parents should consider some possible disadvantages. First, they may have difficulty selling their home if it is located in a declining neighborhood, the housing market is slow, or mortgage interest rates are high. Second, they may not get enough money from the sale to pay for all the



care they need. Finally, if they sell their home to pay for LTC, they cannot pass it on to their heirs.

- Reverse mortgage

If your parents don't want to sell their home and move, they might consider obtaining a *reverse mortgage*. A reverse mortgage would allow them to continue living in their home and receive monthly payments that they could use to pay for long-term care (or any other purpose). They would still own the title to the home, and continue paying for homeowners insurance, property taxes, utilities, and repairs necessary to maintain the value of the home. A reverse mortgage is useful for seniors who are "house-rich but cash-poor."

With a reverse mortgage no payments are required until the owner moves out permanently, sells the house, or passes on. After the home is sold, the original owner or their estate repays the money received from the reverse mortgage, plus interest and fees. Any remaining equity belongs to the owner or heirs.

To qualify for a reverse mortgage, homeowners must be at least 62 years old, live in their home, and own the house outright or owe very little on their mortgage. Since the property, not the homeowner, qualifies for the reverse mortgage, this type of loan may be available to elders at any income level. The amount your parents can borrow with a reverse mortgage depends on their age, the type of reverse mortgage, the appraised value of the home, current interest rates, and where they live. In general, the older the borrower, the more valuable the home, and the less owed on the home mortgage, the more money a homeowner can borrow (U.S. Department of Housing and Urban Development 2009).

There are two types of reverse mortgages that could be used to fund long-term care: federally-insured reverse mortgages, known as Home Equity Conversion Mortgages (HECM), which are backed by the U.S. Department of Housing and Urban Development (HUD), and proprietary reverse mortgages, which are private loans backed by the companies that develop them (Federal Trade Commission 2005).

To qualify for a HECM, borrowers must be at least 62 years old and live in their home. Potential borrowers must meet with a counselor from a HUD-approved counseling agency before obtaining the loan. The counselor will explain any other loan programs the borrowers qualify for, the financial implications of a reverse mortgage, the costs, and any alternatives. There is no need to pay for a referral to a lender since your parents can get free or very low-cost information, mortgage/housing counseling, and referral to a directory of HUD-approved lenders from HUD. Find a local HUD-approved Home Ownership Center in your state by calling toll-free: 1-800-225-5342.

If your parents own a higher-valued home (like many living in high-cost areas such as California or New York), they may be able to get a larger loan from a proprietary reverse mortgage than from a HECM. However, it is important to comparison shop for the best proprietary loan since the terms, costs, and features vary. A lender is required to explain the Total Annual Loan Cost (TALC) which shows the projected annual average cost of the reverse mortgage (including all the fees).

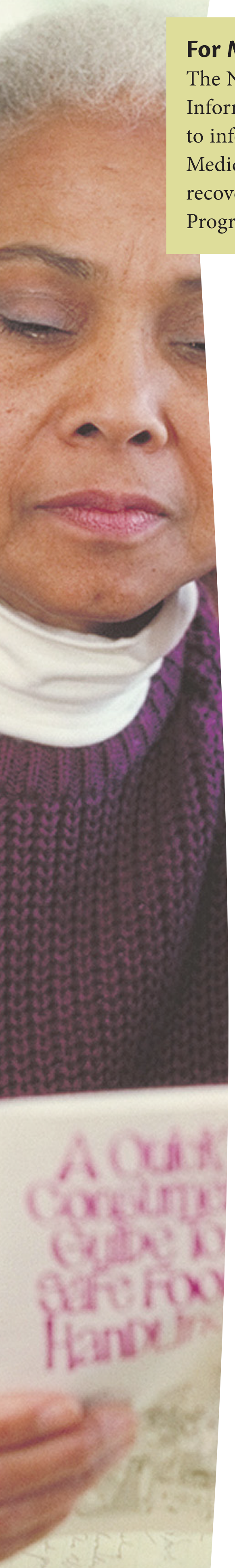
However, there are some possible disadvantages to getting a reverse mortgage to pay for LTC. The loans can be expensive and may not be worth the cost if your parents only plan to stay in their home a few more years. The money your parents receive from a reverse mortgage could affect their eligibility for Medicaid or state assistance. Finally, if your parents sell their home and use all their equity to pay for long-term care, nothing will be left for their heirs.

- Sale-leaseback agreement

A *sale-leaseback agreement* is another way for elderly homeowners to get the equity out of their home without moving. In this arrangement, an investor buys the home but gives the seller a lifetime lease. The seller receives a down payment and monthly mortgage payments, which can be used for income, rent, and other expenses such as long-term care (Leviton 1998). The new owner pays for taxes, insurance, repairs, and maintenance, and can claim tax deductions for rental property.

Reverse mortgages are not appropriate for all homeowners.

Before obtaining a reverse mortgage, it is a good idea for your parents to consult a qualified professional who can advise them about the advantages and disadvantages in their specific circumstances. For more information, see appendix A: "Top 10 Things to Know If You're Interested in a Reverse Mortgage."



For More Information

The National Clearinghouse on Long-term Care Information Web site at www.longtermcare.gov has links to information about the availability and limitations of Medicaid in all states, including eligibility and estate recovery requirements. See "Paying for LTC>Public Programs>Medicaid."

Sale-leaseback agreements have several disadvantages. Typically, the house is sold below market value because the buyer cannot take immediate possession. The sale is more complex than a traditional sale, and money earned from the sale could negatively affect the seller's eligibility for Supplemental Security Income (SSI) or Medicaid. Also, the home is no longer available to be passed on to heirs. Consult a professional advisor before proceeding.

Government Programs

While your parents may have private health insurance that will pay *some* long-term care costs, many older persons rely on the government-sponsored health insurance programs, Medicare and Medicaid, to pay for LTC.

Medicare

Medicare is the federal health insurance program for individuals over age 65 or those meeting specific disability standards. The program has two parts: Part A (Hospital Insurance) and Part B (Medical Insurance).

By the time your parents require long-term care (if they do), they will likely be well past 65 years old and already receiving Medicare, if eligible. Many people mistakenly believe that Medicare will pay for all or most of their costs of long-term care, but the benefits for nursing home and home health services are limited. Medicare only pays for services related to short hospital stays (Part A) and doctor's services and diagnostic tests (Part B), and may cover prescription drugs. However, most long-term care recipients have chronic illnesses or disabilities requiring assistance with activities of daily living (ADLs), and Medicare doesn't pay for help with ADLs (U.S. Department of Health and Human Services 2009).

In most cases, Medicare pays less than 10 percent of nursing home costs. It generally covers up to 60 days in a nursing home as part of convalescent care (only) after a hospitalization. Medicare determines the number of days paid (insured) based on the patient's diagnosis and the medical need for hospital care. After that, Medicare will not cover any additional days even if the patient still needs nursing home care and cannot return home. The patient or their family must arrange for some other form of payment. For an explanation of current Medicare benefits, see the Medicare.gov Web site (www.medicare.gov).

