

## Long-Term Care Insurance

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### Overview

Did you know that over 11 percent of the U.S. population is age 65 or older? Did you also know that this figure is expected to increase to 20 percent or 25 percent of the population over the next 50 years?

Statistics suggest that about 40 percent of those age 65 or older will need to enter a nursing home for a period of time at some point in their lives. Now consider that it could cost \$30,000 to \$60,000, or more, for one year in a nursing home. This is a hefty financial burden if you are not prepared for it, and the costs are rising each year.

If you are approaching your retirement years or may be responsible for someone who is, then carefully consider the benefits of planning for a long-term care expense. For many, a long-term care insurance policy may be the best way to plan for this risk.

As health care continues to improve, people are living longer. While this is good news, there is a downside. As people live longer, the possibility that they will become chronically ill increases. This may mean that more people will need help to manage their day-to-day care.

### Doesn't Medicare Cover this Risk?

Usually not. Medicare will provide a benefit for a long-term care stay if it determines that the patient requires "skilled" care. Unfortunately, most long-term care stays are considered "unskilled" care, or care that does not involve medical or rehabilitative treatment. Private health insurance policies also almost always exclude custodial or rest care.

### Sources of Long-Term Care

While Medicare will not cover a long-term care stay, in some cases, Medicaid will pay benefits for a nursing home stay for those it deems "financially needy."

In essence, if you have few or no assets, and need long-term care, Medicaid will pay for you to stay in a Medicaid approved facility. One thing to consider about a Medicaid-approved facility is that it may not be your first choice if you otherwise had the option.

Life-care facilities are gaining in popularity. While these facilities can be rather expensive, and include a sizable entrance fee, some retirees find this option an enjoyable way to live out their retirement years, and protect against a possible long-term care risk.

Some people plan for a long-term care stay with personal savings. A long-term care "reserve" fund could be used to help meet the expense of a long-term care stay, but with the high inflation rate currently associated with long-term care expenses, it may be difficult to save enough to meet the possible expenses.

Long-term care insurance may be the best way to plan for the risk of a long-term care stay. A long-term care policy can provide coverage for unskilled and skilled nursing-home care. In addition, a policy may also pay for a nurse or aide to take care of you in your home. Adult day care may also be covered by a long-term care policy if you have someone to take care of you in the evening, but need additional help during the day.

### Long-Term Care Insurance

Several insurance companies offer long-term care policies. The National Association of Insurance Commissioners (NAIC) has set up many guidelines that insurance companies must follow, but there are still many differences among different companies' policies.

**Underwriting** – Before an insurance company will issue a policy, it will require that the insured go through underwriting, which is a process that will help the insurance company determine the health of the proposed insured. The underwriting process will be less restrictive the younger you are or if you purchase a policy

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through your employer; however, applicants in poor health may be denied coverage at any age.

**Premiums** – All long-term care policies will require that premiums be paid, either by the insured or someone else. In most cases, the premiums are assumed to be paid for the rest of the insured’s life (as long as the insurance is to remain in-force). However, some policies allow premium payments for shorter periods (for example, ten years). However, a shorter premium paying period will mean that the annual premiums due will be higher. The amount of the premium is based on age, amount, duration, and inflation protection (discussed below). Some insurance companies will offer a discount on premium payments if both spouses buy long-term care. A portion of the premium may be deductible as a medical expense if you itemize on your income taxes, the policy meets tax guidelines, and you have medical expenses over 7.5 percent of your adjusted gross income. See IRS Publication 502 (<http://www.irs.gov/publications/p502/index.html>) for more information.

**Age** – Some insurance companies set both lower and upper age limits for long-term care insurance. However, if you are between the ages of 40 and 80, most insurance companies will issue you a policy if they are satisfied with your underwriting. If you are younger than 40, you may have to shop around, but you may still find an insurance company that will issue you a policy. Not many companies issue policies to those older than 85, though there may be rare exceptions.

**Amount** – Many policies will state their benefits as a certain dollar amount per day. For example a policy may pay a benefit of \$150 per day. Generally, this dollar amount will apply to all “institutional care” but other care may not receive the full amount. For instance, many policies will only pay half of the benefit amount for home or community health care. Some policies will allow you to increase the in-home care benefit to the nursing home benefit for an increase in premium.

**Waiting Period** – If your long-term care policy has a waiting period, then benefits will not be paid out until the end of this period. Many policies will give you an option for your waiting period, but most average about 90 days. If you choose a longer waiting period, the costs (premiums) will be lower.

**Duration** – You will also have a choice of how long you would like benefits to be paid. If you want to have some long-term care protection, but limit your costs, then you may choose a two-year policy. However, if

you want to fully protect against the risk of long-term care, then you may choose an unlimited period.

