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The Impact of Health Care
Inflation and Regional Health
Care Cost Variation on
Economic Forecasting of
Long Term Care Costs
and Insurance Payouts

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Executive Summary

Major points:

- Comprehensive overview of the complex world of Long Term Care (LTC) services is presented.
- Health Care market forces, particularly Health Care Inflation rates and regional cost variations, influence LTC costs.
- LTC costs are above and beyond routine Health Care Costs, i.e., Medicare and Medigap premiums, co-payments, pharmaceuticals, etc.

Broad conclusions:

- Health Care Inflation Rates are 2 - 4 times greater than the CPI.
- LTC costs vary widely across the United States.
- Out-of-pocket cost for a 90 day waiting period before LTC insurance benefits are collected range from \$9,630 - \$21,690 in year one and from \$46,234 - \$104,134 in 20 years.
- In most cases, there is a deficit between LTC costs and LTC insurance payouts ranging from \$14,235 - \$51,465 in year one and from \$207,080 - \$385,822 in 20 years.

Practical applications:

- Financial Advisors need to:
 - Use Health Care Inflation rates when projecting LTC costs.

- Customize LTC cost estimates based on prevailing LTC costs in the region that clients expect to live when LTC costs occur.
 - Plan to fund 100% of LTC costs during the LTC insurance waiting period.
 - Plan to fund the deficit between LTC costs and LTC insurance payouts through other means.
 - Remember to budget for routine Health Care expenses above and beyond LTC expenses during retirement.
- Study findings are applicable to Financial Advisors at every level.

Introduction

You can walk into almost any coffee shop in the United States and hear the conversation or see the current days' headlines about dramatically increasing Long Term Care (LTC) costs that retirees will face. In fact, the number one fear that Americans' have about retirement is not being able to cover their health care costs (USA Today, 2006). As a result, Financial Advisors and their clients are asking themselves:

- What will LTC cost in the future?
- How do I assist my client's in planning for their LTC expenses?
- How do I build LTC costs and effective LTC financing methods into my financial plans for retirement?

The aim of this study is to provide Financial Advisors with answers to these questions and provide a means for Financial Advisors to analyze and advise their clients' with respect to this very important aspect of retirement planning.

Problem: This study specifically addresses this question: What kinds of Long Term Care costs can clients expect to face during retirement and how might clients fund those Long Term Care costs?

Purpose

The purpose of this study is to examine the impact of health care inflation and regional health care cost variations on economic forecasting of LTC costs and reimbursements. The study compares the expected costs of Nursing Home and Home Care LTC that consumers may face during their retirement with the potential payouts from LTC insurance as well as any deficit between expected LTC costs and insurance payouts, which clients will need to fund through other means. An economic forecast is constructed in this study.

This study advances the body of knowledge specifically related to wealth management and financial planning for out-of-pocket personal LTC expenses during retirement. The study provides ground-breaking results that are directly applicable to financial services professionals at all levels. The findings of this study will increase financial services professionals' capabilities to analyze LTC scenarios and advise their clients independently and objectively in planning for the LTC expenses that their clients' may face during retirement as well as potential ways to fund LTC costs.

Study questions:

1. What is the projected expense for LTC goods and services that an individual may experience in their retirement years:
 - a. For LTC in a Nursing Home?
 - b. For LTC at Home?

2. What portion of Nursing Home and Home Care LTC expenses will be reimbursed by LTC insurance payouts?
3. What portion of Nursing Home and Home Care will be financed by other means?
4. What are the implications of the study results for Financial Advisors when advising their clients in the decision making process about how to finance LTC costs in their retirement years?

Background and Significance:

Putting the Pieces of the Long Term Care Cost Puzzle Together

It is helpful to use the analogy of a puzzle when thinking about LTC services and costs. The world of LTC services and costs has many pieces which do not seem to fit well together creating a very puzzling and, beyond that, scary scenario. And yet, many of these pieces are identifiable, within ranges, to help a client put a picture together for themselves. As aptly noted by Anthes & Lee (2001) "Long-Term Care planning is not necessarily the same as long term care insurance" More and more Financial Advisors and consumers are considering options to finance LTC, including purchasing LTC insurance, to bridge the financial gap between consumers' assets to pay for care and the actual cost of LTC.

The objective of this study is to take a comprehensive view of planning for LTC costs. This study forecasts an estimate of Nursing Home and Home Care LTC

costs in retirement and gives the Financial Planner some analytical tools to put the pieces of their clients' LTC cost puzzle together in order to advise and plan for their needs in retirement.

What is Long Term Care?

LTC is supportive care for individuals who have chronic health conditions and need assistance with the basic “work” of taking care of one’s self. This type of work is known, in the LTC world, as the Activities of Daily Living (ADLs) and Instrumental Activities of Daily Living (IADLs) (Table 1). Typically, a person must be compromised in at least 2 ADLs for service providers and insurance companies to qualify the person for payment of LTC services. Also, consideration is sometimes given to the IADLs, particularly with respect to people with dementia who require supervision. It is important for Financial Advisors to become familiar with the ADL and IADL terminology in order to advise clients and help them navigate the world of LTC.

Table 1. Long Term Care Functional Status Variables

Activities of Daily Living (ADL)	
Bathing	Eating
Dressing	Toileting
Transferring (i.e. bed into chair)	Continence: Bowel/Bladder Control
Instrumental Activities of Daily Living (IADL)	
Shopping	Cooking
Housework	Managing Finances
Arranging Health Care Appointments	Using the Telephone
Supervision of Personal Safety	Using and Managing Transportation

Who provides LTC services?