Medicaid

Medicaid is a joint federal/state health insurance plan that provides medical benefits for certain low-income seniors age 65 and up (and other qualified groups, such as the disabled) who do not have medical insurance or whose medical insurance is inadequate to meet their needs. Unlike Medicare, Medicaid pays for services at home and in the community, as well as in a nursing home. For qualifying individuals, the combination of Medicare and Medicaid will cover most of their health-care and long-term expenses.

For More Information

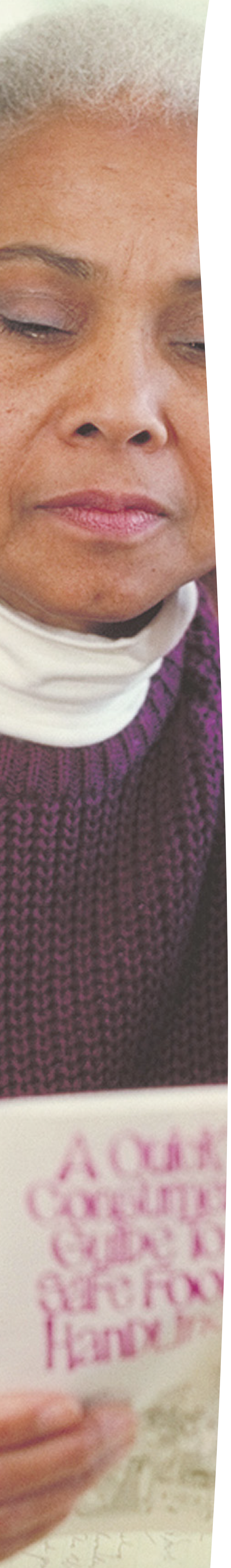
Your parents can access personalized information regarding their Medicare benefits and services online at the MyMedicare Web site (http://www.mymedicare.gov).

Eligibility. Medicaid eligibility is determined by a combination of the applicant's income, assets (personal resources), and whether or not the person is a citizen or lawfully admitted immigrant. Assets include money in bank accounts, real property, or other items that can be sold for cash. Special eligibility rules apply to those who are already living in nursing homes.

To get an idea whether or not your parents might qualify, use the online government benefits analyzer at www.govbenefits.gov, which links to Medicaid programs in all states and the District of Columbia, or use the "BenefitsCheckup" tool, a service of the National Council on Aging that can be found at http://www.benefitscheckup.org.

Note that each state administers its own Medicaid program, so eligibility requirements vary from state

> ***"I always tell adult children never to comingle their funds. Always keep their funds separate from mom and dad's and especially if they're going to be dealing with Medicare. Because Medicare will see that as mom and dad's money..."***
>
> *—Eldercare professional, giving advice about qualifying for government benefits*



to state. Be sure to find out the requirements in the state where your parents live, since a person may be eligible in one state and not in another. In many states, a person who is eligible for SSI (Supplemental Security Income, a program of the Social Security Administration)is automatically eligible for Medicaid.

Applying for Medicaid. If you think your parents might qualify for Medicaid, encourage them to apply. They will need the following documentation (AARP 2009):

- proof of identification (such as a birth certificate)
- proof of where they live (such as a lease or utility bill)
- proof of their income (such as pay stubs or a letter from Social Security)
- proof of what they own (such as bank account statements and car registration)
- copies of their medical bills

Qualifying for Medicaid. In general, those with low incomes and few assets will quickly qualify for Medicaid. Others may need to use up their personal assets to poverty levels before they can qualify. This is referred to as *spending down*.

Note that there are strict rules about how assets were used in the 5 years prior to applying for Medicaid (referred to as the *look back period*). Before your parents attempt to spend down to qualify for Medicaid, they should consult a qualified professional. Improper distribution of assets during the look back period could result in a penalty or disqualify them from Medicaid nursing-home coverage (Pouncey 2005). For more information on Medicaid planning, go to the Medicare.gov Web site (www.medicare.gov) and see "Medicaid Eligibility, Transfer of Assets."

Medicaid coverage. If your parents qualify for Medicaid, keep the following points in mind: Some doctors and medical facilities don't accept Medicaid patients, so your parents may need to change doctors to receive benefits. If your parents need to move to a skilled nursing facility, they must choose a Medicaid-licensed nursing home with an available *Medicaid bed*. Some nursing homes designate only a certain number or percentage of their beds for Medicaid patients and the rest are reserved for higher-paying patients, typically those who have private long-term care insurance or can afford to pay for nursing home care out of their own resources.

Planning ahead. If your parents need skilled nursing care now and expect to qualify for Medicaid in the future, encourage them to choose a nursing home that accepts Medicaid. (There are over 17,000 nationwide.) Otherwise, when they exhaust their own resources and Medicaid starts paying the bills, your parents will need to move to a Medicaid-licensed facility.

PACE

In addition to Medicare and Medicaid, some states offer Programs of All-Inclusive Care for the Elderly (PACE). PACE combines funding from Medicare and Medicaid into a comprehensive long-term care system managed by a not-for-profit or public agency. Most PACE participants are able to continue living at home while receiving services (usually through adult day care centers), rather than being institutionalized. However, if an enrollee needs nursing home care, PACE pays for it and continues to coordinate his or her care. Only about 7 percent of PACE participants live in nursing homes (U.S. Department of Health and Human Services 2009).

To be eligible for PACE, your parents must be age 55 or older, certified by their state to need nursing home care, and live in a PACE organization service area. At the time of enrollment they must be able to live safely in the community. Depending on eligibility, some PACE participants pay a monthly premium.

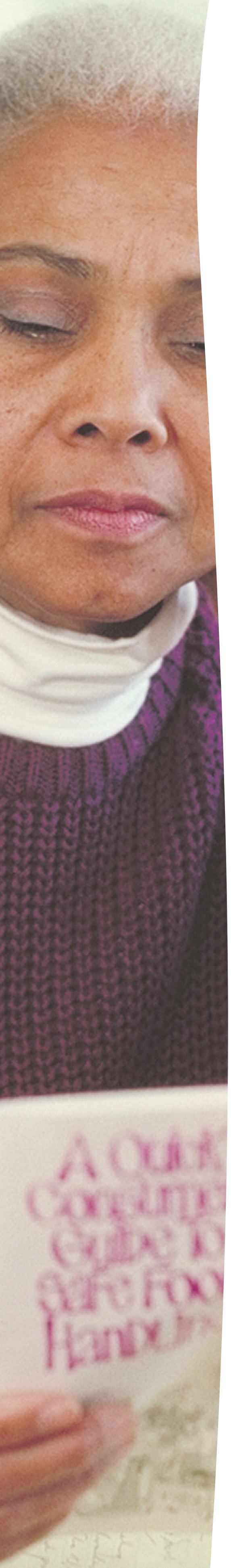
Veterans Benefits

The Department of Veterans Affairs (VA) may provide long-term care for service-related disabilities or for certain eligible veterans and their spouses. Services include geriatric evaluation, home and community-based care, residential care, and respite care.