**Inflation Protection** – Almost all insurance companies are required to offer some type of optional inflation protection. Inflation protection is usually offered as a fixed percentage increase per year – usually around 5 percent. This increase can be computed using either simple or compound calculations. A simple benefit increase option will not increase as fast as a compound option, but will not cost as much as a compound option.

Considering the high inflation rate of long-term care expenses, it is a good idea to consider, at a minimum, a simple calculation option. If the costs are not too high for you to afford, a compound option is the best. Since you may not use your benefits for 20 or more years after purchasing the policy, the method used may make a big difference. See the example below of how a \$100 per day policy will increase each year under both options.

	Simple	Compound
Year 1 – Daily Benefit	\$100.00	\$100.00
Year 2 – Daily Benefit	\$105.00	\$105.00
Year 3 – Daily Benefit	\$110.00	\$110.25
Year 4 – Daily Benefit	\$115.00	\$115.76
Year 5 – Daily Benefit	\$120.00	\$121.55
Year 20 – Daily Benefit	\$195.00	\$252.70

## When Will a Long-Term Care Policy Pay Benefits?

Most long-term care policies require an assessment by a company approved by the insurance company before any benefits will be paid. It is important that family members know who to contact and that contact is made as soon as possible as the process takes time. The insurance company may deny a claim if procedures are not followed.

Most long-term care policies have similar guidelines for when a policy owner will be eligible for benefits, but be sure to check that your policy is not too strict in its requirements. As a rule of thumb, most long-term care policies will only have you meet one of these two requirements before benefits are paid:

1. The insured is expected to be unable, without substantial assistance from another person, to perform two of the seven “activities of daily living” for at least 90 days due to loss of functional capacity.

Activities of daily living include:

- Eating
  - Walking
  - Moving from a bed to a chair
  - Dressing
  - Bathing
  - Using a toilet
  - Bladder and bowel control issues (incontinent)
2. Substantial services are required to protect the individual from threats to health and safety due to substantial cognitive impairment.

## What Types of Things Are Not Covered?

Mental and nervous disorders are usually not covered by long-term care policies. Most insurance companies believe these areas to be too easily fraudulent. However, policies **must** cover Alzheimer's disease and other biologically related brain conditions and serious mental illnesses. Be sure to read your policy carefully.

## Virginia Long-Term Care Partnerships

The Virginia Long-Term Care Partnerships are partnerships between private insurance companies and the State of Virginia. Started in 2007, they work similar to regular long-term care insurance policies with the added benefit that if you also qualify for Medicaid you can keep more of your assets than the current \$2,000. This can help singles and surviving spouses keep more of their assets for their heirs. The individual usually will be able to keep a dollar-for-dollar match based on what the insurance company pays.

## Community Living Assistance Services and Supports

Community Living Assistance Services and Supports, or CLASS ACT is the federal, voluntary long-term care insurance program recently established by the new health reform law. This program for employees will pay you a lifetime cash benefit if you have contributed into the program for at least five years while working. Starting in 2011, all working adults will be automati-

cally enrolled in the insurance program through payroll deduction, unless they or their employers choose to opt out. There is no health screening required for to be part of this program. Premiums are expected to be \$50 to \$200 per month with the working poor paying \$5.00 per month. The program is projected to pay a benefit of not less than \$50 a day for an unlimited duration to cover any of the following:

- Paying for assistance to meet Activities of Daily Living including paying a family member or neighbor
- Adult day care
- Adaptations to one's home to make it accessible
- Assisted living programs
- Nursing home care

Families will need to find out how the program works with other long-term care insurance they may have when considering whether to opt out.

## Conclusion

With the rapidly increasing cost of nursing-home stays and home health care, the decision to protect against a long-term care risk is becoming more and more important. If you or a close family member is at risk, then carefully consider a long-term care policy. Your insurance agent will likely be able to provide you with more information. You can visit the Virginia Bureau of Insurance "Long-Term Care Awareness Campaign Own Your Future!" website, <http://www.scc.virginia.gov/division/boi/webpages/boiltccampaign.htm>, for a list of companies that offer long-term care insurance in Virginia and for other information. You can also find more information on long-term care at the Life and Health Insurance Foundation for Education (LIFE) and Long Term Care Link. Visit their websites at <http://lifehappens.org/long-term-care-insurance/> and <http://www.longtermcarelink.net/>.

Information from The Review for CFP® Certification Examination: Insurance Planning and Risk Management, The American College, Bryn Mawr, Pennsylvania, The Virginia Bureau of Insurance, and The Virginia Long-Term Care Partnership, Kaiser Foundation Focus of Health Reform – accessed at <http://healthreform.kff.org/>, and HR3590 and HR4872 accessed through <http://Thomas.loc.gov> were used in the preparation of this article.

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