Most people with LTC needs, 83%, live in community settings, i.e., their own homes, retirement communities, etc., rather than in Nursing Homes. Family and friends usually provide the backbone of LTC for individuals at home (Genworth Financial, 2006; Johnson and Uccello, 2005). LTC is also supplemented with professional caregivers in Home Care, Community Based Care and Nursing Homes.

What Does LTC Cost?

LTC includes a broad range of health and support services that people need as their functional abilities decline. The majority of these services are personal care,

or assistance with the ADLs and IADLs. These services may be provided by family members or friends some or all of the time, usually at little or no cost to the person who needs the care. Sometimes, as care and support needs increase, paid care is needed to supplement family provided support, or to provide respite to family caregivers. Occasionally, more extensive services in a facility, such as a Nursing Home or Assisted Living, are required when individuals can no longer be cared for in their homes.

Average LTC costs in the United States (Genworth Financial, 2006) are:

- \$171/day for a semi-private room in a Nursing Home
- \$194/day for a private room in a Nursing Home
- \$2,691/month for care in an Assisted Living Facility
- \$19/hour for a Home Health Aide (MetLife, 2006)
- \$17/hour for a Homemaker services
- \$56/day for care in an Adult Day Health Care Center

There are variations in the amounts of care and associated costs based on the type of care the person needs and the variety and cost of services where a person lives. Long-term care can be very costly.

Who pays for LTC?

Most health insurances do not cover LTC. The exceptions are Medicaid, some very limited Medicare coverage, some limited VA benefits, and private third party LTC insurance. Other private third party insurance, including Medigap, does not

cover LTC. Some individuals will qualify for Medicaid, which is the major payer of long-term care services, but most people will not. There are other federal public programs, such as the Older American's Act, or state funded programs, that pay some long-term care services, but like Medicaid, those programs target people with very low incomes and the highest degrees of functional disability. Privately purchased LTC insurance and VA benefits do cover some LTC but contain restrictions, such as waiting periods and financial limits, to access those benefits. Consequently, if a person is one of the 60% of people over the age of 65 who will need long-term care services (National Clearing House for Long Term Care Information, 2007), there is a very good chance of having to pay for some or all of the LTC services out of personal income and resources.

Paying for LTC out of personal income and resources can be challenging, especially when predicting how much money may be needed for LTC in the future. To help clients make the best decisions about how to pay for long-term care, advisors need to understand LTC service costs, programs their clients may be eligible for and what is covered, private financing option, and which ones fit best for each client as they plan for retirement. There is no “one size fits all” solution when it comes to planning for LTC costs during retirement.

The “Perfect Storm” of LTC Services and Costs

The LTC services market that consumers face today and can expect to face in the future, is a market filled with factors that contribute to ever rising cost and complexity of care. Average life expectancy has increased dramatically from

47.9 years for males and 50.7 years for females at the turn of the 20th century, to 74.1 years for males and 79.5 years for females at the beginning of this new millennium (US Census Bureau, 2000). In 1940, a 65 year old woman could expect to live to 79.7 years, by 2000 she could expect to live to 84.5 years and by 2040 she is expected to live to 97 years of age (MetLife, 2004).

Chronic illness, which is any type of illness that is long lasting, i.e. greater than six months duration, or recurrent, is occurring at an ever increasing rate. Nearly 38% of people 65 years of age and older are diagnosed with a severe disability (US Census Bureau, 2001). More people than ever before are living with high blood pressure, heart disease, diabetes and neurological disorders such as Parkinson's disease, Alzheimer's and other dementias. Even cancer, which was once considered to be an immediate death sentence, has become, for many, a chronic illness. These aforementioned conditions are but a few of the disorders people increasingly face as they age.

Consumers are using LTC services in a wide variety of settings that are becoming more diverse on a daily basis and branching out beyond traditional institutions. People are seeking LTC in home and community based settings in addition to traditional Nursing Home care. Factors leading to the growing sophistication of and demand for care outside of institutional settings include escalating demands on families and other community based caregivers, i.e.,

nurses, aides and companions, the latter of which must usually be paid for by the consumer.

At the same time, we are in the midst of a nursing shortage that is projected to grow over the next 20 years. All of this is occurring in the face of ever increasing demands to reduce public funding for LTC and put more emphasis on private financing of LTC. Therefore, these factors are coming together to form the “perfect storm” of LTC services and costs for retirees (Table 2). Even though this is the case, consumers often make planning for their LTC a low priority (Planning for Your Health, 2007). This phenomenon is akin to that of the ostrich putting its’ head in the sand.

Table 2. The “Perfect Storm” of LTC Services and Costs for Retirees

Trend Direction	LTC Market Forces
↑	Average life expectancy
↑	Chronic illness incidence
↑	More complicated care at home
↑	Demands on family caregivers
↑	Pressure to reduce public funding for LTC
↑	Pressure to use more private dollars to pay for LTC
↓	Supply of Nurses and many LTC workers

(Votava, 2005.)

What do we spend our LTC dollars on?