Long-Term Care Insurance

A growing number of Americans are purchasing long-term care insurance (LTCI) to pay their long-term care expenses. With LTCI, the policyholder chooses where and how to receive care and is not limited to Medicaid-approved providers. LTCI can be a useful financial planning tool for those who have assets and income that they want to protect for their heirs.

Should your parents consider buying long-term care insurance? Generally, financial planners recommend considering long-term care if one's financial resources meet or exceed these criteria (National Clearinghouse on Long-Term Care 2008):



- Own assets of at least $75,000 (not including a home or car).
- Have annual retirement income of at least $25,000 to $35,000 for an individual or $35,000 to $50,000 for a couple.
- Are able to pay premiums without financial difficulty, even if premiums increase over time.

If your parents can afford the LTCI premiums without sacrificing other important needs, they might want to consider purchasing long-term care insurance. However, before buying, it is important to be fairly certain that they will be able to continue paying the premiums in the future. Otherwise, if a time comes when they can no longer afford the premiums, they will lose what they have paid for over the years and be left without coverage.

LTCI Policies

There are several types of long-term care insurance policies. Your parents can select the benefits that allow them to get the services they need in the settings that suit them best. Most policies offer a choice of daily benefit amounts ranging from $50 to more than $300 per day for nursing home coverage. The daily benefit for at-home care may be less than the benefit for nursing home care. No policies guarantee to cover all expenses.

An *indemnity* or *per diem policy* pays a fixed benefit amount, such as $150 per day for a nursing home stay. It pays the same amount regardless of what is actually spent: the insured receives $150 per day whether the actual cost is $125, $150, or $200 per day.

With an *expense-incurred policy*, the insured chooses the benefit amount when buying the policy, and is reimbursed for actual expenses up to a fixed dollar amount per day, week, or month. For example, an expense-incurred policy with a benefit of $150 per day pays $125 a day if that is the actual cost, $150 for care that costs $150 a day, or $150 for care that costs $200 per day.

An *integrated policy* or a *pooled benefits policy* pays a total dollar amount that can be used for a combination of different types of long-term care services. There is usually a daily, weekly, or monthly dollar limit for covered expenses. For example, a policy with a maximum benefit amount of $150,000 of pooled benefits might pay a daily benefit of $150 for 1,000 days (if the insured spent the maximum daily amount on care). However, if the care actually cost less than $150 a day, the insured would receive benefits for more than 1,000 days.

Eligibility for LTCI

If your parents are in reasonably good health, able to take care of themselves, and are under 85 years old, they can probably qualify for long-term care insurance. Age limitations apply only when purchasing a policy, not when benefits are paid. If the applicant is past a certain age, usually age 75 or older, many companies require a face-to-face assessment for cognitive impairment.

Expenses Covered by LTCI

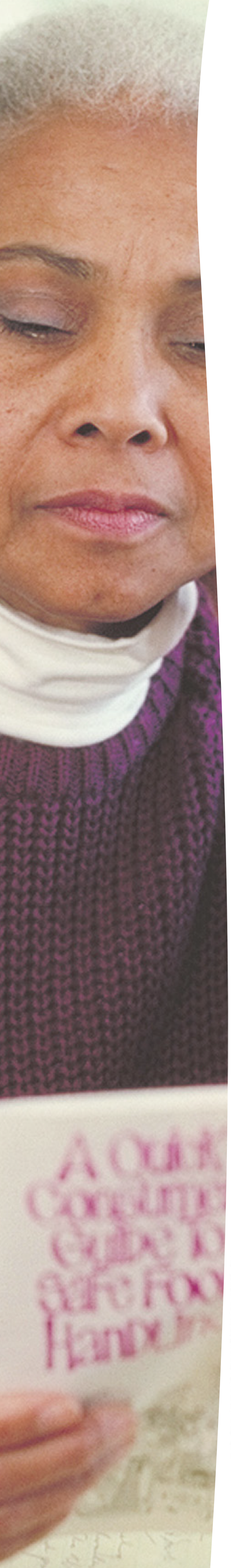
Coverage varies widely. Some policies only cover nursing home care. Others include coverage for a range of services that may include adult day care, assisted living, home health care, and home care. Some also pay for durable medical equipment and medically necessary home modifications, such as wheelchair ramps or remodeling a kitchen or bath. Virtually all policies now cover Alzheimer's disease and do not require a hospital stay before paying nursing home benefits (America's Health Insurance Plans 2004).

All policies contain limits and exclusions. Before buying a specific policy, it is important to understand exactly what is covered and what is not. Some policies don't cover pre-existing conditions (health problems that occurred before taking out the insurance policy). Others require a waiting period before the policy pays for care related to the pre-existing condition. For example, during the first six months after the policy is purchased, some companies exclude coverage for individuals diagnosed with multiple sclerosis, AIDS, insulin-dependent diabetes, or certain cancers. Policies usually do not cover alcoholism, drug abuse, or care needed after an intentionally self-inflicted injury.

Buying LTCI

Over 100 private insurance companies sell individual policies through their agents, online, or by mail. As with medical insurance, buyers can purchase individual or group LTCI policies. Group insurance is usually easier to qualify for and less expensive than individual policies.

A growing number of employers offer LTCI as a benefit to their employees and retirees. If you (or another family member) work for such a company, your parents and parents-in-law may also be able to purchase LTCI through the employer's group policy. When your employment ends or if an employer cancels the group plan, it is usually possible to continue coverage, or convert it to another long-term care insurance policy.



Factors Influencing the Cost of LTCI

The annual premium depends on many factors, including the insured's age, place of residence, level of benefits, length of time until benefits begin, and other policy options chosen, such as inflation protection. Once a policy is purchased, the premiums stay the same each year unless costs are increased for an entire class of policyholders at once.

Age of the insured. The annual cost of an LTCI policy depends on the age of the insured when the policy is purchased (America's Health Insurance Plans 2004). The younger the policyholder, the lower their annual premiums will be. Of course, the younger the insured when the policy is initially purchased, the more years the policyholder will likely pay premiums before needing care. See table 5 and table 6 for comparisons of annual LTCI premiums by age of insured at time of purchase and by daily benefit.

Location. LTCI premiums also vary according to where the insured lives. The rates where your parents live may be higher or lower than the national average. They can get information about average prices where they live by calling or visiting the Web site of their state insurance department, contacting an insurance agent licensed to sell LTCI in their state, or contacting the administrator of their employer's group plan (if a plan is available to them).

Table 5. Annual cost* comparison of LTCI policies by insured's age at time of purchase

Policy benefits	Age when purchasing LTCI		
	50 years old	65 years old	79 years old
• $150 per day for 3 years • 90-day deductible • inflation protection	$ 1,120	$2,131	$6,122

Source: Federal Long-Term Care Insurance Program 2009.
Note: *These are national averages only. Policy costs vary by state of residence.

Table 6. Annual cost* of LTCI policies by daily benefit

Daily benefit	Category of coverage	Age when purchasing coverage	Benefit period	Annual cost
$100	comprehensive LTC	50	3 years	$746
$150	comprehensive LTC	50	3 years	$1,120
$175	comprehensive LTC	50	3 years	$1,306

Source: Federal Long-Term Care Insurance Program 2009.
Note: *These are national averages only. Policy costs vary by state of residence.

