Graying of US work force necessitates long-term care insurance

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According to the U.S. Census Bureau, a full one-third of the American population is aged 45 and older. As a result, experts predict that over the next 15 to 20 years, health care, corporate pensions and Social Security systems will be stretched to the breaking point as more Americans require long-term health care assistance.

Additionally, many American employees in their 40s and 50s are grappling with being "sandwiched" between caring for children still at home and for their own aging parents or older relatives. With advances in medicine continuing to stretch life expectancies and many women choosing to postpone starting a family until their 30s or 40s, caring for both children and parents simultaneously might be more the norm than the exception in the future.

Private health care insurance, Medicare and Medicaid do not cover long-term care to any significant extent and this situation is not expected to change for the better any time soon. To a large extent, employees have been shielded from understanding how much health care costs have escalated and as a result, few can truly estimate what long-term care costs. The growing awareness of these concerns has prompted considerable interest in the entrance of a relatively new type of retiree medical benefit — long-term care insurance.

Stress and health

According to a study from the MetLife Mature Market Institute published in March 2001, the stress of care-giving responsibilities directly affects American employees' health. Employees who serve as caregivers cost employers between $11.4 billion and $29 billion per year in lost productivity.

This same study also found that people who own long-term care policies place less stress on their loved ones in the workplace. About 5 million Americans held long-term-care insurance at the end of 2001, with one-fourth of those covered by group policies at work, according to LIMRA International, a market research firm.

Corporations that offer long-term care to employees as part of a standard benefit package can offset the lost productivity dollars and help reduce care-giving stress-related health claims.

IRS deduction

Now, business owners can deduct more of the cost for their own personal long-term care insurance, according to Internal Revenue Service.

Section 162 of the Internal Revenue Code allows self-employed individuals, corporations and limited liability companies to deduct 100 percent of the cost of a tax-qualified long-term care policy. Pre-tax dollars can be used to purchase protection against what can be the greatest risk to an individual's retirement savings.

Business owners can deduct the cost of coverage even when they choose to purchase protection for selected employees. Employers are not required to provide long-term care insurance to all of their employees to obtain these advantages. Instead, they may provide it to key employees only on a purely discriminatory basis. The rules and deductible limits vary based on the type of business entity and the age of the individuals covered.

Early start

For corporations and individuals alike, sooner rather than later, is the best time to purchase long-term care coverage. When purchased at younger ages, premiums are lower. They lock-in at purchase age and are not intended to increase over time. These policies normally include an automatic annual increase in the amount the policy-holder is entitled to collect. With this feature, the longer a policy is held, the more it will pay when needs arise.

Furthermore, there is a financial advantage for those who purchase this insurance at an early age. For example, if two people aged 40 and 50 each bought long-term care policies with identical features, the younger person's premium would be lower. If each person required care at age 80, the total cost of 40 annual premiums paid by the 40-year-old would be less than the premiums paid by the 50-year-old over 30 years. In addition, the younger person's policy would pay out more when needed because its built-in inflation fighting feature had more years to grow.

Several "next generation" long-term care insurance policies are targeted to the working class. Because of their reasonable pricing, smaller premiums buy more benefits. For example, besides paying for lengthy, chronic situations requiring care, these policies can also be designed to pay for shorter-term situations like a convalescence at home following surgery.

Some younger-age targeted policies pay on an indemnity basis — entitling the policy-holder to collect the entire daily or monthly benefit, even if the actual cost of care is less. With this feature, these plans can be structured to provide additional replacement income in case of disability, an attractive recruiting tool for many business owners.

Insurance carriers interested in cultivating business from younger consumers often offer premium discounts to employers or associations willing to offer long-term care insurance to their employees. These discounts are available even if the coverage is offered to members or employees on a purely voluntary basis.

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