Before we begin a cogent discussion of LTC costs, it is important to review the wide variety of services that are included in this very broad category of health care. In the process of building LTC budgets for financial planning purposes, it is essential to look at the line items that might be included in those budgets. The following are the major categories of LTC costs that your clients may experience:

1. Home Care services:
 - a. home health aide and personal aide service
 - b. skilled nursing service
 - c. physical or rehabilitation therapy service
 - d. Home Maker and Chore Service
 - e. Social Work
2. Meal Programs:
 - a. Home Delivered
 - b. Senior or Community Center Based
3. Adult Day Service Programs
4. Handicap Accessibility Home Modifications
5. Case Management or Geriatric Care Management
6. Personal Emergency Response Systems
7. Friendly Visitor and Companion Services
8. Respite Care
9. Home Modification
10. Community or Senior Centers
11. Transportation Services
12. Board and Care Homes
13. Continuing Care Retirement Communities
14. Assisted Living Facilities
15. Skilled Nursing Home Care

It is critical for Financial Advisors to take into account the fact the while the list of potential LTC costs is long, these LTC expenses are above and beyond routine ongoing health care expenses that people can expect in retirement. Such things as Medicare B, C and D premiums, Medigap insurance premiums and the associated deductibles and co-payments, as well as dental care, eyewear, prescription and over-the-counter medications are expenses that consumers must continue to pay for out of their pockets, alongside of LTC expenses. As a result, the Financial Planner must project these routine, ongoing health care expenses, in addition to planning for LTC costs.

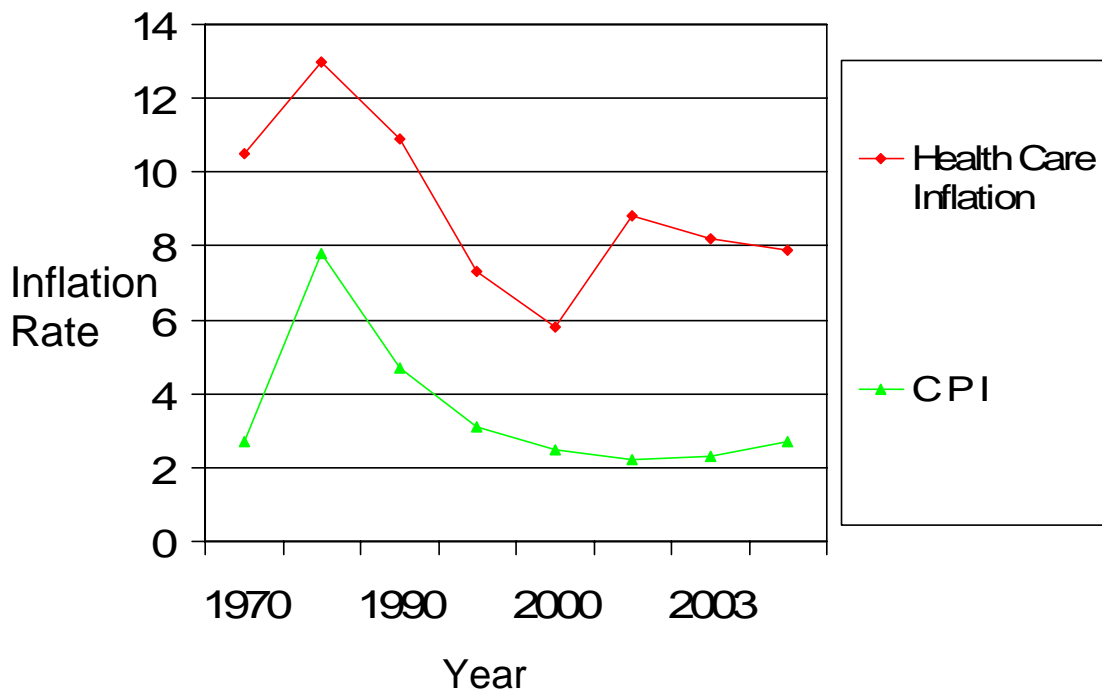
Many Factors Influence LTC Cost

A person's health and functional status, as well as access to LTC services and family support, have a critical impact on LTC cost. Also, there are many health care market forces operating in the LTC market that impact the cost of LTC services. LTC inflation rates and regional health care cost variations are the two most important health care market variables for Financial Advisors to build into their LTC financial planning models (Votava, 2005).

LTC Inflation Rates

Inflation in health care and LTC services has been running well ahead of general inflation for many years. This hyper-inflation trend has been consistent over the past 30 years. Table 3 compares the general inflation rate, as measured by the CPI, with Health Care Inflation rates from the Centers for Medicare and Medicaid (2006). As is evident here, Health Care Inflation consistently runs two to four times the rate of general consumer inflation as measured by the CPI.

Table 3. Health Care Inflation Rate Comparison



From Centers for Medicare and Medicaid (2006).

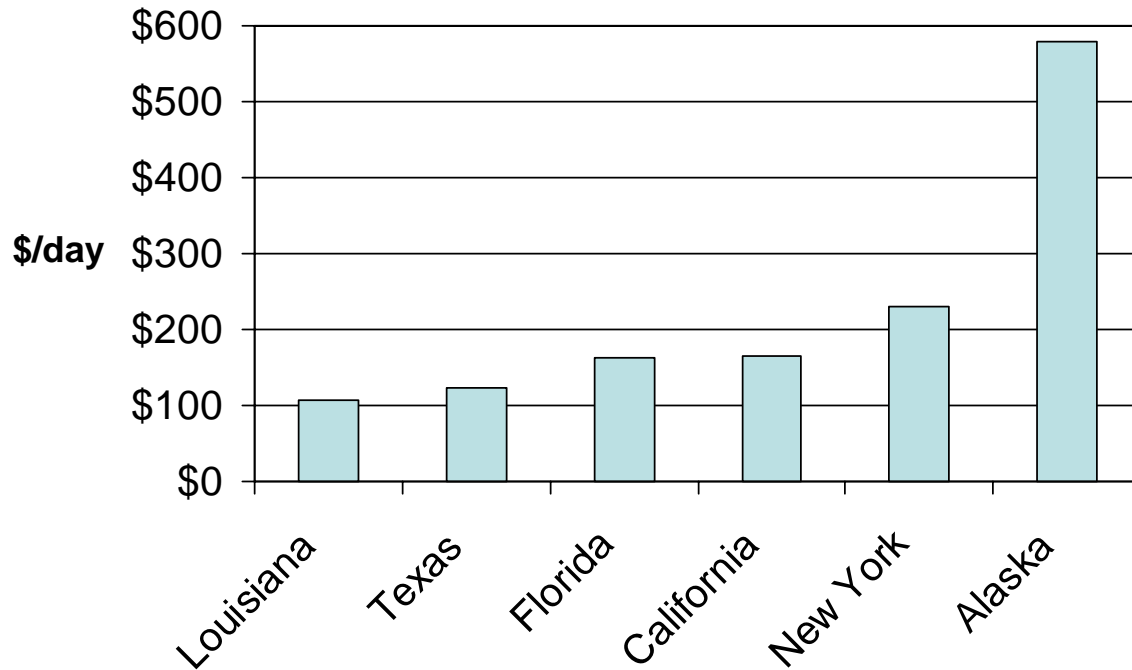
In order to more accurately project LTC costs, advisors need to use the Health Care Inflation rate rather than the CPI. Therefore, this study uses Health Care Inflation rates to project LTC costs in the future rather than the standard CPI inflation factor that is generally used for all other goods and services.

