

Government Stepping In to Help Americans Pay for LTC Costs

The federal government is concerned about the rising costs of long-term health care for senior citizens and the disabled. And it is actually taking action.

The Community Living Assistance Services and Support Act (CLASS Act), part of the health reform legislation signed into law by President Obama in 2010, will establish the nation's first government-run, long-term care (LTC) insurance program. Long-term care insurance is designed to cover costs associated with cognitive impairment, a chronic illness, a disability, or help with daily needs such as bathing and getting dressed.

One of the primary goals of the CLASS Act is to reign in the role Medicaid plays in long-term care. Currently, Medicaid spends one-third of its budget on LTC costs -- and with a rapidly aging population, those costs are only expected to skyrocket over the next few decades.

The Act does not yet specify premium levels or the full scope of what services will be covered. The Department of Health and Human Services is responsible for determining the parameters of the program. While the program became effective as of January 1, 2011, the full details won't be finalized until October 2012.

Here is a summary of what is known so far.

- The program will be voluntary and not funded by tax dollars.
- Employers can include the program as part of their benefits offerings and may fund all or part of the costs. Their employees will be automatically enrolled, but will have the ability to opt out.
- Eligible employees can pay their monthly premiums through direct payroll deductions, similar to traditional workplace health insurance plans.
- Participants earn eligibility for their LTC needs after at least five years of participation.

- These plans will be tax-advantaged, allowing participants to deduct their premiums and out-of-pocket expenses on their tax returns.
- Those who are currently retired are not eligible for the program. Also not eligible are the unemployed and nonworking spouses.

A Need for Supplemental Coverage?

The program's benefits won't be capped, but the amount paid will probably not cover 100% of all LTC costs. The law stipulates a daily benefit minimum of at least \$50, and many experts believe the program will launch with a \$75 daily stipend. Currently, the median cost of "adult day health care" is \$60 a day, while a semi-private room in a nursing home runs \$185.¹

Given the rising costs of care, it is likely that supplemental insurance still may be a necessity for many who have not yet retired. Standalone LTC insurance can be pricey. In 2009, premiums for a policy with a three-year benefit period averaged \$1,590 annually for a single 55-year-old.²

In addition to their costs, LTC insurance policies are complicated. If you are considering purchasing a policy before the government plan is launched, be sure to consult with your financial professional.

¹Source: Genworth Financial, Genworth 2010 Cost of Care Survey, April 2010.

²Source: American Association for Long-Term Care Insurance, 2009 Long-Term Care Insurance Price Index.

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