The Role Of Financial Counselors In Long-term Health Care Planning

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Adequate and affordable long-term health care (LTC) is an important concern today. Results from a survey of Certified Public Accountants (CPAs) with the Personal Financial Specialist (PFS) designation indicate that many believe they, as financial counselors, should assume some of the responsibility of informing clients of the LTC financing problem. Many respondents believe there is a widespread need for LTC insurance. As a group they are split as to whether government or private insurance is the best provider of LTC. However, they also believe some financial counselors are not emphasizing long-term care enough in clients' financial plans.

Key Words: *Long-term care, Accountants, Insurance, Planning, Health care*

Introduction

Financial planning for all types of health care expenditures is of growing importance to many Americans. While the problems of affordability and availability of basic health care coverage are well known, many Americans do not recognize the potential problems that long-term health care risks pose. Many people believe programs like Medicare and Social Security, or major medical health insurance provide adequate protection should a long-term care need arise (Wiener, 1996; Hosay, 1993; Moses, 1992; Delaney, 1987). Failure to plan for long-term health care needs could make one dependent on family or on Medicaid, which may not provide desirable care or choices for a long-term illness. Family members may not be able to provide adequate care if they lack the expertise to care for other family members, lack the time, or lack financial resources. People who rely on Medicaid may not receive the quality of care of those who are financially able to pay the cost of long-term care (Merline, 1996).

Changing demographic patterns in America are forcing individuals to take a careful look at how to plan for the likely chance of needing long-term care (LTC). An aging population increases the possibility of more people seeking long-term care services. Alzheimer's and other severe dementia currently afflict about 2 million Americans, mostly elderly; the population most at risk for such diseases, those over age 85, are likely to double before researchers discover a cure for the problems (Ball & Bethell, 1989). The increasing labor force participation of women has resulted in a decrease in the number of willing and able caregivers. That trend, combined with the increasing proportion of elderly and the increasing likelihood that elderly live in a different place than their children make LTC a growing problem, and result in more LTC being provided outside the home (Wilke, 1996).

Several alternatives exist to cover the cost of LTC. A individual can rely on governmental programs to pay for LTC. Although many believe Social Security and Medicare pay for LTC, Medicaid is the only governmental program designed to pay for LTC. However, Medicaid does not cover everyone. It acts as a safety net by providing LTC to individuals who lack the financial resources to pay for LTC who are either over 65, blind, or disabled.

Another alternative to cover the cost of LTC is to personally pay for LTC. Under this alternative a person's life savings are used to cover the cost. Due to the high cost of LTC, individuals can easily spend their savings and still require LTC. Consequently, individuals may be forced to rely on Medicaid.

Purchasing LTC insurance increases one's chances of having access to top quality care (Merline, 1996).

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However, research indicates many are not familiar with LTC insurance, nor aware of the financial consequences of LTC cost (Bell, 1996).

While many financial experts provide risk management and insurance advice, a growing number of non-traditional insurance experts, e.g., Certified Public Accountants (CPAs), are being called upon to examine all the financial exposures faced by individual clients. Many CPAs are expanding their financial planning proficiency by obtaining a Personal Financial Specialists (PFS) designation. This program of study helps them to include a wider-range of personal financial needs into their areas of expertise. The advice of these financial specialists is the focus of this paper.

Since clients rely on recommendations from professionals when making risk management decisions, it is important to establish whether these experts are aware of and concerned about the loss exposures facing clients. Financial counselors must first be aware of a potential exposure and be sufficiently informed about available risk management tools before they can properly plan for the exposure. This study seeks to analyze how CPAs who have the PFS designation perceive the long-term health care financing problem. No previous research has specifically addressed the role of PFSs in planning for LTC needs.

The following five sections discuss the long-term health care problem. Next, a section analyzes the role of the financial counselor, specifically the PFS, in assisting with LTC financial planning. The subsequent section reports the results of a survey of PFSs on how they professionally address the LTC problem. The final section concludes the study.

Long-term Care Defined

Long-term care is institutional and in-home care provided for chronic illnesses for extended periods of time. LTC is not identified with a particular diagnosis such as cancer or diabetes but with physical and psychological forces that prevent an individual from functioning independently. LTC is comprehensive and includes medical, social and personal support from various sources to people requiring assistance in caring for themselves over an extended period of time, typically at least a year (Hosay, 1993). Over two million Americans reside in nursing facilities. Approximately half of the population over 85 years of age need nursing assistance. Of the 2.2 million people who turned 65 in 1990, studies show that 43% will spend some time in a nursing home (Geer, 1991). From 1993 to 2018 elderly use of nursing homes are projected to increase from 2.2 million to 3.6 million; use of home care will increase from 5.2 million to 7.4 million (Wiener & Illston, 1994).