LTC Cost Variation by Region

Another very important factor that influences health care costs is the regional variation factor. LTC costs, just like costs for other goods and services, vary greatly throughout the United States. Things such as labor costs, regulatory requirements and other costs of doing business vary by region. Also, health care practice patterns vary across regions.

The average cost of a day in a Nursing Home in the United States is at the lowest, \$116 in Louisiana, and at the highest, \$524 in Alaska, with quite a spread in between. Table 4 shows the range of Nursing Home daily charges from these states as well as the four other most populated US states. As is evident, the national average of \$171 per day for a semiprivate Nursing Home room is not applicable to all individuals' situations. This national average over estimates LTC costs in lower cost areas such as Texas, and under estimates costs in higher cost regions such as New York State.

Table 4. Average Daily Nursing Home Cost in Selected US States



From Genworth Financial (2006).

Today's clients are more mobile and sometimes leave their long time residence during the early phase of retirement and yet move again to join children or family in other places as their health and functional capacity declines. The implication for Financial Advisors is to become familiar with the LTC cost rates in the area in which your client lives or plans to live during the phase in their life when they might need LTC. As a result, Financial Advisors may need to use cost estimates from more than one part of the country when projecting LTC costs for their clients.

How much LTC Will a Person Need in Their Lifetime?

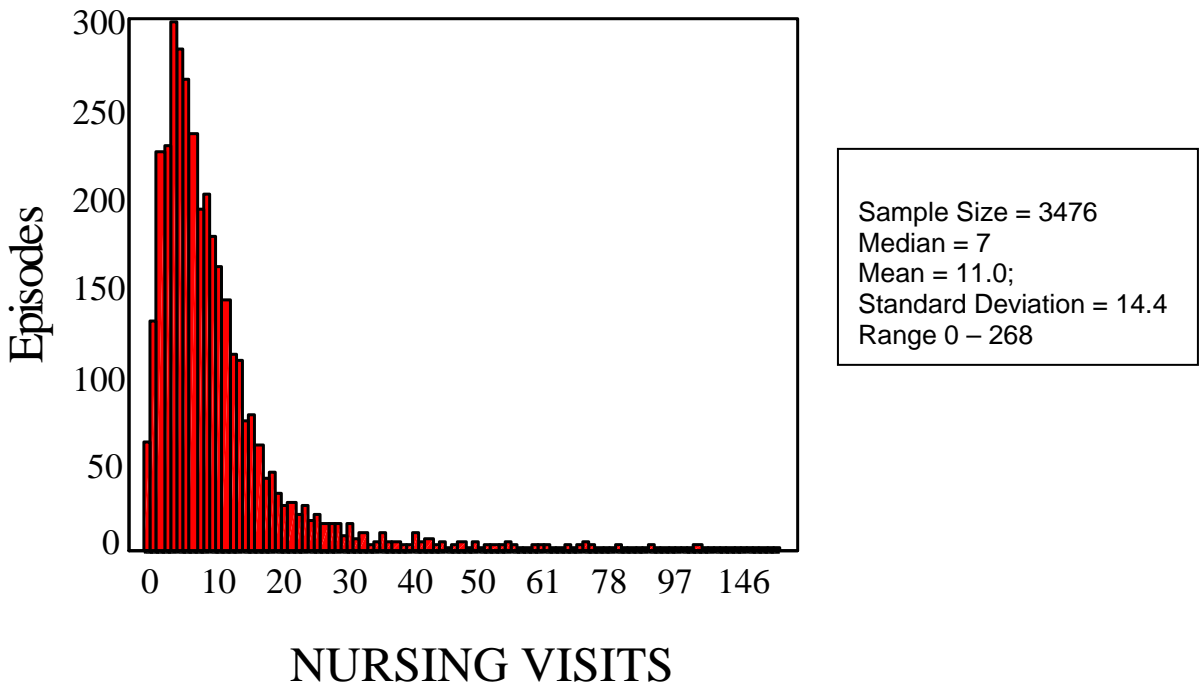
Every client wants to know “What will LTC cost?” While we do not have “the” answer to this question, we do have some historical data that can guide us in developing “an” answer. That said, the science of reliable and complete data is limited when it comes to predicting lifetime use of LTC services and costs. A thorough review of the literature shows no published studies that track individuals’ LTC service use and cost over their life span. There are studies that examine Nursing Home, Home Care and Assisted Living use as discrete or separate services. What is lacking is a publicly available, well designed study, which tracks the use of LTC services and costs over a person’s life span.

