

Planning for a Secure Future



A Guide to
Long Term Care Insurance

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1. An Introduction to Long Term Care Insurance

The increasing costs of long term care are of great concern as our population continues to age. Long term care has thus become more a financial issue than a health issue. The choices one has, if care is required, will be determined by the amount of money available to pay for home care or facility costs. The quality of our lifestyle as we age will be affected by the financial decisions we make today.

This booklet provides an overview of long term care issues and a summary of the factors to consider when purchasing a long term care insurance policy.

2. Long Term Care Information

The Basics

What is long term care?

Long term care refers to the day-in, day-out assistance one needs when one has a serious illness or disability that lasts for a period of time and is not able to take care of him/herself. Long term care includes a wide range of services delivered in the home, or in adult day care centers, assisted living facilities, continuing care communities, and nursing homes. The level of care may be Skilled or Intermediate, but is most frequently Custodial. Custodial care may be needed for a number of reasons: injury, illness, a chronic condition or the frailty of aging. Custodial care assists individuals with activities of daily living (ADL) such as bathing, dressing, feeding, mobility, toileting, taking medications, or continence.

The Need

Common Myth: “It will never happen to me.”

Will you or your spouse need nursing home care? Unfortunately, it is likely. The number of individuals using either nursing facilities, alternative residential care, or home care services is expected to increase from 15 million in 2000 to 27 million in 2050.¹

Common Myth: “My family or someone else can take care of me.”

Practically speaking, this isn't possible when care is needed for a long duration because of:

- Physical/emotional demands
- Expectations vs. realities of custodial care/time constraints
- Changing family structure
- Lack of medical expertise

Why do people buy long term care insurance?

- Helps maintain *independence*
- Helps *protect your family*
- Provides you with *choices*
- Helps *protect your retirement savings, property and family assets*
- Gives you *peace of mind*
- *Favorable tax treatment*

¹U.S. Department of Health and Human Services and U.S. Department of Labor, The Future Supply of Long-Term Care Workers in Relation to the Aging Baby Boom Generation: Report to Congress (Washington, DC: Office of the Assistant Secretary for Planning and Evaluation, 2003), <http://aspe.hhs.gov/daltcp/reports/ltcwork.htm>.

Should you consider long term care insurance?

Depending on your level of assets, you may not qualify for Medicaid-funded or community-based programs. In order to maintain your independence and have the most choices as to how and when care is provided, long term care insurance is your best alternative.

A properly structured long term care insurance policy is critical to sound financial planning. Once you have decided to use long term care insurance as a means to help protect your assets, preserve choices, and maintain your family's lifestyle, it is important to obtain coverage at the earliest possible time. The cost of waiting is high, as long term care insurance premiums are based upon your age at the time you apply for coverage as well as your medical history.

The Costs

How much does long term care cost?

Nationwide, daily home health aides average \$19.00 per hour¹ and charges by assisted living facilities average \$2,969 per month. The cost of nursing homes average about \$213 (private) and \$189 (semi-private) a day— an annual cost of \$68,985 — for semi-private care.² Costs in major metropolitan areas can go much higher for all types of long term care services.

What is the future cost of long term care?

Assuming a 5% annual inflation rate, the annual cost of a nursing home stay:³

- in 10 years will amount to \$95,694
- in 20 years will amount to \$155,875
- in 30 years will amount to \$253,904

Doesn't Medicare, my Medicare Supplement policy, or my catastrophic policy cover long term care expenses?

Coverage is generally very limited. After at least a 3-day hospital stay, if continuous skilled care is required in a skilled nursing facility, then Medicare may pay in full up to 20 days and any excess above \$128.00 per day (2008 figure) up to a maximum of 100 days. Medicare supplements will reimburse the \$128.00 per day of Medicare approved expenses in a nursing home. In certain situations, if skilled care is required at home, Medicare may pay. It is estimated that Medicare covers only 20% of long term care costs nationally.⁴

Who pays for long term care?

Medicaid and state programs	43.4%
Out of Pocket	26.4%
Medicare	16.7%
Private LTC	7.4%
Other Private	3.7%
Other Public	2.4%

Medicare, Medicare Supplements, and major medical health policies specifically exclude custodial care.

¹ Rates are based on the 2007 MetLife Market Survey of Adult Day Services and Home Care Costs. States were surveyed based on population. Costs have been rounded to the nearest dollar. Averages were taken when multiple cities were listed.

² Rates are based on the 2007 MetLife Market Survey on Nursing Home and Assisted Living Costs. States were surveyed based on population. Costs have been rounded to the nearest dollar. Averages were taken when multiple cities were listed.

³ Costs are based on current average rate of \$169 per day.

⁴ Centers for Medicare & Medicaid Services, Office of the Actuary, National Expenditures Tables, 2008, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>.

Are there tax incentives to purchasing long term care insurance?

The Health Insurance Portability and Accountability Act of 1996 provides several tax incentives (subject to certain conditions and limitations) to purchasers of *private* long term care insurance. These include:

- LTC insurance premiums will be deductible as a medical expense for those who itemize.
- LTC insurance benefits received by a claimant will be tax free to the recipient.
- LTC expenses not covered by insurance will be deductible.
- Employers who pay LTC insurance premiums on behalf of an employee will be able to deduct that premium as a business expense, as they do for medical insurance.
- LTC insurance premiums paid by an employer on behalf of an employee will not be treated as income to that employee.

