GOVERNMENT RESPONSES TO LONG-TERM CARE CRISIS

The tax environment to fund caregiving expenses is changing.

Long-term care (LTC) costs can quickly burn through a high-net-worth retiree's savings. This can impact a spouse's retirement and legacy goals and impoverish the survivor, which, in turn, qualifies the living spouse for Medicaid to fund LTC.[1] Federal and state programs are ill-prepared to keep up with the aging population and rising expenses. As a result, states and the federal government are looking at new ways to cover this gap including new taxes and tax incentive programs. This activity creates a timely planning opportunity for discussing private LTC with clients.

LEGISLATIVE ACTIVITY

Faced with dramatically rising LTC costs and intense pressure on state and federal programs— especially Medicaid— governments at all levels are exploring and instituting completely new ways to fund the costs and incentivize behavior to drive the purchase of LTC coverage. Exploration is active at the federal level and acute at the state level, where Washington state is leading the way. Other states are likely to follow suit.

At the federal level, bills such as the Long-Term Care Affordability Act and the Well-Being Insurance for Seniors to be at Home (WISH) Act have gained attention in recent years and are still in the discussion phase.

The WISH Act contemplates a public-private partnership to finance catastrophic LTC coverage for home care situations and supplement Social Security for those with the greatest need. The act proposes an additional 0.6% wage tax to fund the program.[2] The Long-Term Care Affordability Act takes a different approach by allowing individuals to pay up to $2,500 each year for LTC insurance with qualified retirement funds without a tax penalty.[3]

- **10,000 people turn age 65 every day in the United States. This segment of the population is expected to represent 20% of the population by 2050.[4]**
- **52% of retirees can expect to incur long-term care expenses with 25% spending at least $100,000.[5]**
- **Only 7.5 million people in the United States have any private LTC insurance to counter these expenses.[6]**

INCENTIVIZING PRIVATE LTC INSURANCE

States are increasingly focused on incentivizing individuals to own private LTC insurance. For instance, in the state of Washington, through the "Washington Cares" program, employees have a one-time ability to apply to "opt-out" of a payroll tax if they can demonstrate sufficient private coverage.

In Washington, any qualified LTC insurance product applies.[7]

- Traditional individual LTC insurance
- Group or employer-sponsored LTC insurance
- Life insurance-based products with qualified LTC accelerated benefit rider products, also known as hybrid life/LTC or life with a LTC rider

This option to opt-out caused a surge of business in the insurance market in Washington state as private LTC coverage looked more attractive than the state program, especially for those with high incomes and/or at younger ages. The permanent nature of the opt-out provision, combined with no future recertification, has created a challenge for insurance carriers which reacted by increasing minimum levels of accepted premiums and plan designs concerned about future persistency. Ultimately, sales were suspended to focus on processing the high volume of business. Future adjustments to Washington Cares may result as insurance industry groups, employers, and citizens share feedback and ideas with the Long-Term Services and Supports (LTSS) Trust Commission and state representatives.

THE LOOMING FINANCIAL RISK OF CAREGIVING

Long-term care conversations are difficult. Even though most individuals expect to live a long life, many underestimate the need for potential care caused by an extended health care event. The discussion can be made easier if there is a prudent, well-thought-out plan with dedicated funding. Addressing LTC funding can reduce the emotional and physical impacts to friends and family members. A private LTC program may also provide the opportunity to navigate future state and federal legislative and tax programs to pay for an aging population and social programs.

Long-term care can be a significant risk to a financial plan. Many consider self-funding future long-term care expenses in their financial plans but are unprepared for the high costs caused by a lengthy health event.

SPOTLIGHT: WASHINGTON CARES

First-of-its-Kind State LTC Program

Originally known as Long-Term Care Services and Supports Trust Program, House Bill 2SHB1087

Highlights:

- 0.58% payroll tax for all workers (uncapped)
- $36,500 LTC benefit ($100/day, to be inflation adjusted)
- Must reside in Washington state to receive benefits and qualify by meeting three of 10 activities of daily living
- Tax begins January 1, 2022 with benefits becoming available on January 1, 2025

One time "opt-out" exemption available for those who have a qualified LTC insurance policy issued before November 1, 2021.

Washington is the first state to implement a state-level LTC program (payroll tax began January 1, 2022).

Missouri signed into law a program allowing taxpayers to deduct from their taxes 100% of the cost of qualified LTC insurance premiums (applicable to tax years after December 31, 2020).

No state is immune to the aging population and stresses to its Medicaid budget. Many states are watching the Washington program closely and/or have their own studies underway to determine the best path forward for their populations. States are considering both their own version of state-run LTC programs as well as tax incentives.