In lieu of these types of studies, we can examine research about the use of a variety of LTC services, and then knit the picture of potential LTC service use and cost together to develop “an” answer. It is important to keep in mind that health service use and cost data usually does not have a “normal” or bell curve type of distribution. Table 5 is an example of a typical Home Care service use pattern contrasted with a “normal” or bell curve. The distribution of Home Care service use, i.e., Nursing Visits, is wide with a positive skew heavily shifted to the right, toward the lower end of service per person, and with a long tail to the left, toward the end higher of service use. The result is that the mean or the “average” overstates what more than 50% of consumers’ experience. A small percentage of people have a much higher than average service use. This follows

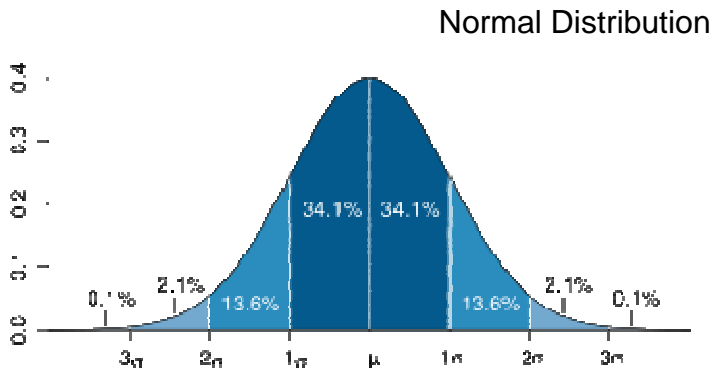
the 80/20 rule that is typical in health care service use and cost patterns. That is that 20% of the people are generating 80% of the costs.

Table 5. Typical Home Care Service Use Distribution Contrasted with a “Normal” or Bell Curve Distribution

Home Care Service Use: Nursing Visits per Home Care Episode



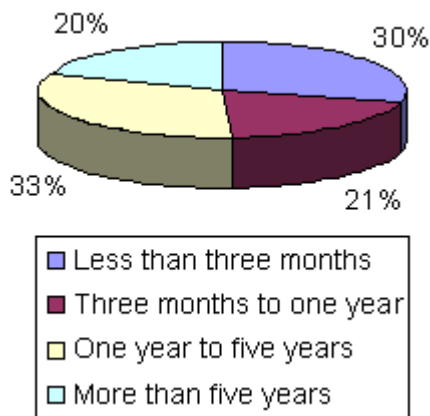
From Votava (2001).



From Normal distribution (2007).

The National Clearing House for Long Term Care Information (2007) has examined the length of time a people stay in Nursing Homes (Table 6). 51% of people stay less than one year, while 20% stay longer than five years.

Table 6. How Long Do People Typically Stay in a Nursing Home?



From National Clearing House for Long Term Care Information (2007).

Most people admitted to Nursing Homes have had some Assisted Living and/or Home Care before being admitted to a Nursing Home. Most people receive most of their LTC at home (The National Clearing House for Long Term Care Information, 2007).

Table 7 shows two different scenarios for LTC Home Care Cost estimates. The first plan of care is based on a “standard” amount of intermittent LTC at home. The second estimate is for round-the-clock LTC at home. These estimates use the national average of \$19 per hour for Nurses Aide service as well as a flat amount for other expected LTC expenses at home.

Table 7. LTC Cost Estimates

<u>"Standard" Intermittent LTC Home Care Cost Estimate</u>	
Nurses Aide 6 hours/day ^a	\$114/day
Other expenses ^b	<u>50/day</u>
Daily Total	\$164/day
Annual Total	\$59,860/year
<u>Round-the-Clock LTC Home Care Cost Estimate</u>	
Nurses Aide 24 hours/day ^a	\$456/day
Other expenses ^b	<u>50/day</u>
Daily Total	\$506/day
Annual Total	\$184,690/year

Notes: ^a The national average of \$19/hr for nurses aide service (MetLife, 2006) is used as the hourly rate. ^b Other expenses such as durable medical equipment and supplies, transportation, personal emergency response systems, home delivered meals, home modifications, etc.

Neither of these scenarios include the use and cost for higher skilled workers, i.e., skilled Licensed Practical Nurses or Registered Nurses, or higher use of other Home Care goods and services. LTC at home that requires use of higher skilled workers or higher use of other goods and services can easily exceed \$250,000 annually. So, while Dorothy once said, "there's no place like home," (Langley, 1939) it can be an expensive proposition to stay there.

Long Term Care Insurance Payouts in the Future

In 2002, there were roughly 6 million LTC policy holders who received \$1.4 billion in policy payouts (Coronel, 2004). Recent data suggests that the \$100 per day benefit rate is the one most commonly purchased by Americans (Johnson and Uccello, 2005).

LTC Insurance policies vary greatly from company to company but have several features that are common in their design. Eligible policy holders usually collect benefits after a waiting period, approximately 90-100 days. During the waiting period, the policy holder is responsible for 100% of the LTC cost. Benefits are usually paid on a daily benefit basis for both Nursing Home and Home Care costs. Some policies allow aggregation of costs, particularly when interpreting the Home Care benefit. Certain policies pay a lower rate for a day of Home Care than Nursing Home care while others payout the same rate for a day of Nursing Home care as for a day of Home Care.