Starting around 2010, baby boomers will begin a 60 year transition through what has been considered old age. The oldest baby boomers will reach 65 in 2011 and 85 in 2031. The youngest baby boomers will reach 65 in 2029 and 85 in 2049 (Cornman & Kingson, 1996).

Factors Associated with Need for Long-term Care

Aging is associated with need for LTC as indicated below:

1. The proportion of the population living in nursing homes increases from 1.5% of those aged 65-69 to 22% of those over 85;
2. The proportion of the noninstitutionalized population requiring help in performing activities of daily living rises from 9% of those aged 65-69 to about 43% of those over 85;
3. The proportion of persons suffering from Alzheimer's disease rises from less than 4% of those 65-69 to about 47% of those over 85 (Uhlenberg, 1996).

Other demographic trends also exacerbate the LTC problems. Life expectancies are increasing; while only 13% of the population was over age 65 in 1990, an estimated 21% of the population will be over age 65 by the year 2030 (Hosay, 1993).

There are social factors also contributing to a greater need for LTC. Some of these include:

1. Greater mobility of family members;
2. Fewer children per household;
3. More single-head households; and
4. More families with both spouses working. Changing social patterns are causing a decline in the availability of caregivers in the home (Uhlenberg, 1996).

The Costs of Long-term Care

The financial consequences of being unprepared for LTC costs can potentially be devastating. Long-term care is expensive. For example, nursing home costs in New York City can reach $70,000 per year or approximately $200 a day. Some rural areas offer care as low as $30,000 per year or approximately $80 a day (Wilke, 1996). Full-time paid home health care is more expensive than residential care. A home health care agency on average charge $74 for a four-hour visit. The cost of home health care agency range from $38 to $121 per visit (Wilke, 1996). Ninety percent of those staying in a nursing home will deplete their wealth within the first two years (Chassen, 1994; Geer, 1991).

How Can Individuals Obtain Long-term Care?

Traditional medical insurance, Social Security, and Medicare are not designed to provide financing for extensive long-term health care needs. Social Security does not directly provide LTC benefits. Medicare only covers home-care and nursing home costs when skilled nursing care is needed for 100 days and only when an individual is recovering after a hospital stay (Wilke, 1996; Weil, 1996). Medicare pays less than 2% of the total national cost of skilled recuperative nursing home care and none of the cost of long-term custodial care (Kistner, 1996). Medicare was designed by Congress in 1965 to provide health insurance for citizens age sixty-five and older and for certain disabled individuals. Medicare was never intended to provide LTC insurance to cover the cost of nursing home care.

Medicaid is the only governmental program that pays for LTC. Medicaid is a joint effort between state and federal governments to provide medical benefits to persons who are either 65 or older, blind or disabled. It is administered by states under guidelines established by the federal government. The amount of income and assets an individual can own and still be eligible for Medicaid varies from state to state. Medicaid pays benefits to 66% of the elderly in nursing homes, but only 12% of the elderly are living in poverty (Merline, 1996). Members of the middle class have become eligible for Medicaid benefits by transferring assets to: 1) a spouse, 2) an individual (other than a spouse) 36 months prior to applying for Medicaid eligibility, or 3) a trust 60 months prior to applying for Medicaid eligibility.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) attempted to send the message that Medicaid is a program for poor people, and is not designed to provide benefits to middle and upper income earners (Shelton, 1994). This Act limits benefits when one seeks to become eligible for Medicaid by transferring assets to another person. While this law has not ended asset transfers for such purposes, it is an effort to restrict this practice.

More recently, the Kassenbaum-Kennedy Health Insurance Portability Law makes it a federal crime to knowingly and willfully transfer assets in order to qualify for Medicaid coverage of nursing home and other long-term care services. Transfers made more than 36 months before applying for Medicaid eligibility are presumably not covered by the law, nor are transfers made to a spouse (Meyer, 1996). The Kassenbaum-Kennedy law also makes long-term care expenses and premiums on LTC policies tax deductible. Furthermore, the law attempts to standardize LTC policies by establishing consumer protection standards policies must meet to qualify for favorable tax treatment. The government is trying to encourage the purchase of LTC insurance (Meyer, 1996). In the early 1990's, sales of LTC policies were growing at a rate of over 20% per year, but the annual growth rate slowed to 12% by 1994. Approximately 450,000 policies per year are sold now (Schmitt, 1996).

Medicaid reimbursements for services are only about 80% of the rate paid by the private sector (Merline, 1996). The lower reimbursement policy has resulted in some Medicaid patients receiving substandard levels of care. Buying LTC insurance provides more options for the type of care an individual can receive and control over its quality than Medicaid provides (Merline, 1996). In cases where individuals transfer assets, LTC insurance can act as a bridge covering the period of time between the transfer of assets and the application for Medicaid eligibility.

