Scenario #9 – Andrew Vitale, retiree on Medicare

Andrew is age 70, lives on a small pension and Social Security. With his basic Medicare Part B deduction, a supplemental plan with AARP ($150.00 each month), and his Part D premium ($78 each month), he is spending nearly all of his income on rent, food, transportation and insurance.

Andrew's mother is 93 and lives with his sister, but will soon need to be moved to a facility due to advancing Alzheimer's and a heart condition. His visits to help out his sister and see his mother are getting to be too hard, given the 400 miles that separate them. He would move closer, but his sister lives in the city where rents are high and food is more expensive.

Andrew came to the U.S. as a young boy, worked in the garment industry until his retirement. He has a great deal of difficulty figuring out the bulletins and books that the government sends him, especially about Medicare programs. He would like to get help for himself and his mother, but doesn't know who to ask that he could trust or that could explain it to him "in plain English." He has always paid his bills on time and never taken a handout from anyone, even when his company moved the business overseas. He has always saved for a rainy day, but worries that if something happened to him, he would go through all his savings and have to go on "welfare."

What Medicare Costs Andrew Vitale & Other Retirees

- Medicare Part A – Hospital coverage - $0 – If you or your spouse paid Medicare taxes as a working person. Buying Part A today costs $423/month.
- Medicare Part B – Physician services. In most cases, if you have Part A, you must also purchase Part B coverage. This is taken directly from your Social Security check (if you are collecting SS) at the current rate of $96.40 in 2008. Your monthly premium will be higher if you are single (file an individual tax return) and your yearly income is more than $82,000, or if you are married (file a joint tax return) and your yearly income is more than $164,000. You also pay a Part B deductible each year before Medicare starts to pay its share. In 2008, the deductible amount is $135.
- Medicare Part D – Prescription drug coverage. The plans available depend on the amount of prescription coverage you choose. The better the coverage, the higher the monthly premium. One of the least expensive is Humana @ $26.00/month, but you must first meet a $250 deductible before any coverage occurs. This is not full coverage – there are copays and a complicated listing of what drugs are covered depending on whether they are generic, etc.
- The donut hole: about 3 million of the 23 million Americans who receive the Medicare drug benefit are expected to reach the gap in 2006. A few more-expensive plans have no doughnut hole, and low-income beneficiaries can receive extra help from Medicare that eliminates the gap. The approximate gap in $$ in the donut hole runs from: $2,250 - $3,600. This is the amount an individual must pay out-of-pocket until coverage begins again at 95%.
- Supplemental health insurance – to cover whatever Medicare doesn't cover in terms of fees and charges. The supplement will only cover what

Medicare covers. The monthly premium depends upon the type of coverage you want and the insurance plan you choose. A typical (and lower end of the cost scale) premium is from AARP (Am. Assoc. of Retired Persons) @ $145.00/month

The federal government subsidized all of the health plans that chose to participate in Medicare Part D.

It is also worth noting, that once you receive Medicare Parts A & B, you MUST enroll in Medicare Part D or pay an increasing penalty for the life of the program, unless you can prove that you have similar coverage through another source—employer, other insurance, etc.

Forty percent (40%) of Medicare beneficiaries live below 200% of the federal poverty level ($16,988 per individual and $21,430 per couple). Sixty-five percent (65%) have incomes below $25,000. In contrast, the average annual base salary of federal employees was $53,959 in 2001.

Average Daily Cost for Nursing Home Care by State, 2006

While the national average daily cost for private nursing home care is $194, the cost varies widely from state to state, according to the Genworth Financial 2006 Cost of Care Survey. The survey evaluated the daily cost of assistance in a nursing home for a person suffering from debilitating conditions, such as Parkinson's disease. It did not include costs for therapy, rehabilitation or medications. For Washington the rate is: $186 per day; Seattle is $236 per day.

Long-term care insurance provides security for a rainy day.
But can you afford it?

December 2006, The AARP Bulletin by Barbara Basler

Boomers who have helped a frail or sick parent search for a nursing home or hire a home care aide are learning hard lessons early: Long-term care is expensive—it can cost tens of thousands of dollars a year—and only those who are virtually impoverished qualify for government aid.

Those lessons are pointing a growing number of boomers toward long-term care insurance, an intriguing idea designed for this brave new world where many more Americans will live until they need help just to get up and dressed in the morning.

About 7 million people now have these policies. First sold as nursing home insurance in the 1970s, and purchased mainly by people in their 70s, long-term care policies today can cover a range of services, including extended care at home or in an adult day care center as well as in an assisted living residence or nursing facility. Some even cover home modifications. Benefits are usually triggered when a person cannot perform at least two key daily activities, such as bathing or dressing, or is cognitively impaired by Alzheimer's or another form of dementia.

This insurance can protect assets, help guarantee care and soothe anxieties. And recent surveys show boomers are buying it so they can control how they're cared for later in life, when they are at their most vulnerable.

The policies, however, are not for everyone. Many people simply cannot afford the kind of coverage they need to make a policy worthwhile.

The best long-term care policy has a reasonable deductible, covers a wide range of care options, guarantees a sufficient financial benefit and is buttressed by inflation protection. This kind of security doesn't come cheap: It could cost a 55-year-old $3,000 a year and a 65-year-old more than $5,000.

Long-term care insurance makes sense for those who earn good salaries, have accumulated assets they want to protect and have planned for a comfortable retirement. TheStreet.com Ratings says households with annual income of at least $50,000 to $75,000 and assets of $150,000—not including a car or house—might want to consider a policy. Financial planners typically recommend it for their clients, who tend to earn more.

Many experts say flatly that those who can't afford a good policy shouldn't buy one at all. The worst approach, they say, is to start with a solid, comprehensive policy and whittle it down to something affordable, tossing out expensive but critical provisions such as inflation protection.

Moreover, even those people who can afford a good policy while they're still working may not be able to pay the premiums in the future.

"When you think about these policies, focus on how affordable that premium will be when you're living on a fixed income," advises Robert Friedland of Georgetown University's Center on an Aging Society. "If you don't have a good retirement package, if you haven't been actively saving for retirement, then long-term care insurance is the least of your problems."

Long-term care insurance is complicated. Policies are extremely difficult to compare, so even savvy consumers should seek advice from a financial planner or trained insurance agent.

Recently the profile of who buys long-term care insurance has changed dramatically—from people in their 70s to those in their 50s and early 60s. "Today, two-thirds of all purchasers are still working," says Marc Cohen, president of LifePlans Inc., a Boston consulting and research company that gathers facts and figures for the insurance industry.

The trend could continue. More employers are offering policies, and some politicians are now pushing this kind of private insurance as a way to encourage people to secure their own future.

Congress recently passed legislation allowing states to set up "partnership programs" that permit residents who buy long-term care insurance to protect a portion of their assets if the benefits run out and they eventually qualify for Medicaid.

Twenty years ago, assisted living residences and adult day care centers didn't exist—and more changes are expected in the next 20 years. New technologies and fresh, innovative public policies could offer more options to all Americans.