LTC insurance policies may offer a rider for “inflation protection,” whether simple or compounded, but the actual “inflation” rate is usually a 5% fixed growth rate that does not float with either the CPI or Health Care Inflation rates. As is evident in Table 3, Health Care Inflation has never been as low as 5% over the past 35 years. Health Care Inflation typically runs between 8 – 10% with historical high of 13% in 1980, a one time dip to 5.8% in 2000 and a rebound to 8.8% in 2001. Therefore the 5% growth rate that consumers may purchase, is less than Health Care Inflation and will not keep pace with escalating LTC costs in the future. Moreover, 60% of new policy holders do not purchase the “inflation protection” rider (Cohen, Weinrobe & Miller, 2002). As a result, the majority of consumers purchase flat rate coverage that does not grow at all over the life of the policy. De facto, most consumers will have an ever increasing deficit between the actual cost of LTC and the LTC insurance payout. The deficit is larger with flat benefit

rate coverage as opposed to coverage that grows over time. Consumers must plan to fund that deficit through some other means.

Summary

The complex world of LTC services and costs has many intricate facets including the influence of Health Care Inflation rates and regional cost variations on LTC cost and insurance payouts in the future. The following methodology contains these variables in the economic forecasts. The results will help draw a clearer picture of the LTC cost puzzle.

Methodology

This study is an economic simulation forecast that constructs a model to project LTC costs, LTC insurance payouts, and any deficit between LTC costs and insurance payouts. LTC costs are forecast for the four most populated states in the United States: California, Florida, New York and Texas.

Variable Construction

Nursing Home (NH) costs are estimated using the state daily cost averages for California, Florida, New York and Texas, from the MetLife Market Survey of Nursing Home and Home Care Costs (2005) data. Home Care (HC) costs are constructed using an estimate of a typical modest HC service use plan as described in Table 6, with six hours per day of nursing aide service and a factor for other HC costs. The state averages for California, Florida, New York and Texas for HC from the MetLife Market Survey of Nursing Home and Home Care Costs (2005) were used for the Nurse's Aide hourly rate. The Health Care Inflation rate of 8.16% was used. This rate was constructed using three 20 year rolling averages of from the Centers for Medicare and Medicaid (2006).

LTC insurance payouts are forecast at two potential benefit levels: \$100 per day and \$150 per day. The \$100 per day benefit is annualized at \$36,500 for year one of the forecast. The \$150 per day benefit is annualized at \$54,750 for year one of the forecast. These projections are forecast over a 20 year time frame using a no growth scenario as well as a 5% growth factor calculated using both simple and compounded methods.

Assumptions

1. LTC expenses will inflate in the future at Health Care Inflation rates.
2. Nursing Home costs are calculated using the semiprivate rates.
3. All forecasted costs, payouts and deficits are projected on an annualized basis over a 20 year period.
4. LTC insurance payouts are 100% of the daily benefit for Nursing Home and Home Care costs.
5. The LTC insurance payouts were calculated annually and did not include a benefit waiting period.

Results

Table 8 displays the 20 year forecasted growth of LTC costs on an annualized basis. These costs range from \$39,785, in the State of Texas, to \$87,965, in New York State during year 1. Those costs are forecast to grow at a rate of 8.16% per annum to \$191,000, in the lowest range, to \$422,320 at the highest end of the spectrum.

Table 8. 20 Year Forecast of Annualized LTC Costs

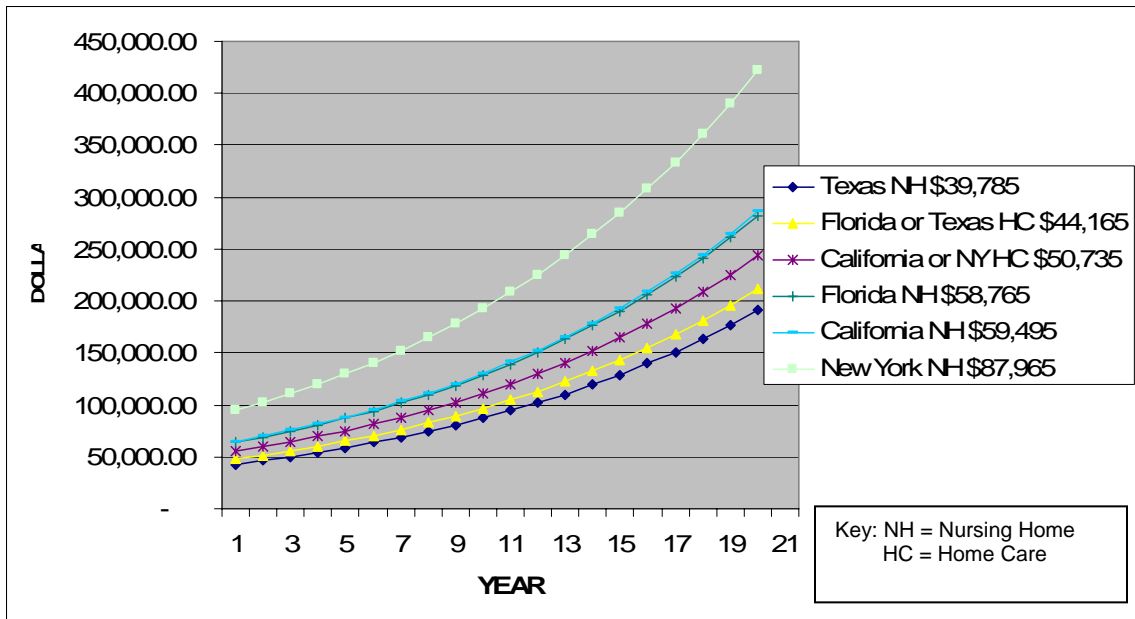
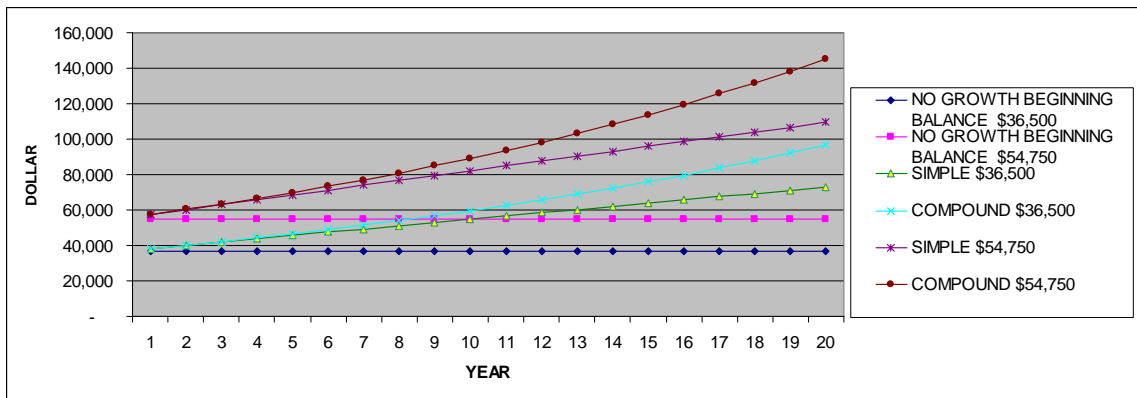