Benefits. Premium costs also depend on the amount of the daily benefit selected and how long the benefit is to be paid. For example, a policy that pays $150 a day for up to five years of long-term care costs more than a policy that pays $100 a day for three years.

Elimination or deductible period. Most policies have an elimination or deductible period before benefits begin. This period is the number of days (specified in the policy) that the insured must stay in a nursing home or the number of home care visits they must receive before policy benefits begin. For instance, with a 20-day elimination period, an LTCI policy begins paying benefits on the 21st day. Most policies offer a choice of deductible ranging from 0 to 180 days.

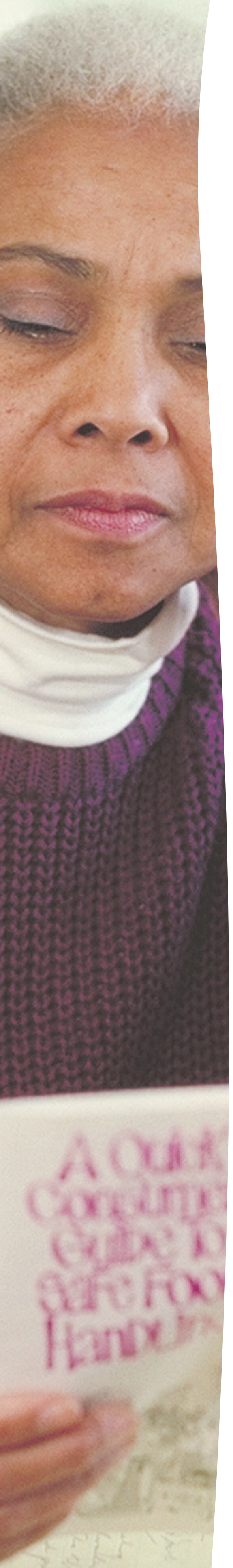
The longer the elimination period is, the lower the premiums. However, a longer elimination period means the policyholder will have higher out-of-pocket expenses. For example, if a policy has a 100-day waiting period and the insured goes to a nursing home for a year, the policyholder pays for the first 100 days of care before their benefits begin. If a nursing home stay costs $150 a day, the patient's total would be $15,000. With a 30-day elimination period, the patient's out-of-pocket cost would be only $4,500.

Shopping for Long-Term Care Insurance

Your parents' choice of a long-term care insurance policy will have important personal and financial consequences for them and other family members. Encourage them to learn about long-term care and comparison shop before they buy.

Identify insurance needs. Before shopping, your parents should decide what type of coverage they want. They can start by answering the following questions (Shelton 2007):

- What do you want the policy to cover? Do you want coverage for home and community care, assisted living, or only for nursing home care?
- What daily benefit rate do you want? (Consider future inflation in the cost of care.)
- How many years do you want benefits to be paid?
- What waiting period (elimination period) or deductible can you afford?



Understand the policy. When shopping for a policy, urge your parents not to just rely on what the salesperson tells them about a policy or an outline of coverage furnished by the insurance company. It is important for them to carefully review and understand the details of any policy they are seriously considering.

Since no two LTCI policies are exactly alike, the choices can seem overwhelming. However, most states now have standard requirements for policies sold in the state, which makes it easier to compare policies. Appendix C contains a worksheet that can be used to compare policies, and appendix B has a list of questions to ask an insurance agent when shopping for LTCI.

Buy from a licensed insurance company. Insurance companies must be licensed to sell long-term care insurance by the state where they do business. If your parents want to buy from a particular insurance company or agent, find out if they are licensed where your parents live by referring to the state's Department of Insurance Web site or calling the state's Department of Insurance (listed in the government section of the telephone book).

Check the financial health of the insurance company. A policy is only as good as the company that sells it. Before signing a contract, check the financial standing of the company selling the policy. Three investment services rate the financial strength of insurance companies: A.M. Best, Standard and Poor's, and Moody's. Find rating information on the investment company's Web site, at the public library, or by calling the company. Table 7 contains a Web site and telephone number for each of these three investment services companies.

Choose the most appropriate policy. It is important for your parents to find a LTCI policy that meets their needs and is suitable to their situation. Urge them to avoid salespersons that pressure them to make quick decisions, buy more insurance than what they could reasonably need, or use fear or high-pressure sales techniques to motivate them to buy.

Some of the best (and most expensive) plans have higher daily benefits, inflation protection, and a nonforfeiture provision allowing the insured to recoup some costs if they have to cancel the policy or let it lapse. In general, the better the coverage is, the more expensive the policy. Your parents can use the form in appendix C to record information about their LTCI policy as an easy reference, and keep it with their other financial and legal records

Reducing the Cost of LTCI

If your parents want LTCI but can't afford full coverage, there are several ways to reduce the cost.

Nursing home care only. Your parents might consider buying a policy that only covers nursing home care since this is the most expensive and would be the most difficult type of long-term care to afford. The average nursing home stay is 2.5 years (Wolosky 2002), and nearly 90 percent of elders who enter a nursing home stay less than 5 years (U.S. Department of Health and Human Services 2006). (See table 8 for the average period of long-term care according to type of care.) *Consumer Reports* does not recommend buying LTCI. However, for those who do buy LTCI, *Consumer Reports* suggests purchasing a 4-year benefit period (2003).

Modified benefits. Another way to reduce premium costs is to modify the terms and benefits of a policy. Your parents can select a lower benefit ($125 per day rather than $150), increase the elimination or deductible period (90 days instead of 30 days), or shorten the benefit period (4 years instead of 5).

Limited-pay policies. Several payment options reduce the cost of a policy. Rather than paying monthly premiums until long-term care is needed, your parents could buy policies that limit payments to a predetermined number of years or up to a certain age. The following are common examples: single pay (one premium payment), ten pay (paying premiums for 10 years), and to age 65 (paying premiums until the insured turns 65).

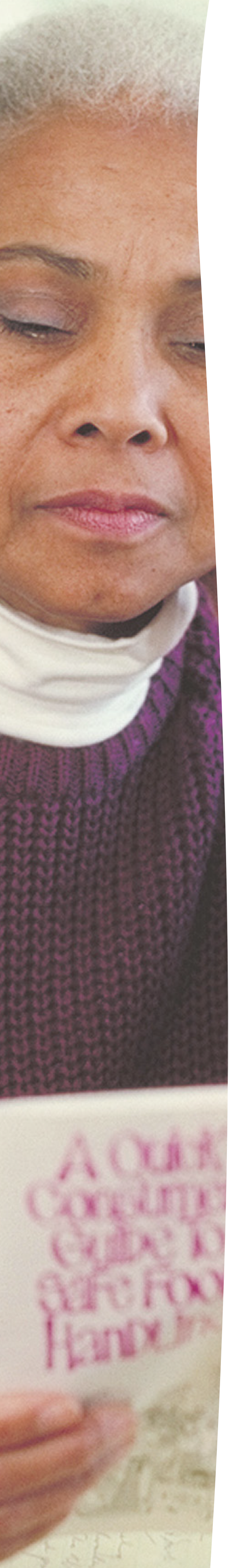
Table 7. Investment rating companies' contact information

Company	Website	Telephone
A.M. Best	http://www.ambest.com/	(908) 439-2200
Standard and Poor's	http://www.standardpoor.com	(415) 371-5000
Moody's	http://www.moodys.com	(212) 553-0377

Table 8. Average length of long-term care received by type of care

Type of care	Year(s)
home health care*	2
assisted-living care	1
nursing home care	2

Source: Federal Long-Term Care Insurance Program 2009.
Note: * Home health care based on 5 hours per visit and 5 visits per week.



