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In This Issue

[Demographics = Destiny](#)

[It's \(Very\) Expensive](#)

[Make Planning a Priority](#)

[How to Shop for Long-Term Care Policies](#)

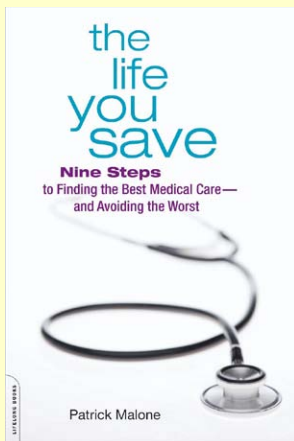
[Buyer Beware](#)

Quick Links

[Our firm's website](#)

[Read an excerpt from Patrick Malone's book:](#)

***The Life You Save:
Nine Steps to
Finding the Best
Medical Care -- and
Avoiding the Worst***



Looking Ahead: Preparing for Long-Term Care

Preparing for our later years means being concerned not only with living expenses, but also ensuring that end-of-life medical preferences will be affordable, whether we live in a care facility or independently.

This month we examine long-term care -- what it is, how much it costs and how to protect yourself from being surprised or getting ripped off when considering long-term care insurance policies.

Demographics = Destiny

In 2010, 40 million Americans were at least 65 years old. By 2050, there will be about 88 million of us in that age bracket, and more than 2 in 3 will need long-term care services, whether we get them in a nursing home, assisted living facility or at home from family members or paid caregivers.

That projection was made in a [report](#) by the Robert Wood Johnson Foundation (RWJF), a nonprofit focused on health research and the improvement of health care. The report also said that 2 in 3 people 65 and older can't afford even one year in a nursing home, regardless of its quality.

The cost will be even higher for people 85 and older, a demographic referred to as the "frail elderly"; its members are most likely to need long-term care, and by 2050 they will number 19 million.

So as the tide of an aging America swells, who will pay for the services we need, and how will they be delivered?

In 2011, long-term care in the U.S. cost \$210.9 billion, or about 1.4% percent of the gross domestic product.

Although Medicare subsidizes the cost of most medical care for people 65 and older, patients and their families are responsible for

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long-term care insurance. Many people mistakenly believe Medicare covers long-term care, so they don't even consider purchasing a private long-term care policy.

Others reject the coverage because it's too expensive, because they don't believe the benefits are worth the cost or because they're heard horror stories of people paying premiums for years only to learn their policies didn't cover what they needed when they finally needed it.

The High Cost of Care

The average nursing home, according to the RWJF report, runs \$84,000 a year. A lower level of care called assisted living averages \$42,000. But even if a senior stays home and receives care from providers with varying skill levels, it's expensive -- \$20 an hour on average, representing 88% of household income for many older adults. The cost for adult day-care facilities averages nearly \$70 daily.

But these costs vary according to where you live -- they are only national averages.

Residential care facilities vary in the degree of personal/medical attention they offer. The average cost for a one-bedroom independent living unit is about \$3,300 per month. Assisted living, a high level of care, is somewhat more, and if you need constant nursing care, have dementia, etc., that's when the costs start to approach six figures, depending on whether you share a room with someone else.

Medicaid, the federal subsidy for the economically disadvantaged, varies by state standards. To qualify, elders must have spent down nearly all their assets and have only negligible annual incomes in the low four figures.

Medicare does pay for skilled health professionals (nurses, physical therapists, etc.) to treat you at home if they are medically necessary and prescribed by a doctor. Known as Home Health services, they are medical treatment, not long-term care.

Make Planning a Priority

Citing a report by the Associated Press-NORC Center for Public Affairs Research, [Harvard Health Publications](#) noted that barely 1 in 3 Americans 40 years and older has saved money to pay for long-term care; about 4 in 10 have discussed their preferences with their families

Failure to plan for end-of-life care is risky for two huge reasons, said Dr. David Grabowski, a professor of health care policy at Harvard Medical School.

One, you lose control over the care you receive; if you haven't made your wishes known, and enabled them to be followed with appropriate legal and financial preparation, someone else might make a different care/medical decision when you're unable to communicate what you would have done. (See Patrick's previous newsletters, "[Who Speaks for You When You Can't Talk to the Doctor?](#)" and "[Dying in America: A Necessary Conversation.](#)")

Two, you might not have the money to pay for long-term care if you

don't plan for it, and that often puts loved ones in a difficult spot. Dr. Grabowski said that when someone's care exceeds what a family can provide, the only option often is being institutionalized in a place you wouldn't have chosen. "If the finances aren't in place to pay for that, the risk is ending up in a low-quality setting," he said.

If you continue to live at home, care can be provided by a family member or certified aides (private duty care) who help you take medicine, bathe, dress, eat and use the bathroom. Sometimes, people can remain in their homes, but spend their days in an adult day care facility. Sometimes such arrangements include transportation.

Residential elder care facilities range from independent living, which usually is like apartment living with some minimal oversight to ensure residents haven't fallen, etc., to assisted living (more personal aide attention) to skilled nursing care. Many residential facilities offer all levels of care, but some are limited to the lower levels.

Shopping for Long-Term Care

How long you will need long-term care coverage is impossible to know. Lengthy assisted-living or nursing home stays can wipe out even the best-laid retirement plan. As with any other investment strategy, it's a matter of doing your homework to make the best possible guess of future need.

With the help of [NPR](#), here's some guidance about buying long-term care insurance.

Who needs this coverage?

People who are neither rich nor poor, need long-term care insurance, as do those who want or need to protect assets for relatives.

Wealthy people often can pay for the care they need, as can people with sufficient assets willing to liquidate them, if and when necessary. People with few financial resources can be eligible for Medicaid, but make sure you understand its standards before you decide absolutely that long-term care insurance is not affordable.

