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## The Long-Term Care Funding Puzzle

Consider these statistics:

- The estimated average out-of-pocket medical costs in retirement—*excluding* long-term care (LTC) costs—for a 65-year-old couple in the United States is \$280,000.<sup>1</sup>
- Fifty-two percent of people aged 65 today will need LTC at some point.<sup>2</sup>
- The U.S. median annual cost for a semi-private room in a skilled nursing facility is \$89,297.<sup>3</sup>
- The U.S. median annual cost for a home health aide is \$50,336.<sup>4</sup>

It's no secret that current and future retirees in the United States are inadequately prepared to meet these costs. According to LIMRA research, fewer than 7 million people have stand-alone LTC insurance (LTCI). Fewer than 1.5 million have a combination insurance product that includes life and LTCI or a chronic illness benefit.

How will people fund this growing need? Savings, insurance, and government programs all provide pieces of the LTC funding puzzle, but none complete the picture.

According to a Magnify Money analysis of Federal Reserve and FDIC data, the median U.S. household has only \$11,700 of savings across bank accounts *and* retirement savings accounts.<sup>5</sup> Nearly 3 in 10 have less than \$1,000. LIMRA research shows that employees are not prepared to pay for unexpected medical bills. Only a third could pay an unexpected bill of \$500 right away; increase that bill to \$4,000, and only 13 percent could pay.

Stand-alone LTCI originally showed promise, but pricing challenges and carrier exits led to multiple years of double-digit declines in sales. With an average annual premium of \$2,600, it is out of reach for many households. New products with lower benefit amounts may help. Sales of combination products are growing, but still cover

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only a sliver of the market. Short-term care insurance covers similar needs as LTCI, but typically for only up to 12 months. These products are not widely offered, although the NAIC has a model regulation for them in the works.

While government funding through Medicare does cover some LTC, it only applies in specific circumstances and for a limited time. For example, Medicare covers skilled nursing care for up to 100 days, but only after a hospital stay of at least three days. Beginning in 2019, Medicare Advantage plans—a private insurance option within the Medicare framework—will cover *some* LTC services based on a revised definition of “primarily health related” benefits. These services may include things like adult day care, in-home support services, and transportation to medical appointments. The risk is that consumers with Medicare Advantage may think it covers *all* LTC needs, not just the limited services offered in their specific plan.

Medicaid—a state and federal partnership covering low-income citizens—is the payer of last resort for nursing home care, once other resources have been exhausted. The benefits differ based on state rules. In some states, Medicaid will pay for in-home care, while in others it pays only for skilled nursing facilities. Because of the high cost of nursing home care, Medicaid ends up covering 6 in 10 nursing home residents.<sup>6</sup>

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While all of these possibilities for funding LTC might come together to form a reasonable plan, solving this puzzle is too challenging for most people. Without an advisor well-versed in *all* the options, they don't stand a chance.

How can the industry make it easier for people to piece together the LTC funding puzzle?

- Provide advisors with the tools and knowledge to help clients navigate all the options.
- Offer online tools that allow consumers to explore their options.
- Support financial literacy education at all levels, and encourage advisors to get involved in financial literacy in their communities.

That final option of financial literacy may be the best investment into solving the LTC funding problem. *InvestmentNews* recently published an article describing financial literacy as “An Epic Fail in America.”<sup>7</sup> Financially literate teenagers become financially literate adults—more likely to make sound financial choices throughout their working lives—making the crisis of LTC funding less acute in the future. 🌐

<sup>1</sup> *How to Plan for Rising Health Care Costs*, Fidelity.com, April 2018.

<sup>2</sup> *Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief*, U.S. Department of Health & Human Services, July 2018.

<sup>3</sup> Genworth Cost of Care Survey, 2018.

<sup>4</sup> Ibid. Amount based on 44 hours per week for 52 weeks.

<sup>5</sup> <https://www.magnifymoney.com/blog/news/average-american-savings/>

<sup>6</sup> <https://www.kff.org/infographic/medicaids-role-in-nursing-home-care/>

<sup>7</sup> <https://www.investmentnews.com/article/20190302/FEATURE/190229936/financial-literacy-an-epic-fail-in-america>



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