Tax-qualified policies. Some LTCI policies reduce the owner's federal income taxes. If your parents buy a tax-qualified (TQ) policy, some or all of the premiums may be deducted as medical expenses on their federal income tax (when itemizing deductions). In addition, some states offer tax incentives for purchasing long-term care insurance. Consult a qualified professional to learn about these options and whether a TQ policy would be beneficial in your parents' situation.

> **Spousal Discount**
> If both of your parents are buying long-term care insurance, ask if the insurance company offers a *spousal discount*.

Where To Begin

When There Is Time to Plan

If your parents plan for their long-term care needs while they are healthy, they will have more options. Encourage them to take several important steps:

Develop Plans for LTC

Your parents can use the information in this guide to estimate the potential lifetime cost of any long-term care they might need and develop a financial plan to pay for care if it is needed.

Maintain or Improve Personal Health

Almost everyone has some control over their physical and medical outcomes. Good nutrition and regular exercise can make a difference between the ability to remain independent into one's eighties or even nineties, and the need for care over an extended period of time. Weak muscles are not a normal part of aging (Health Insurance Counseling and Advocacy Program 1998). Elderly people who exercise—walking and moderate stretching are good choices—have minimal deterioration in muscle tone. An otherwise healthy elderly person may be able to improve and/or regain mobility and strength through age-appropriate weight training (Nelson and Wernick 2000). However, it is always a good idea to consult a physician before beginning an exercise program.

Consider Buying Long-Term Care Insurance

Anyone who is age 84 or younger and who is in reasonably good health can usually qualify for LTCI. If your parents can afford to buy LTCI, they should evaluate the benefits in their financial situation.

When You See Signs That Your Parents May Need Some Assistance

Assess Your Parents' Limitations

To select the appropriate services, begin with an assessment of your parents' needs. They may only need help with one or two activities of daily living (like eating), or with many (such as diabetes monitoring, assistance with oxygen if they have breathing problems, bathing, and dressing). Talk with your parents and other family members, and use a needs assessment tool such as the "Functional Assessment Checklist" in appendix D to identify services your parents need or may need in the future. If appropriate, arrange for a professional assessment to determine the appropriate level of care for your parents.

Start Collecting Information about Senior Services in Your Parents' Community

Many different types of services (such as home-delivered hot meals or transportation to adult day care) may be available. You or your parents can gather information from their doctor or other health-care professionals and the local Area Agency on Aging as well as state agencies. Information is also available from the Web sites and print resources suggested in this publication. For a description of long-term care services and how to find providers, see Part 4 (*Understanding Long-Term Care)* in this financial caregiving series.

Find Out What Your Parents Want

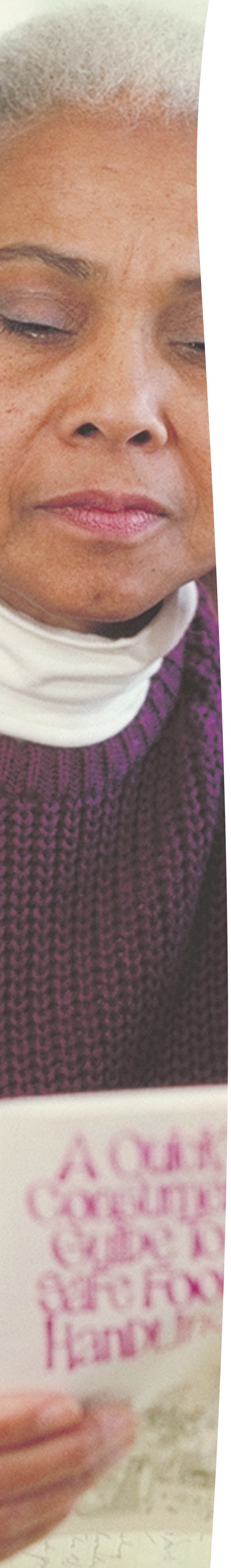
Work with your parents to develop a plan for the way their care will evolve and change as their health and medical circumstances change. See Part 2 of this series, *Communicating with Your Parents about Finances*, to learn more about strategies for communicating with your parents about finances, legal issues, and end-of-life decisions.

Help Your Parents Get Organized

If you have not already done so, find out where your parents keep their medical and financial documents, insurance, and other important papers. At this point, it's only important for you to know where the information is stored—not the details. See Part 3 of this series, *Getting Organized*, for information about which documents might be needed in the future, and suggestions about organizing the information for easy access.

Help Your Parents Develop a Plan to Finance Their Long-Term Care

If your parents have not already done so, this is the time to assess their risk factors for needing long-term



care and decide how they plan to pay for care if it is necessary. Encourage them to share information about their plan and preferences with other family members.

If your parents' plans involve moving from their home (at some point in the future), this is a good time to begin looking at alternatives for housing and health care so they can organize their finances to implement their plans.

Depending on their age and health status, your parents may be eligible to buy long-term care insurance. If they have LTCI, arrange for *third-party notification* so the insurance company will notify you or and another family member if your parents fail to pay the premiums on time (Wolosky 2002). Failure to pay could lead to cancellation of the insurance just when it is most needed.

If your parents' income and assets are limited and they hope to qualify for Medicaid at some point in the future, it's a good idea to meet with a qualified professional to consider their options and develop a plan that complies with federal regulations.

After a Crisis

Get a Medical Assessment to Determine the Type of Care Your Parents Need

If a crisis has occurred, your parents may still be in the hospital receiving treatment. Discuss their condition with their physician, a medical social worker, or another qualified staff person to evaluate the level of care needed. If one or both parents cannot care for themselves in some significant way, immediate planning is necessary.

Take Quick Action

You may have to make some quick adjustments to the type of care your parents are receiving. These are some suggested steps for quick planning:

- Locate your parent's health insurance, financial information, and legal documents.
- Assess their resources to find out what they can afford.
- Consult professionals (medical, financial, and/or legal) and get their suggestions about the best way to proceed.
- Find community resources and facilities that offer the care your parents need.
- If your parents are capable of choosing where they would like to go or what services they want, help them locate and choose the best option for their circumstances.
- If at all possible, take your parents to visit any facility you are considering before making a final decision.

Think about Future Needs

Typically, long-term care needs change over time, gradually increasing in complexity and the amount of care needed. Talk with your parents about the type of care they want and can afford as medical changes occur. Begin to learn about their local alternatives.

