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Off the Wire

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A Monthly Reprint of Articles of Importance to Employers Today

Editor's Note

Off the Wire is a reprint of articles for Human Resources professionals and business owners. It is published monthly and we are always trying to address the needs and concerns of the business community with a focus on benefits and HR related topics.

We are interested in your feedback and welcome any comments! Also, if there are any topics that interest you, feel free to contact us directly at 206-414-4635. We will gladly do the research for you!

If you would like to view past issues, they can be found on our web site:

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Most Folks should plan for long-term care. Is new WA program or a private policy best?

by Gary Brooks

Washington is the first state to approve a payroll tax that will raise money to cover long-term care costs for some of its residents. On average, seven out of 10 people will experience some form of costly long-term care in their lifetime. Many people are surprised to learn that Medicare does not cover most assisted living or nursing home costs.

The Washington Cares Act provide qualifying residents with as much as $36,500 of inflation-adjusted future benefits to pay for long-term care (LTC) costs.

Starting Jan. 1, 2022, a tax of 0.58 percent will apply to earned income (W2 reported) with no cap on the amount of income that is taxed. There is an alternative to opt out of the tax by owning a privately purchased LTC insurance policy before Nov. 1, 2021.

Generally, high-income earners (greater than $200,000 annually, particularly males and typically under age 55) should consider whether it is better to purchase private long-term care insurance for a better mix of cost and benefits than the state program could provide.

No language in the legislation indicates the tax rate will remain constant. It could increase in the future. Some financial analysis of the program before it even starts suggest the tax rate might need to rise to 0.66 percent. Income from self-employment will depend on the type of business entity (corporation, LLC, sole proprietorship) to determine whether the tax applies.

The default choice to participate requires no action. Employees who pay into this program for 10 years, or at least three out of six years before submitting a qualifying claim, will be eligible to receive up to $36,500 total, not annually. To qualify, people need to be deficient in at least three of six activities of daily living (eating, bathing, getting dresses, toileting, mobility and continence).

If you are closer than 10 years to retirement and you don't have a personal LTC policy to allow you to opt out, you will pay the tax but not receive any benefits from the state.

If you own a qualifying private insurance policy before Nov. 1, you can inform your employer and provide evidence that you are eligible to opt out of the new tax.

For most people, the state program will be more cost effective than a privately purchased policy.

Consider a couple of examples:

Tom is 45, earns $100,000 per year and expects to retire at 65. Assuming his income grows by 3 percent per year over his final 20 years of employment, Tom would pay $17,131 in tax. Since Tom would potentially have access to $36,500 (inflation-adjusted in the future) for eligible expenses, it would make sense for Tom to utilize the state's program.

Theresa in 45, earns $400,000 per year, and expects to retire at 65. She would pay $68,525 in tax. Theresa would be eligible for only the $36,500 max of benefits, regardless of how much tax paid. She could consider purchasing a private LTC insurance policy with better benefits instead and opt out of the state tax. However, it is important to understand that private LTC insurance policies for women are about 60 percent more expensive than for men. Women are far more likely to make claims on these policies require premium payments for life (or at least until you are on claims for eligible expenses). The state tax payment ends at retirement. Even though she would pay more in tax than she could receive in benefits from the state, a privately purchased LTC policy could be even more expensive.

Because there are not direct equivalencies between the state program and privately purchased policies, it is essential to understand your specific situation (and perhaps how it related to your spouse). Your age, income, number of years you expect to keep working, and your health would all be informative to compare with the state program.

You might also prefer to purchase an insurance policy with more coverage available than the state's $36,500. Assisted living or even in-home care could easily cost multiples of what the state pool will set aside.

Privately purchased LTC coverage could also be helpful if you plan to leave Washington. The new state program will not pay benefits to non-residents, even if you paid into the program for 10 years before moving.

If you are relatively high earner who could qualify for an insurance policy that is more cost effective than the state program, you will need to act quickly. Insurance companies have limited capacity to complete underwriting for the expected surge in applications. Most request that you have your policy application submitted by the end of July.