When buying LTC insurance the buyer needs to be aware of the coverage and limitations of the policy. Some people have paid for LTC insurance later to realize insurers would not pay claims because a policyholder did not satisfy the “activities of living” (ADL) limitations. To receive benefits the insured must have difficulty performing ADLs. ADLs include bathing, dressing, getting around outside, using the toilet, continence, and ability to take medication. Different policies specify different ADL limitations used to determine eligibility for benefits (Pannke, 1991).

Some factors to consider when buying LTC insurance are:

1. Different policies cover: a) nursing homes, b) home care and c) both nursing homes and home care.
2. Different policies cover skilled, intermediate and/or custodial care.
3. Whether the premiums are likely to change and if so by how much.
4. Whether the policy offers inflation protection.
5. Whether the insurance company is financially sound.

The cost of LTC insurance is influenced by the age of the policyholder. At age of 50 the average premium nationwide for a policy with $100 a day nursing home benefit, $50 a day home health care benefit, 20 day elimination period and four years of coverage is $397. The same policy costs $1,058 at 65, and $4,512 at 79 (Schmitt, 1966).

As indicated above the premiums of LTC policies are less costly for those purchasing at a younger age. In most cases the policyholder locks in the premium when the policy is purchased. Consequently, financial counselors need to consider the impact of age when discussing LTC insurance with clients. Finally, financial counselors need to keep in mind that not only do the elderly need to be sheltered against the cost of LTC care, but also those who traditionally are not considered old.

Individuals of any age may need LTC. Forty percent of all nursing home residents are 65 or under (Weil, 1996). Of the 12.8 million people that need some help, with every day activities 5.1 million (40%) are working-age adults. Illnesses and accidents can and do cause people to need LTC regardless of their age. Consequently, an individual's assets could be at risk at any time. Moreover, it is prudent for all people to consider the consequence of needing LTC in their financial plans (Weil, 1996).

Personal Financial Specialists

In the 1980s, financial planning became a popular service of the financial industry, and many professionals in various sectors declared themselves financial counselors. Stockbrokers, accountants, bankers, insurance agents, and other professionals have specialized training in the area of financial planning and are often called upon to address a wide array of long-term financial needs. There has been a growing emphasis on the financial planning role of non-traditional financial counselors such as CPAs, as indicated by many CPAs continuing their financial planning education through obtaining their PFS designation. Financial planning requires comprehensive knowledge in the areas of investments and insurance. Clients look to the professional financial counselor to explain alternatives before implementing their financial plans. It is the responsibility of the financial counselor to educate the clients on all their financial exposures.

A CPA who is granted the designation as a PFS must meet professional and ethical standards. These requirements include having knowledge and experience in a wide range of areas such as personal income tax planning, risk management, insurance planning, and retirement planning. For example, a PFS must pass a uniform national examination in the area of risk management, which requires knowledge of various types of health insurance, Medicare, health maintenance organizations, preferred provider organizations, and long-term health care.

Methodology

This study seeks to determine the extent to which financial counselors such as PFSs are including long-term care needs in the financial planning process, and to determine whether these financial counselors are sufficiently preparing clients for this potentially devastating financial exposure. A survey instrument is used to identify attitudes of PFSs and their clients regarding the need for and use of LTC insurance and reliance of governmental programs to finance LTC.

Five hundred questionnaires were mailed to randomly selected members of the American Institute for Certified Public Accountants who are CPAs with the PFS designation. Eighty-nine questionnaires were completed and returned, an 18% response rate. (The 18% response rate represents a 6% response rate among all PFSs.) The instrument used for this research is that of Bacon, Gitman, Ahmad, and Ainina (1989). The survey contains statements regarding how much emphasis the PFS and clients place on the long-term care exposure.

Each statement on the survey provides a range of numbers from 1 to 7, and the respondents indicated their level of agreement. The higher the number of the response the more the respondent agrees with the statement. A response of "four" indicated that the respondent neither disagrees nor agrees with the statement. Responses of 1, 2, and 3 were aggregated and reported in Table 1 under disagree; responses of 5, 6, and 7 were totaled and reported under agree. Since a response of 4 indicates the respondent neither disagreed nor agreed with a statement, a response of 4 is not presented.

Findings

Responses from this survey are discussed in four categories (Table 1). The statements in the first category concern the importance of long-term care financing. Results indicate whether respondents believe financing long-term care is a widespread problem and how they view alternative ways to finance long-term care. The second category of statements focuses on the perceived responsibility of PFSs to inform clients of the need for long-term care financial planning. The third category of statements centers on the client's attitude regarding long-term care problems. The fourth category of statements, reflects PFS's opinions and knowledge of long-term care insurance and their opinions regarding other funding methods for LTC.