Make Legal Decisions about the Future

If your parents are mentally capable and have not already done so, encourage and assist them to take the legal steps needed to retain control of their future. At a minimum, your parents need the following:

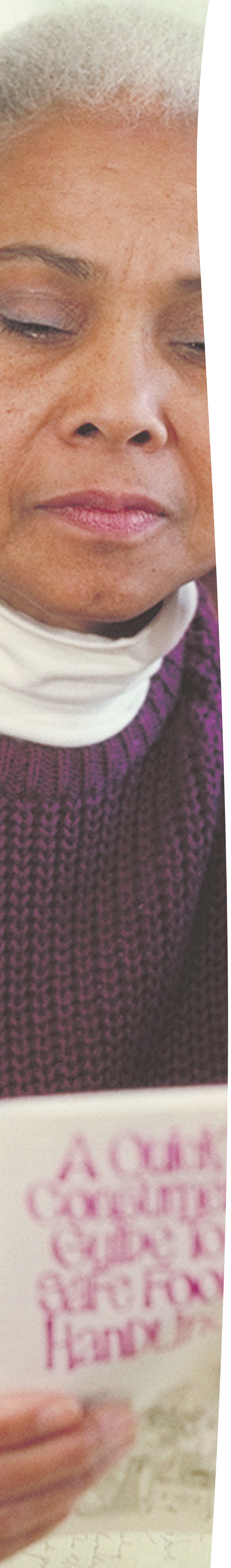
- an advance directive specifying the type of care they want if they cannot make the decision for themselves (forms are available from health-care providers)
- a legal will designating distribution of their assets after they pass away

It is important for them to legally designate a trusted family member or friend to make health-care decisions in case they are incapacitated and can't make the decisions themselves (a power-of-attorney for health care) and give someone the legal authority to manage their finances and make financial decisions on their behalf if necessary (durable power-of-attorney for finances). See Part 6 of this series, *Estate Planning*, for more information about these matters.

Resources for Planning for Long-Term Care

Federal and State Benefit Programs

BenefitsCheckUp (www.benefitscheckup.org). This free service of the National Council on Aging is an online screening tool to help limited-income seniors quickly identify which public programs and benefits they may qualify for. After answering a few questions (age, income, etc.), the respondent gets a personalized report listing programs they may qualify for, telephone numbers for more information, and directions about signing up for the programs.



GovBenefits.gov (www.benefits.gov). Your parents can complete the online survey at Govbenefits.gov to get a complete list of all government programs and benefits they may be eligible to receive, organized by category (such as health care, living assistance, etc.) or by state. This Web site is free and your information is confidential.

Medicare at a Glance (www.medicare.gov). The Centers for Medicare and Medicaid Services publish a 4-page fact sheet summarizing basic information about the Medicare Program and Medicare plan choices. Contact the state Medicare office or visit the Medicare.gov Web site and search for "Publications."

My Medicare.gov (www.mymedicare.gov). This Web site provides individuals with direct access to their personal Medicare benefits, eligibility, and enrollment information (including prescription drug plans), as well as preventive health information. When your parents visit the site and sign up, Medicare will send passwords allowing them to access their personal Medicare information, including information about claims they have submitted.

"Understanding Medicare, Medigap, and Medicaid" (http://www.aarpmagazine.org/family). This article from *AARP The Magazine* explains the differences between these three plans. It is written in an easy-to-understand, nontechnical style and contains links to additional information about each program.

Long-Term Care

American Health Care Association (AHCA) (www.ahca.org). This trade organization offers information about the different types of long-term care, how to select the appropriate level of long-term care, and what to look for in a long-term care insurance policy. Call AHCA at 1-800-628-8140 for a brochure or download a copy from their Web site.

Long-Term Care Planning Tool (www.medicare.gov). You and your parents can use this online tool to develop a customized long-term care plan that includes the services available where they live or anticipate receiving care, how much they can expect to pay for care, and the financing options available to them. All information is confidential, and none is saved or shared with others for any purpose. See "Long-Term Care" to access the planning tool.

Long-Term Care Savings Calculator (www.longtermcare.gov). If your parents plan to self-insure for LTC, they can use the "Long-Term Savings Calculator" (developed by the U.S. government) to get an idea of how much they should be saving monthly to cover the costs.

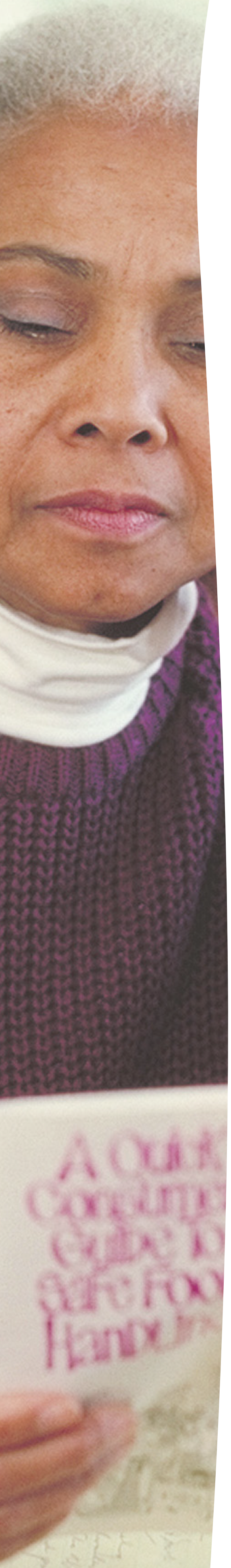
National Clearinghouse on Long-Term Care Information (www.longtermcare.gov). This U.S. Department of Health and Human Services Web site has information and resources to help families understand and plan for their future long-term care needs. It contains a user-friendly overview of long-term care, information and resources to help families plan, cost of care information, a guide to public programs that pay for long-term care, and information about private financing options.

Own Your Future Long-Term Care Planning Kit (www.longtermcare.gov). The Administration on Aging provides information about practical steps to plan ahead for your long-term care needs. The kit is designed primarily for those who do not yet need long-term care, but may be useful to others already in need of long-term care services. Download the free kit in English or Spanish.

Reverse Mortgages

AARP: Reverse Mortgages (http://www.aarp.org/money/revmort/). AARP's Web site features numerous articles and consumer information about reverse mortgages and a downloadable 68-page consumer guide covering the basic types of reverse mortgages, less costly alternatives to reverse mortgages, and key questions consumers should ask. It links to a "Reverse Mortgage Calculator" that your parents can use to get a quick estimate of the amount of money they could get from a reverse mortgage on their home.

U.S. Department of Housing and Urban Development (HUD) (http://www.hud.gov). HUD offers two helpful resources. The first is the "HUD Lender List Search" that your parents can use to locate reverse mortgage lenders in their geographic area. The second resource is the "HUD List of Housing Counseling Agencies." These agencies can give advice on reverse mortgages. See the HUD Web site or call HUD at 1-800-569-4287.



