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Minnesota to offer incentive for long-term care insurance

Jane Brissett

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Minnesota soon will offer state residents an incentive to buy long-term care insurance — against the chance that they will someday end up in a nursing home or need extended health-care services at home — while lightening the load on the Medical Assistance program.

Few people want to spend their last years in nursing homes but sometimes it's unavoidable. At a cost of $50,000 to $60,000 annually, years of nursing-home care can quickly impoverish middle-income families. Today there are other options such as assisted living and home health care, but even those less-expensive options can cost more than many people can afford. As with nursing home care, Medicare doesn't usually cover those costs, either.

Premiums aren't cheap, either. For people in their 50s and older, they can be thousands of dollars a year, but they usually don't come close to the cost of years of care, experts say.

The strain on Medical Assistance is increasing. About 58 percent of nursing home care in Minnesota and 64 percent in Wisconsin is paid by the federal Medicaid program, which is administered by the states (it's known as Medical Assistance in Minnesota), according to 2005 figures from the Kaiser Family Foundation. Costs will increase as the baby boom generation ages and needs more long-term care.

The state is initiating the Minnesota Long Term Care Partnership Program to encourage those who are able to pay for long-term care with private insurance. The state estimates the program will save state taxpayers $120 to $154 million by 2030.

The current system forces you to spend virtually all your money and assets, leaving your spouse impoverished, too, for Medical Assistance to pay long-term care costs. Your spouse can keep your home (with equity of $500,000 or less), car and a little cash.

Under the Minnesota Long Term Care Partnership Program, if you buy a qualified policy, you can preserve assets equal to the amount of your policy.

In other words, if you buy a $200,000 policy, and after your insurance benefits are exhausted, you can keep $200,000 and Medicare will pay the long-term care bills.

Insurance companies and the state are working on the details for the program, which has been tried in four states. The Minnesota Department of Human Services expects coverage to be available this fall.

Long-term care insurance can give consumers peace of mind that they won't leave spouses in poverty and will have something to leave to their heirs. It's sometimes available through employers, but insurance agents and insurance companies also sell it.

"Long-term care coverage is something people often think they don't need," said John Gross, director of health care policy at the state Commerce Department.

More people should have it than do, said Catherine Sampson, director of the Arrowhead Agency on Aging in Duluth.

But the policies are pricey and you're not likely to get anything out of them if you never need care that lasts beyond 90 days unless you buy a combination life insurance and long-term care policy or one with special provisions.

That might be why relatively few people have purchased such policies in Minnesota. The Minnesota Department of Commerce said that in 2006, 180,000 state residents had bought long-term care insurance. Minnesota has 3.8 million adults age 19 and older.

The Kaiser Family Foundation said that in 2005, 4.7 percent of Minnesota adults 65 and older lived in nursing homes. About 4.4 percent of that population in Wisconsin lived in nursing homes.

Sampson decided with her husband several years ago to buy the insurance. Looking at their family histories, in which relatives on both sides spent the last years of their lives in nursing homes, convinced them it was the right move for them.

“I want to protect my lifestyle to some degree,” she said.

But knowledgeable people have varying opinions. Sampson’s agency answers questions and helps people compare long-term care insurance and other issues seniors face and even staff members there are not of one mind as to whether it’s worthwhile, Sampson said.

Few people know much about the insurance, but many people fear running out of money as they age and their health deteriorates, said Patty Francisco, long-term care specialist at StrommenFrancisco, a financial advising firm in Duluth.

“The biggest risk that your 401(k) has is health,” she said. Her own family has been dealing with long-term care since 1987. “That’s something you don’t recover from [financially] if you have to pay out of pocket,” she said.

Her husband and business partner, Pat Francisco, said that if financial advisers don’t help clients understand the risk of long-term care costs as part of the financial picture, they aren’t doing a good job.

The very wealthy don’t have to worry about it because they have the means to pay for their own care. The poor have Medical Assistance as a safety net. Consumer Reports magazine in 2003 advised readers not to buy a policy if their net worth is more than $1.5 million or less than $200,000.

Senior editor Amanda Walker, who researched and wrote the article, said in a phone interview that people need to consider their assets along with their entire financial picture, such as having children approaching college age, when deciding whether to buy a policy.

Many people depend on their families to provide care and some plans will pay them. Assisted living and hospice care also are covered by many policies. And policies are guaranteed renewable. They often offer inflation protection, a feature that the Minnesota Long Term Care Partnership Program will require, but the premiums generally don’t increase as the policyholder ages.

Patty Francisco provided an example: For a plan with a maximum monthly benefit of $48,000 a year for three years, one company’s plan with compounded inflation protection for a 50-year-old would cost $1,104 annually. The same yearly coverage for a 60-year-old would be $1,499 and for a 70-year-old it would be $3,000. However, a plan with simple inflation coverage would be more appropriate for the 70-year-old, she said. That premium would be $2,664 per year.

Right now, Minnesota officials are working on reciprocity with other states because many are adopting similar plans, Gross said. That would enable a state resident who moved to Florida in retirement to be covered by the policy he or she bought before leaving a workplace in Minnesota.

Long-term care insurance in one form or another has been around since the 1970s, but the form has evolved somewhat.

Still, the idea hasn’t really caught on. Now that the state is willing to allow people to go on Medical Assistance while keeping a portion of their estates, that could change.