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Funding Long-Term Care Without Draining Your Estate
Start Now, Before Your Options Become Limited

Good news: Thanks to medical advances in the past few decades, you — and your parents, if they're still alive — will probably live longer than previous generations.

Bad news: The cost of living in a nursing home for a year, now averaging around $51,000, will triple over the next 20 years, according to the General Accounting Office. So will the cost of other long-term care (LTC) — such as assisted living and skilled home care.

Start planning now if you want to be sure that you can afford the care you'll need as you age — without depleting the wealth that you hope to leave to your heirs. Most important, decide whether you can afford to fund LTC out of your personal assets or whether to buy LTC insurance to cover it. If you choose insurance, you'll have to decide whether to start paying premiums now or wait until you're older.

Coverage
LTC insurance typically covers a broad range of services other than hospitalization — including nursing-home care, assisted living, in-home healthcare and, sometimes, adult day care. (Your health insurance will still cover hospitalization and short-term illness.)

The choice between self-funding and LTC insurance depends on your:

- Financial situation (disposable net worth and income),
- Age, and
- Health condition.

Let's look at each of these factors individually.

Net Worth and Income
If your disposable net worth is more than $3 million ($6 million for a couple), then you may be able to cover the cost of LTC out of the interest and dividends that you earn and preserve the principal for your heirs.

Keep in mind that the cost of LTC varies from place to place and according to the level of care you'll need. So check out the costs in your area before you determine that your net worth is sufficient to cover them.

If you don't think you'll be able to fund long-term care on your own, consider buying insurance for it. Just be sure you can afford the premiums without compromising your living standard. (Depending on your adjusted gross income, you may be able to fully or partly deduct qualified LTC insurance premiums as a medical expense.)

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Those with low income and net worth may qualify for Medicaid assistance to help pay for LTC. Levels vary from state to state, but you generally cannot have more than $2,000 in assets — excluding your primary residence and basic necessities — to be eligible for Medicaid.

Some people try to qualify for Medicaid by giving away assets to relatives, but this strategy requires long-term planning because of strict transfer eligibility rules. For example, any assets that you give to another person within three years — or transfer to a trust within five years — before applying for Medicaid will be included in your total assets for eligibility determination.

Age and Health

The younger you are when you buy LTC insurance, the lower your monthly premiums. Those starting at age 60, for example, can cost more than twice as much as premiums for the same coverage starting at age 50. And if you're 84 or older, you'll have a hard time buying any LTC coverage at all.

Likewise, if you're in poor health, you may have a hard time obtaining LTC coverage. As with any kind of insurance, you can't wait to buy it until you need it.

Of course, the younger you start coverage, the longer you pay premiums. And LTC policies written decades before you need it may not be flexible enough to meet changing care standards.

As a rule of thumb, the ideal time to buy LTC coverage is between ages 50 and 60 — but closer to 50 if your income can easily cover the expense.

Many Options

LTC insurance varies widely in coverage, premiums, exclusions, inflation protection, duration of benefits and other provisions. So investigate your options carefully before choosing. We will be happy to help you decide how to fit LTC plans into your overall estate plan.