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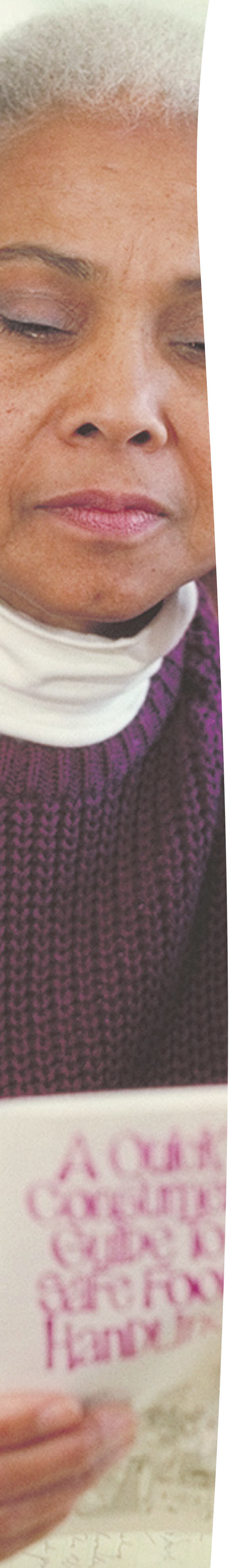

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Appendices

Appendix A: Top 10 Things to Know If You're Interested in Reverse Mortgages

What is a reverse mortgage?

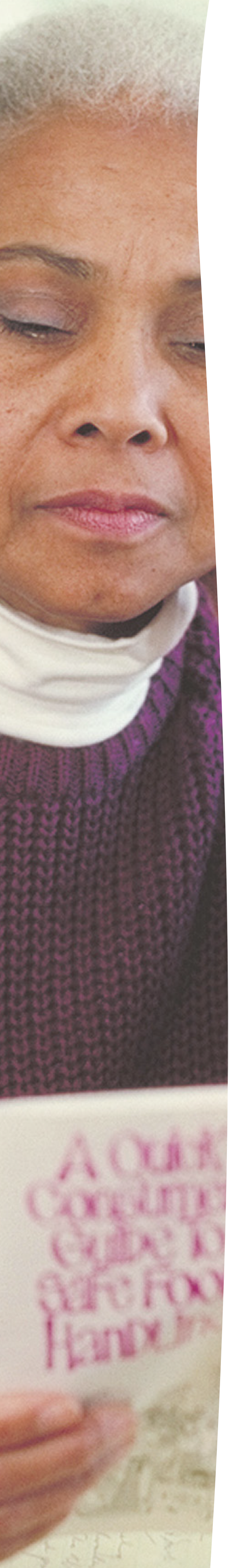
A reverse mortgage is a special type of home loan that lets a homeowner convert part of the equity in his or her home into cash. The equity built up over years of home mortgage payments can be paid to you in monthly installments. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer uses the home as their principal residence. HUD reverse mortgages are federally insured.

Can I qualify for a HUD reverse mortgage?

To be eligible for a HUD reverse mortgage, HUD's Federal Housing Administration (FHA) requires that the borrower be a homeowner 62 years of age or older, own his or her home outright or have a low mortgage balance that can be paid off at the closing with proceeds from the reverse loan, and live in the home. A borrower is required to receive consumer information from a HUD-approved counseling agency prior to obtaining the loan. Contact the Housing Counseling Clearinghouse at 1-800-569-4287 to obtain the name and telephone number of a HUD-approved counseling agency and a list of FHA-approved lenders within your area.

Can I apply if I didn't buy my present house with FHA mortgage insurance?

Yes. While a property must meet minimum HUD standards, it doesn't matter whether or not it was purchased with a FHA-insured mortgage. The HUD reverse mortgage will be a new FHA-insured mortgage loan.



What types of homes are eligible?

The home must be a single family dwelling or a two-to-four-unit property that is owner occupied. Townhouses, detached homes, units in condominiums, and some manufactured homes are eligible. The home must be in reasonable condition, and must meet HUD minimum property standards. In some cases, home repairs can be made after the closing of a reverse mortgage.

What's the difference between a reverse mortgage and a home equity loan?

With a traditional second mortgage, or a home equity line of credit, the borrower must have sufficient income-versus-debt ratio to qualify for the loan, and is required to make monthly mortgage payments. The reverse mortgage is different in that it pays the homeowner, and is available regardless of one's current income. The amount someone can borrow depends on the borrower's age, the current interest rate, other loan fees, and the appraised value of the home or FHA's mortgage limits for the area, whichever is less. Generally, the more valuable the home, the older the borrower, and the lower the interest rate—the more one can borrow. The homeowner does not make payments because the loan is not due as long as the house is the borrower's principal residence. Homeowners are required to pay real estate taxes and other conventional payments like utilities.

Can the lender take my home away if I outlive the loan?

No! The borrower does not have to repay the loan as long as he or she continues to live in the house and keeps the taxes and insurance current. A borrower will never owe more than your home's value.

Will I still have an estate to leave to my heirs?

When your home is sold, or no longer used as your primary residence, the owner or their estate repays the lender for cash received from the reverse mortgage, plus interest and other fees. The remaining equity in the home, if any, belongs to you or your heirs. No other personal assets are affected by HUD's reverse mortgage loan. This debt will never be passed along to one's estate or heirs.

How much money can I get from my home?

The amount one can borrow depends on the borrower's age, the current interest rate, other loan fees, and the appraised value of the home or FHA's mortgage limits for the area, whichever is less. Generally, the more valuable the home, the older the borrower, and the lower the interest rate, the more money you can borrow (U.S. Department of Housing and Urban Development 2009).

Should I use an estate planning service to find a reverse mortgage?

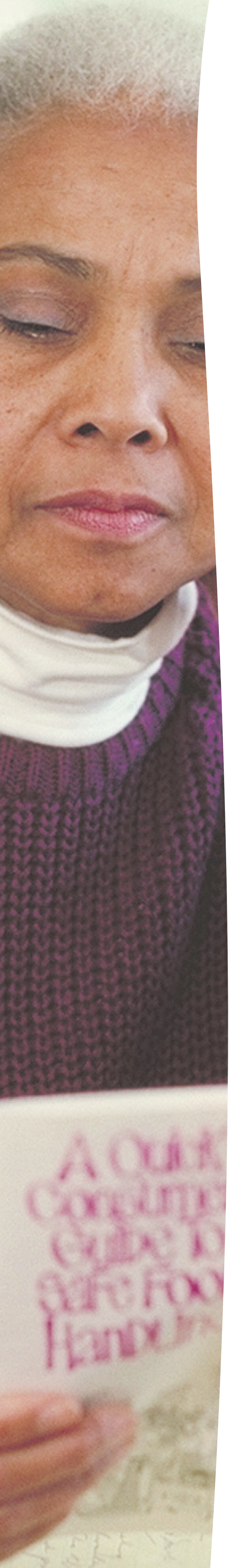
HUD does not recommend using an estate planning service, or any service that charges a fee just for referring a borrower to a lender. HUD provides this information without cost, and HUD-approved housing counseling agencies are available for free, or at a minimal cost, to provide information, counseling, and free referral to a list of HUD-approved lenders. Potential borrowers can call 1-800-569-4287 for the name and location of a HUD-approved housing counseling agency near where they live.

How do I receive my payments?

