The Concept…

- "Long-term care" refers to both **skilled nursing care** and **custodial care** services provided in response to chronic illness, disability or a cognitive disorder.
- Skilled nursing care is intensive daily nursing care, under a doctor's orders in a skilled nursing facility, supervised by licensed medical personnel.
- Custodial care refers to assistance with the "activities of daily living" (ADLs), which include bathing, eating, dressing, toileting, continence, and transferring from a bed to a chair.
- The majority of long-term care is custodial care, and may be provided in a variety of locations, including an assisted living facility or an individual's home.

Medicare…

- Medicare is a federal government health insurance program for people who are age 65 and over and people with certain disabilities.
- Typically, Medicare pays for acute or immediate medical care.
- Medicare will pay a limited amount for skilled nursing care, subject to limitations.
- To be eligible for benefits, the patient must have spent at least three days in a hospital prior to being admitted to a Medicare-certified skilled nursing facility, and generally must be admitted within 30 days after leaving the hospital.
- Medicare pays 100% of eligible charges for the patient's first 20 days in a skilled nursing facility, but days 21 through 100 are subject to patient-paid coinsurance.
- Home and community-based care services may not be covered by Medicare.

Medicaid…

- Medicaid is a welfare program jointly funded by federal and state governments that includes coverage for long-term care for individuals with low incomes and limited resources.
- Medicaid primarily pays for care provided in a skilled nursing facility, with only limited options or "waivers" available for home-based care.
- Rules for Medicaid eligibility and covered services vary by state.

- To be eligible for Medicaid, an individual typically must have $2,000 or less in non-exempt assets. Exempt assets include a principal residence, a car, personal property (furniture, clothing, etc.), burial funds and cash value life insurance, as long as these assets fall below stated value limits. Individual income—Social Security or a pension, for example—is considered non-exempt and must be used to help pay for care.
- It is difficult for middle-income Americans to qualify for Medicaid because of a five-year “look back” period—the period for which the state will review the individual’s financial history and seek documentation and explanation for any asset transfers made prior to application. Penalties may be imposed on individuals who transferred assets that could otherwise have been used to pay for care. Unfortunately, the penalty period does not begin until the time the applicant enters a nursing home and does not have funds to pay for care.
- After a Medicaid recipient dies, state governments may use estate recovery laws to recover money paid for that individual’s care.

Long-Term Care Insurance…

- Long-term care insurance (LTCI) is private insurance designed to cover the cost of skilled nursing and custodial care services for individuals who are chronically ill or have severe cognitive impairments.
- Long-term care insurance typically reimburses a daily benefit amount for covered services. The initial daily benefit amount is chosen by the policyholder during the application process.
- Federal HIPAA legislation established minimum policy guidelines for tax-qualified LTCI policies, including:
  - A policy must be designed to retain its value by increasing the daily benefit amount to account for the escalating costs of care over time.
  - A policy must be issued on a guaranteed renewable basis, meaning that the policy cannot be canceled as long as premiums are paid when due.
  - A policy must offer standardized definitions of the ADLs and standardized benefit triggers (e.g., substantial assistance with at least two of six ADLs for individuals who are chronically ill and/or diagnosed with severe cognitive impairments).

The Tax Picture…

- Premiums paid by an individual for a long-term care insurance policy are generally deductible as medical expenses (assuming the taxpayer itemizes deductions) when the total itemized medical expenses exceed 10% of adjusted gross income (AGI).
- Once the AGI threshold has been met, premiums are deductible up to specified age-based limits that are indexed each year. The maximums for 2019 are:

Age 40 or under:	$420
Age 41–50:	$790
Age 51–60:	$1,580
Age 61–70:	$4,220
Age 71 or older:	$5,270

- Generally, benefits received under a qualified long-term care insurance policy are excludable from gross income as amounts received for personal injuries and sickness, subject to a per diem limit.
- Businesses that pay premiums for employee coverage may deduct those premiums as a health insurance expense without regard to the AGI threshold requirement. C corporations may deduct 100% of premiums paid, while pass-through entities may deduct 100% of premiums paid for employee coverage and up to the age-based limits for owner-employees (defined as owning 2% or more of the business).

The Bottom Line…

Many Americans will be faced with a need for long-term care sometime during their lives, so it's important to understand all of the available options in order to select the most appropriate approach to pay for this potentially substantial expense.

SUMMARY

What Is Long-Term Care?

"Long-term care" refers to medical caregiving services provided as a result of disability, cognitive dysfunction or chronic illnesses that can generally be grouped into two broad categories:

- **Skilled nursing care**—intensive daily nursing care, under a doctor's orders in a skilled nursing facility, supervised by licensed medical personnel.
- **Custodial care**—assistance with the "activities of daily living" (ADLs), which include bathing, eating, dressing, toileting, continence, and transferring from a bed to a chair. The majority of long-term care is custodial care and may be provided in a variety of locations, including an assisted living facility or an individual's home.

Medicare and Medicaid

Medicare is a federal government health insurance program for people who are age 65 and over or disabled. It doesn't pay for custodial care, and only pays for skilled nursing care subject to limitations.

Custodial care may be covered by Medicaid, a welfare health program funded jointly by federal and state governments and administered by the states within federal guidelines. Medicaid eligibility and covered services vary by state. A person qualifies for Medicaid by meeting low income and asset levels established by each state. Stringent rules make it very difficult for middle-income Americans to "spend down" or give away assets in order to qualify for Medicaid.

Long-Term Care Insurance

Long-term care insurance is privately purchased insurance that covers the cost of skilled nursing and custodial care for people who are chronically ill, disabled or suffering severe cognitive dysfunction.

Long-term care policies typically pay a flat daily benefit amount during the benefit period. The policyholder may select the amount during the application process based on local nursing care costs. To be considered tax qualified, policies must meet certain requirements, including offering inflation protection and being issued on a guaranteed renewable basis (in other words, the insurance company can't cancel the policy if premiums are paid when due).

Tax Benefits of Long-Term Care Policies

An individual's long-term care premiums are generally deductible (by taxpayers who itemize deductions) as medical expenses up to a maximum amount based on the insured's age, provided that total medical expenses—including the eligible long-term care premium—exceed 10% of adjusted gross income.

The inflation-indexed maximums for 2019 are:

Age 40 or under:	$420
Age 41–50:	$790
Age 51–60:	$1,580
Age 61–70:	$4,220
Age 71 or older:	$5,270

Under an individual LTCI policy, benefits received are excludable from gross income up to a maximum per diem limit when services are provided to a “chronically ill individual.”

Similarly, if the LTCI policy is provided under a qualifying employer health plan, neither the employer’s premiums nor the benefits received are taxable to the employee receiving the benefits (again, subject to per diem limits). Generally, businesses that pay LTCI premiums for employees can deduct premiums as a health insurance expense. C corporations may deduct 100% of premiums paid. Pass-through entities (such as partnerships and S corporations) can deduct 100% of LTCI premiums paid on behalf of rank-and-file employees and up to the age-based limits for owner-employees who own 2% or more of the business.

LONG-TERM CARE INSURANCE