Table 9 portrays the results of projecting LTC insurance payouts with and without 5% benefit growth, simple or compounded, on an annualized basis. At the ten year mark, a \$100/day benefit without any growth will payout at \$36,500 annually, with simple interest the payout is \$54,750 or with compounded interest the payout is \$59,455. At the ten year mark, a \$150/day benefit without any growth will payout at \$54,750 annually, with simple interest the payout is \$82,125 or with compounded interest the payout is \$89,182.

Table 9. 20 Year Forecast of Annualized LTC Insurance Payout, With and Without Benefit Growth

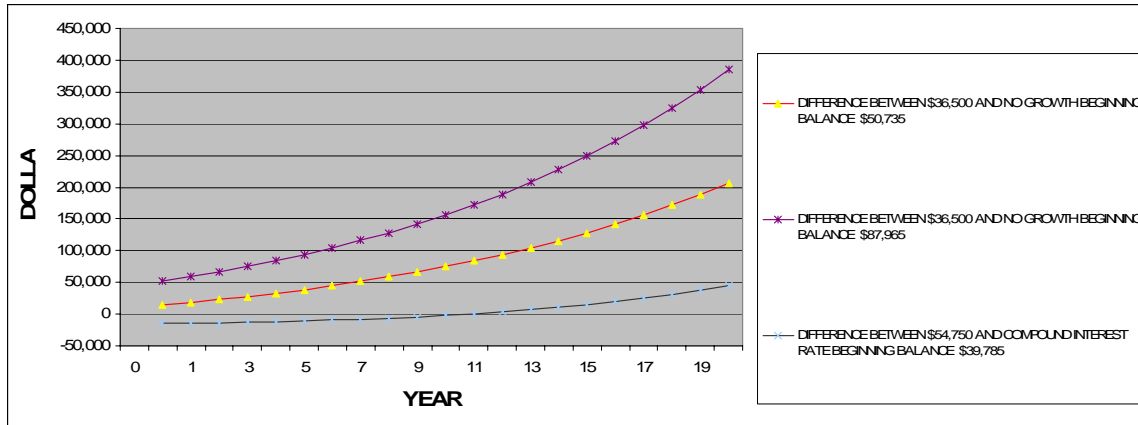


Note: 5% Simple Growth Rate 5% Compound Growth Rate

Table 10 displays the results of forecasting the difference between annualized LTC costs and LTC insurance payouts 20 years into the future. In most cases, LTC costs are expected to exceed LTC insurance payouts over the next 20 years. The exception is the scenario of higher than average LTC coverage amount, \$150 per day with a 5% compounded growth rate, to offset the cost of

the LTC in the lowest cost areas, during only the first ten years of the forecast. By the 20 year mark, the deficit with this scenario is \$45,740 annually.

Table 10. 20 Year Forecast of the Difference Between Annualized LTC Costs and Insurance Payouts