There are 5 options:

- **tenure:** equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence
- **term:** equal monthly payments for a fixed period of months selected
- **line of credit:** unscheduled payments or installments, at times and in amounts of the borrower's choosing until the line of credit is exhausted.
- **modified tenure:** a combination of line of credit with monthly payments for as long as the borrower remains in the home
- **modified term:** a combination of a line of credit and monthly payments for a fixed period of months selected by the borrower.

Source: U.S. Department of Housing and Urban Development 2009.



Appendix B: Long-Term Care Insurance (LTCI) Checklist

When purchasing an LTCI policy, it is very important to understand the specific features of the policy—what is and is not covered—before signing the contract. One of the best ways to accomplish this is to interview the insurance agent who sells the policy. At the meeting the agent should provide the following:

- an outline of coverage
- a personal worksheet
- the name, address, and phone number of your local HICAP office. (The Health Insurance and Counseling Advocacy Program is a service offered by Area Agencies on Aging that offers individual counseling about Medicare and Medicaid and other health care issues.)

(You should receive these documents even if you don't agree to buy a policy on the day of the appointment.)

Questions to Ask about an LTCI Policy

- Has the company increased premiums on policies it has sold to other consumers in your state? If so, how often and how much?
- How long has the company been selling long-term care insurance?
- What nursing homes, assisted living, and hospice facilities are near my home and covered for institutional care by this policy?
- Is there a bed reservation guarantee?
- What are my choices for *daily maximum benefit, lifetime maximum, elimination period*, and a *waiting period* for preexisting conditions?
- If the policy has an elimination period, do I have to meet it only once or more than once during my lifetime?
- What home health-care providers, adult day-care providers, respite care and hospice services are near my home and covered by the policy for community-based care?
- May I hire anyone I choose to provide personal care and homemaker services under this policy? If not, what are the qualifications that care providers must meet?
- What is the premium payment period for attained age, issue age, and is it lifetime or period-specific?
- What are the policy exclusions and limitations for
    1. waiver of premium:
        - How is it waived?
        - Does the waiver apply to all of the benefits or only to nursing care?
        - What happens to premiums I have already paid?
    2. inflation protection
    3. nonforfeiture benefits
- What is the cost of the policy?

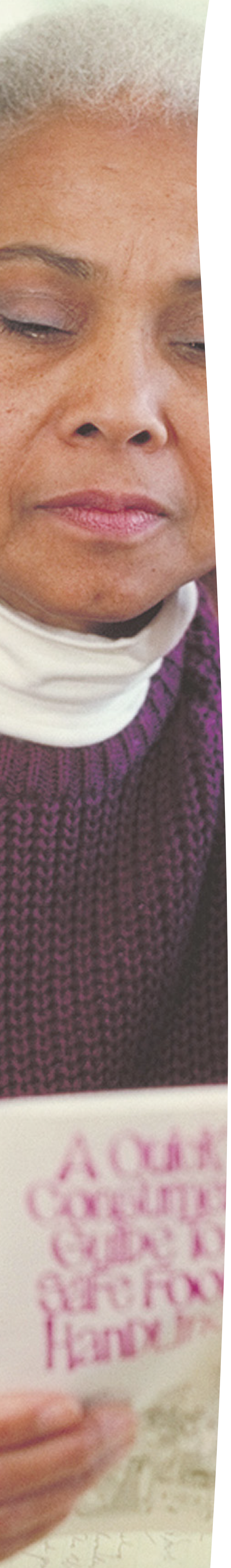
Source: California Department of Insurance 2003.

Appendix C: Long-Term Care Insurance Policy Comparison Worksheet

Use the worksheet below to list the cost and features of three different long-term care (LTC) insurance policies. Then compare the three providers to determine the best policy for you.

Insurance company name			
Insurance company rating*			
LTC policy features and costs	**LTC policy provider #1**	**LTC policy provider #2**	**LTC policy provider #3**
What services are covered? nursing home care home health care assisted-living facility adult day care alternate care respite care other			
How much does the policy pay per day? for nursing home care for home health care for an assisted-living facility for adult day care for alternate care for respite care for other care			
How long will benefits last? in a nursing home in an assisted-living facility at home other			
Does the policy have a maximum lifetime benefit? If so, what is it? for nursing home care for an assisted-living facility for home health care other			
What is the elimination period? (number of days before benefits begin) for nursing home care for home health care for an assisted-living facility other			
What additional features does the policy offer? inflation adjustment waiver-of-premium provision guaranteed renewable nonforfeiture benefit			
What does the policy require for coverage? assessment of activities of daily living (ADLs) assessment of cognitive impairment physician certification of need prior hospital stay other			
What does the policy cost? (annual/monthly cost) with inflation feature without inflation feature with nonforfeiture feature without nonforfeiture feature			

Source: Adapted from NJAES 2007; AHIP 2004.
Note:
*Check on the financial status of the insurance company by contacting an investment rating company listed in table 7 on page 14.



Appendix D: Checklist for Assessing Long-Term Care Needs

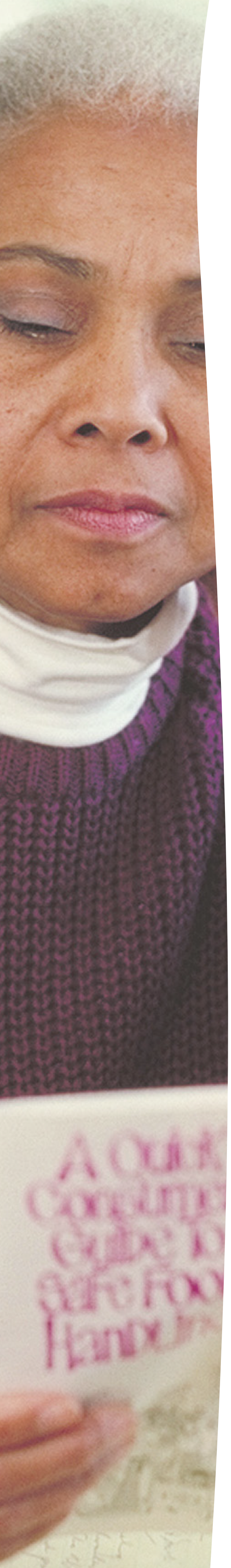
This chart lists some of the many kinds of care an elder may need, like help with activities of daily living or tasks that most people do themselves. Talk to your parent and other family members (if appropriate) and think about whether your parent needs these services now, or if he or she may need them in the future. Check off the services you think your parent may need and use this information to help you identify the most appropriate type of care.

Will my parent need help with the following activities of daily living?	No	Yes
bathing		
dressing		
eating		
using the bathroom, including caring for a catheter or colostomy bag if needed		
moving into or out of a bed, chair, or wheelchair		
other:		

Will my parent need help with these additional services?	No	Yes
preparing meals		
shopping		
housework and laundry		
getting to appointments		
paying bills and other money matters		
home maintenance and repairs		
using the telephone		
other:		

Will my parent need help with the following care?	No	Yes
remembering to take medicines		
diabetes monitoring		
using eye drops		
getting oxygen		
taking care of colostomy or bladder catheters		
other:		

Source: U.S. Department of Health and Human Services 2007b.



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