Figure 1 illustrates how the cost of care is anticipated to grow as demand increases.

Costs vary by geographic location and most cost surveys report average numbers. Many high-net-worth clients are likely to pay more than the average expenses, including nonqualified long-term care expenses that align with their lifestyle expectations.

ADVANTAGES OF PRIVATELY OWNED LTC INSURANCE

Private LTC insurance provides other advantages compared to state programs:

- Fully portable with benefits that can be used in any state
- Customized benefit design: e.g., longer duration, higher monthly benefits, and various premium structures
  - Cost may also be more attractive depending on income and age
- Consistent tax-qualified definition to qualify for benefits (two of six activities of daily living or cognitive impairment lasting at least 90 days)
- NOTE: Private LTC insurance requires medical underwriting

Shifting the long-term care risk to an insurance company may provide several valuable benefits to an individual:

- Provides a dedicated funding mechanism to pay for the plan of care, which may also help minimize conflicts between family members or other beneficiaries about where care is received and/or how much it costs
- Benefits are noncorrelated to a retirement portfolio which may otherwise be the funding source
- May allow leveraging of otherwise low-yielding assets such as cash, money market accounts, or certificates of deposit
- Benefits for qualified LTC expenses are tax-free on a reimbursement or indemnity basis[8]
- Individuals and business owners may also deduct or receive credit for LTC insurance premiums in certain situations depending on the product type, business tax entity, and medical expenses as a percent of adjusted gross income

LIFE INSURANCE AS AN EMERGING LONG-TERM CARE FUNDING OPTION

Privately owned stand-alone LTC insurance is not the only option. There are more options than ever for a life-insurance based products with a LTC focus. Often called “hybrid” products, these offerings may help to overcome concerns that individuals sometimes have toward traditional LTC insurance products.

As with traditional LTC, benefits may be used for qualified LTC expenses such as: home health care, adult day care, assisted living, and nursing homes.

FIGURE 1: ANNUAL NATIONAL MEDIAN COST OF LONG-TERM CARE

TYPE OF CARE	PAST INFLATION RATE[12]	2020	2030*	2040*
Home Health Aide[9]	1.88%	$54,912	$73,797	$99,177
Assisted Living Facility[10]	3.80%	$51,600	$69,346	$93,195
Nursing Home Facility, Private Room[11]	3.10%	$105,850	$142,254	$191,177

* Based on 3% annual inflation

[9] Based on 44 hours per week by 52 weeks

[10] Based on 12 months of care, private, one bedroom

[11] Based on 365 days of care

[12] Observed inflation rate from 2004-2020

Source: Genworth Financial’s 17th annual Cost of Care Survey (Cost of Care Calculator)

OBJECTION	LIFE INSURANCE WITH LTC FOCUS
"Use it or lose it"	Life insurance-based products recapture capital through a life insurance death benefit to a beneficiary eliminating the "use it or lose it" objection.
"If I decide to lapse the policy, I get nothing"	Most permanent life insurance policies offer a return of premium benefit or a cash surrender value.
"Won't the rates increase?"	Some life insurance products are guaranteed with level premiums or even the option to pay with a lump-sum payment.

SUMMARY

When exploring private long-term care solutions to fund an extended caregiving event, remember that an individual's health is the key determining factor to obtain coverage. Therefore, today is often the best time to discuss the long-term care risk and to document the intended caregiving plan.

[1] Medicaid LTC coverage pays after a spend down of assets and typically only pays for nursing home level care.

[2] The proposed increase contemplates an equal share of 0.3% from the employer and the employee.

[3] https://www.toomey.senate.gov/newsroom/press-releases/toomey-re-introduces-measure-to-make-long-term-care-insurance-more-affordable

[4] UN Population Division

[5] For people turning age 65 between 2015 and 2019. Source: Assistant Secretary for Planning and Evaluation (ASPE) Issue Brief, Long-Term Services and Supports for Older Americans: Risks and Financing, ASPE Research Brief, revised February 2016, Table 5.

[6] https://www.aaltci.org/long-term-care-insurance/learning-center/ltcfacts-2020.php

[7] In Washington's case, Critical Illness (IRC 101(g)) riders do not qualify; only those that are IRC 7702B per the Washington state insurance code are considered qualified LTC insurance.

[8] Subject to the IRS LTC HIPAA per diem limit. $400 per day for tax year 2021.

Carlson Hammond
415.256.8960 (CA) – 808.532.2826 (HI) | carlsonhammond.net

M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | **mfin.com**