Importance of Long-term Care Financing
Respondents generally consider long-term care financing a significant problem. Seventy-two percent of the respondents thought that financing long-term care is a serious widespread problem. Forty-three percent think their clients lack the ability to pay for long-term care. Most of the respondents (89%) know that Medicare does not adequately cover the cost of long-term care, and many of the respondents (70%) also know that major medical insurance does not cover these costs.

Responsibility of the Financial Counselor
Most of the respondents (89%) believe that financial counselors should be concerned about the cost of long-term illness. However, 57% believe that financial counselors pay insufficient attention to the financial consequence of long-term illnesses.

Attitude of Clients
The results concerning the general attitude of the clients regarding long-term health care needs are mixed. This category of statements focuses on determining whether clients are aware of the need to consider long-term health care costs. Many of the respondents (66%) believe their clients are concerned with the cost of long-term care in a nursing home. Only 44% of the respondents indicate they believe the typical client is familiar with long-term care insurance, while an almost equal number indicate that clients either do not feel long-term care insurance is needed or is worth the cost (45% and 48%, respectively).

Table 1
Sample of Survey Questions and Responses*

	Agree		Disagree	
Importance of Long-term Care Financing	Percent	Number	Percent	Number
Paying for LTC is a significant, national problem.	72%	64	8%	7
Clients have sufficient resources or insurance for LTC needs.	33%	29	43%	38
Major medical insurance is adequate coverage for LTC needs.	15%	13	70%	62
Medicare adequately protects for LTC needs.	7%	6	89%	79
Responsibility of Personal Financial Specialists				
Professional financial counselors should include LTC needs in financial plans.	89%	79	3%	3
Currently, professional financial counselors sufficiently consider LTC needs of clients.	22%	20	57%	51
Attitude of Clients				
Clients are concerned with the cost of LTC in a nursing.	66%	59	19%	17
The typical client is familiar with LTC insurance.	44%	39	36%	32
The typical client believes LTC insurance is needed.	45%	40	36%	32
Clients believe LTC insurance is worth the cost.	48%	43	17%	15
Options for Long-term Care Financing				
Adults should be covered by LTC insurance.	60%	53	8%	7
Only elderly people should buy LTC insurance.	19%	17	65%	58
Private insurance is available for LTC needs.	61%	54	20%	18
I am familiar with the basic coverage of LTC insurance.	51%	45	30%	27
Governmental programs are the most appropriate way to finance LTC.	53%	47	29%	26
Private insurance is the most appropriate way to finance LTC.	51%	45	13%	12
Individuals should transfer assets to family to qualify for Medicaid.	58%	52	10%	9

* Respondents were asked to indicate on a scale of 1 to 7 whether they agreed or disagreed with the statement. A response of 1 indicates the respondent strongly disagreed, and a response of 7 indicates they strongly agreed. Responses of 1, 2, and 3 were aggregated and are reported as Disagree; responses of 5, 6, and 7 are totaled and are reported as Agree; responses of 4 indicate the respondent neither agreed nor disagreed, and are not reported on this table.

Options for Long-term Care Financing

In general, the respondents have favorable opinions concerning the purchase of LTC. Most of the respondents (60%) believe there is a widespread need for long-term care insurance. Many (61%) are aware of private insurance policies that cover the cost of LTC but somewhat fewer (51%) indicate they are familiar with the basic coverages of LTC insurance policies. Responses are mixed on whether public or private insurers are the most appropriate provider of LTC financing. While approximately half of the respondents cite governmental programs as the most appropriate, almost as many favor the use of private insurance to finance long-term care. Many respondents (58%) think it is a good idea to transfer assets to a family member to qualify for Medicaid.

Conclusion

Concern for adequate and affordable long-term health care is an important topic in America. The trend toward an aging population, along with a reduction in the number of available family members to care for those with long-term needs, is motivating Americans to consider the financial consequences of long-term care.

This study indicates that PFSs believe their clients lack the resources to pay for LTC. Financial counselors with clients who lack the resources to pay for LTC need to advise clients of the various ways to finance LTC. Financial counselors need to assist clients in developing and implementing savings, investment, and risk management strategies. Clients need to be made aware that governmental assistance in obtaining LTC is restricted, and the Kassenbaum-Kennedy Insurance Portability Law suggests that it is likely to become more restricted. Finally, financial counselors need to stress to clients that disabling illnesses and accidents can cause a relatively young person to need LTC.

As baby boomers age, financial counselors' level of expertise in planning for LTC will need to increase. Financial counselors will not only need to discuss and implement various strategies to finance LTC, they will have to be fluent in discussing the various ways in which LTC services are delivered, e.g., nursing home versus continuing care retirement community.

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