NPR profiled a couple whose experience could be helpful for people considering insurance plans. Thirteen years after they bought their policy when they were in their 50s, they had paid about \$63,000 in monthly premiums. That equals only one year of assisted living expenses, on average. That's acceptable for some people, but clearly insufficient for others, as you'll see from the following information.

Don't Wait Too Long

The longer you wait to purchase long-term care insurance, the more expensive it is. Shopping before health problems start improves your chances of being accepted by the plan of your choice while tempering the cost of each month's premium.

The NPR couple had three priorities: a good-sized monthly benefit, inflation protection and ample years of coverage. They didn't want to be a burden to their children, and wanted to avoid the plight of one of their grandmothers, who spent years in a nursing home no one liked.

But they could afford their policy, which now costs \$440 a month, thanks to a 5% inflation rider that has raised their initial \$6,000 monthly benefit to more than \$11,000.

If you're young, consider self-insurance, which takes discipline but can pay off handsomely. Invest the money you would have used to pay long-term-care premiums in a low-cost balanced index fund, such as those offered by Vanguard Group. But if you're not vigilant about making the contributions, the funds won't grow as much as you might need.

Know the Odds

Men 65 and older, according to some research, have a 44% chance of ever going into care; for women, it's 58%. Those odds cover all types of care, from expensive nursing homes to more affordable home care. A good insurance policy covers all possibilities.

Most people, according to NPR, average less than a year in care, but some people's odds of requiring longer care are higher. Knowing your medical history and the likely progression of any chronic conditions you have helps you handicap your length-of-care outlook.

To determine how much coverage you should purchase, think about two strategies: full insurance, and co-insurance. A full-insurance policy might pay out the cost of the highest level of care, or \$10,000 or \$11,000 a month in the most expensive areas. Co-insurance would pay less, maybe \$7,000 per month in the higher-cost regions. So if you need the highest level of care and you have a co-insurance policy, you'll have to come up with \$3,000 to \$4,000 every month if you live in these areas.

Some plans have limited payouts

Many long-term care insurance policies have limits on how long or how much they will pay. For some, long-term care is funded only for two to five years; others pay the costs for as long as you live, but they are very expensive. Few plans are completely without limits.

Understand that long-term insurance is a long-term financial commitment

You might buy a policy when you're 50 that you don't need until you're 80. That's 30 years of monthly premiums, so you must be confident that you can afford it. If you stop paying your premiums, you lose your whole investment.

If you purchase a plan, consider having someone you trust manage the premium payments when you get older. Cognitive problems often afflict the elderly, and they have difficulty keeping track of bills. If you forget to make your insurance payments, you can lose your coverage precisely when you need it.

Buyer Beware

The U.S. Department of Health and Human Services (HSS) has several resources consumers may consult for information about long-term care and insurance. To compare costs of long-term care across different locations, and to estimate projected long-term care costs in your state, link [here](#).

To learn about which medical conditions make you ineligible for most long-term care plans, link [here](#).

To understand the basics of such insurance, and how to think about it as it applies to you, link [here](#).

To learn about long-term care benefits for veterans, link [here](#).

Many people who paid monthly premiums for a long time have been devastated to learn that their policies didn't cover certain aspects of care when they needed them. As with any purchase of a financial product, you must investigate the underwriter, and read the whole policy carefully. If you don't understand something in the policy, seek outside assistance from an attorney, a patient advocate or any objective, informed resource.

Request information on the company's premium rate history. Some insurance policies raise premiums without increasing benefits, so you must ask before you commit to a policy about such escalation.

This situation was starkly illustrated in a [Los Angeles Times story](#) about a couple who never missed a payment and never cost their insurer a penny in 10 years. Although the company, John Hancock, told them that their rates could rise, they didn't expect them to increase by almost double, which they did.

According to The Times, "Long-term care insurers have been notifying insurance regulators across the country that they're jacking up rates because they miscalculated how much coverage they'd have to provide and how much health-care costs would rise."

The couple's choices were bad and worse: Keep their rates at the current level but accept reduced benefits when they need them or pay the higher cost. So faced a greater financial burden at the end of life, and would be unable to reinstate higher benefits unless they signed up for a prohibitively expensive new plan.

Be sure that ratings agencies confirm that the insurer you're considering is well-established and has a very strong long-term financial position. Learn about underwriter ratings from the [American Association for Long-Term Care Insurance. Consumer Reports](#) recommends that you get four or five quotes from different insurers that are highly rated by leading services including A.M. Best, Fitch Ratings, Moodys and Standard & Poor's. For several quotes, use an independent agent familiar with several insurers.

As NPR summarized, "You're entering what could be, essentially, a 30-plus-year marriage with this company, so you want to be sure your insurance partner's there for you in sickness - not just health."

Recent Health Care Blog Posts

Here are some recent posts on our patient safety blog that might interest you.

- "Machines make us stupid." That was the conclusion of a [Bloomberg reporter](#) in a fascinating study of how high tech in health care can result in some dangerously bad decisions, if we let the machines take too much control.

- Should Medicare pay for lung cancer screening when the majority of patients who need the screening are at risk because of their long histories of smoking? The [New York Times](#) did a nice job of sorting out the pros and cons on the public policy level, and also on the level of what an individual should do who is hooked on cigarettes but worried about their cancer risks.
- [An update](#) on the Mediterranean diet. Yes, it's tasty and probably pretty darned good for you.

Past issues of this newsletter:

Here is a quick [index of past issues of our newsletter](#), most recent first.

Here's to a healthy rest of 2015!

Sincerely,

A handwritten signature in black ink that reads "Patrick Malone". The signature is written in a cursive style with a large, stylized initial "P".

Patrick Malone
Patrick Malone & Associates