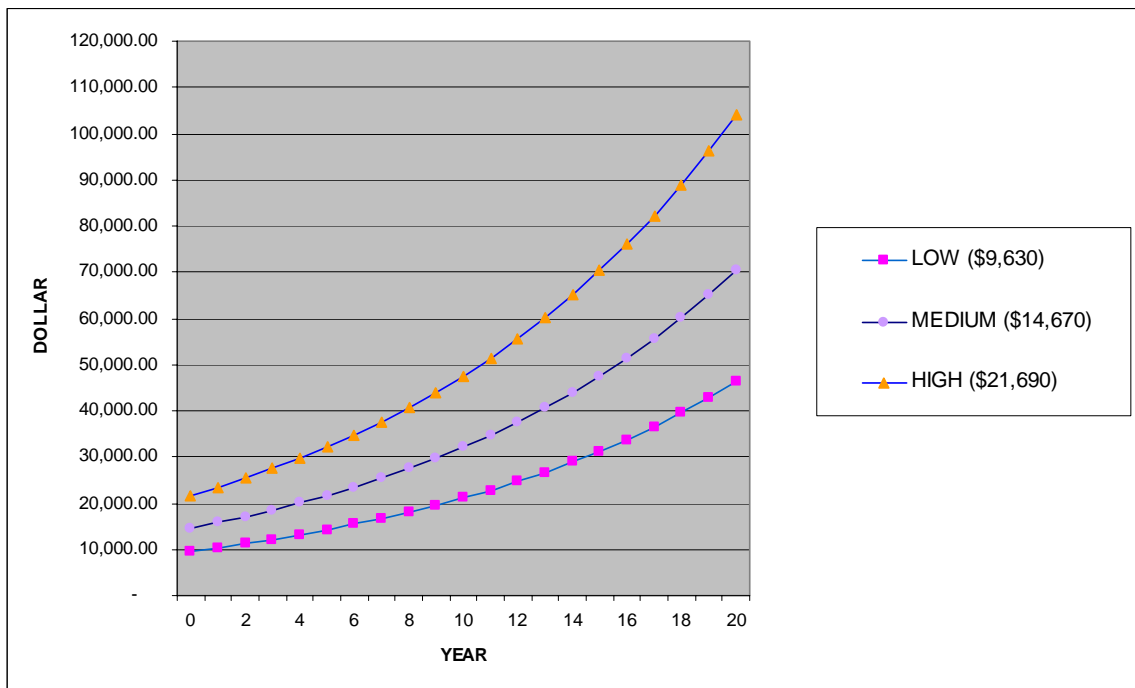
Limitations

The study design assumes that LTC insurance payouts are 100% of the daily benefit, whether for Nursing Home or Home Care LTC. In fact, many LTC policies payout less than 100% of the daily benefit when paying for Home Care cost. Therefore, this study may underestimate consumers' out-of-pocket expense deficit between Home Care LTC costs and insurance payouts.

Also, these forecasts do not account for the waiting period that most LTC insurance policies include, which is typically 90 to 100 days of LTC service use and cost accumulation, before any funds are distributed from the policy to the

policy holder. Therefore, this study underestimates the deficit between LTC costs, whether Nursing Home or Home Care, and LTC insurance payouts during the first year of a LTC insurance claim. Consumers' bear the full cost of LTC services during a waiting period. As is shown in Table 11, these costs are sizeable, ranging from \$9,630 to \$21,690 in year one, and moving toward \$46,234 to \$104,134 at the 20 year mark.

Table 11. 20 Year Forecast of Consumers' Out-of-Pocket LTC Expense during a 90 Waiting Period



Conclusions and Implications for Financial Advisors

The data suggests several remarkable trends. Consistently, LTC insurance payouts are forecasted to be lower than the actual LTC costs. The difference between LTC costs and LTC insurance payouts increases over time. The result is an ever increasing deficit between the client's LTC expense and the amount of money they collect from a LTC insurance policy. Clients will need to cover this deficit out of other personal resources. The exception to this trend occurs when a client receives LTC in a low cost region, but has a LTC policy with a higher than usual benefit, i.e. \$150/day with the compounded "inflation protection" rider.

Private LTC insurance, in most scenarios, will provide only partial financial coverage for LTC services. The forecast is that LTC insurance will cover 76.1% of LTC cost in the lowest cost/highest insurance coverage scenario, 15% in the medium cost/lowest insurance coverage scenario and only 8.6% in the highest cost/lowest insurance coverage scenario at the twenty year mark (Table 10). LTC insurance coverage without any growth provision, or "inflation protection," results in the widest gap between insurance payout available to the client and costs that they experience. Compounded growth rates provide for the greatest insurance protection. Across the entire forecast, LTC coverage consistently declines relative to cost.

Consumers living in lower Health Care Cost areas, i.e., the state of Texas, versus higher cost areas, i.e., in New York State, can make their LTC dollar go further. People in lower cost areas will experience less of a deficit between the cost of LTC services and LTC insurance payouts. This picture is complicated by the fact that an area may have a high cost for nursing home and more moderate cost for home care e.g., New York State at \$230 per day for Nursing Home and \$139 per day of Home Care.

It is critical that financial planning professionals use a Health Care Inflation rate when projecting healthcare expenses into the future. Using the CPI to project LTC costs underestimates the expected growth of LTC costs. Financial Advisors also need to use LTC cost rates in the area in which clients live or plan to live when they might use LTC services.

In terms of Home Care, greater variability in total costs can lead to greater deficits between a LTC policy payout and the cost of LTC at home. Nursing Home costs are more stable and predictable than Home Care costs because there are more services automatically built into Nursing Home care as contrasted with Home Care. Home Care is more of an a la carte selection of goods and services which have higher degrees of variation depending on the individual's needs. When a person's Home Care expense exceeds the cost of Nursing Home, the policy holder can get more for their money, so to speak, by using a Nursing Home rather than a Home Care plan. In a manner of speaking, LTC

insurance is still more of a Nursing Home insurance than a Home Care insurance because the LTC insurance benefit is capped at a level that is not designed to cover extensive Home Care costs.

Financial Advisors need to keep in mind the necessity of funding the LTC insurance waiting period entirely through other client resources. Also, it is essential for advisors to be aware that clients will still have to pay for other routine health care expenses such as Medicare B and D premiums, Medigap insurance, co-payments, deductibles, dental and eye care, pharmaceuticals, etc., in addition to LTC expenses. Financial Advisors must include both of those elements in their client's planning for retirement.

The purpose of this study was to examine the impact of health care inflation and regional health care cost variations on economic forecasting of LTC costs and insurance reimbursements. The results of these economic forecasts provide useful information for Financial Advisors when analyzing and advising their clients' with respect to this very important aspect of retirement planning

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