The Policy

What provisions are included in long term care insurance policies and how do they affect annual premium?

Benefit Period

A policy should provide sufficient coverage for a long stay, usually with minimum coverage of 3 to 4 years. With a lifetime benefit period there would be no limit on the time period over which benefits are paid. The longer the benefit period, the higher the premium.

Daily Benefit Amount

An adequate daily benefit should be selected so that assets do not have to be invaded to pay for long term care. Our guideline for a daily benefit amount is 100% percent of the prevailing nursing home cost in your area. The amount you choose may vary based on the amount of income you otherwise have available to pay for long term care expenses. The higher the daily benefit amount selected, the higher the premium.

Home Health Care

Most people prefer to receive care at home for the longest possible time. Proper home health care coverage can delay or even eliminate the need, in some situations, for nursing home care. The amount of the daily benefit and the length of the benefit period selected for home health care affect the premium. Most policies integrate home health care into the core policy, and you can choose a home health care benefit that are 50%, 100%, or even greater than 100% of the nursing home benefit. For some policies, home health care coverage is available through a rider to the policy. Adult day care is generally included as part of home health care coverage. Assisted living, which generally involves a less intensive level of care than what is provided in a nursing home, may be a part of either the nursing home or home health care provisions depending upon the policy.

Inflation Protection

It is important that policy benefits keep pace with increasing nursing home and home health care costs. To protect against inflation, you may want to purchase a policy that includes an automatic inflation provision where premiums stay level while your daily benefit increases at an agreed upon percentage each year, usually 5% or the current CPI rate. This additional protection is recommended to those 74 years of age and younger. For those 75 and older, depending upon the insurance company selected, it may be more cost effective to choose a higher daily benefit without the inflation protection option. Be cautious about policies offering inflation protection by permitting you to buy additional coverage every one, two or three years. By the time you reach the point when you require care, the premiums for this additional coverage may have risen to the point where they are no longer affordable.

Elimination Period (Deductible or Waiting Period)

The elimination period choices vary from one policy to the next—generally from 0 days to 100 days. The longer the elimination period you choose, the lower the premium will be. The following is an example of how the elimination period works. If you were to choose an elimination period of 20 days, for the first 20 days you would receive no benefits and would have to pay the nursing home costs from other resources. On the 21st day the insurance company would start paying the cost of your care up to the daily benefit amount you selected.

What are the essential factors of a good long term care policy?

Financially Stable Company

It is important to choose an insurance company that will pay benefits when you need them. A. M. Best, Fitch, Standard and Poor's, and Moody's, are companies that specialize in evaluating the financial condition of life and health insurance companies. While no one can provide any guarantees, we recommend that you choose an insurance company that has recently received high ratings from at least two of the above rating services.

Guaranteed Renewable

As long as the premium for a “guaranteed renewable” policy is paid on time, the insurance company must renew the policy annually, even if the insured’s health has deteriorated. Premiums will generally remain at the level stated in your policy for the life of the policy and can change only if the state insurance commissioner approves the change for everyone who has the same policy in your state.

No Prior Hospital Stay is Required

Unlike Medicare, you do not need prior hospitalization to be eligible for benefits. This is particularly important since only half the people entering nursing homes have received care first in a hospital. Rather, many people are admitted to a long term care facility following a period of care at home.

Access to Policy Benefits (Benefit Triggers)

There are 2 ways to qualify for benefits:

Activities of daily living—your physician certifies that you require help with activities such as eating, bathing, dressing, mobility, toileting or continence. Access to policy benefits is based on your inability to perform at least 2 or more activities of daily living.

Cognitive impairment—you physically may be able to perform the activities of daily living but need to be reminded to do so because of organically based dementia such as Alzheimer's Disease.

No Requirement for Skilled Care in A Nursing Home Before Benefits Are Paid

There are three levels of care provided in a nursing home: Skilled, Intermediate and Custodial. Since fewer than half of the residents in a nursing home require skilled care, it is important that a long term care insurance policy pay benefits no matter what level of care the person requires.

Home Health Care Which Does Not Require Confinement In A Nursing Home

If a person purchases a policy that includes coverage for home health care, the policy should stipulate that home health care benefits will be paid without having to enter a nursing home first. Many people require home health care assistance, but not nursing home care, after leaving a hospital. People often enter a nursing home only after home health care arrangements have become unsuitable.

Waiver of Premium Benefit

Under policies that include this benefit, after nursing home benefits have been paid for a defined period of time (generally 90 consecutive days), premiums that would otherwise come due under the policy are waived. For most policies the waiver applies to both nursing home and home health care.

Covers Alzheimer's Disease and Senile Dementia

The long term care policy must provide nursing home and home health care benefits for those suffering from these illnesses.

How do I know which coverage I should choose or which company I should select?

Evaluate the information you have received based on your particular needs. An insurance or financial professional who understands long term care can help you to properly evaluate your needs by comparing several different carriers and the policies they offer. When appropriate, this professional can work with you, your family, and financial or legal advisors to help obtain effective insurance protection at an affordable premium.

3. Long Term Care Insurance Tax Qualifications

To qualify for federal income tax advantages, long term care insurance policies issued after 1996 must meet certain federal standards and requirements.

Purchasers of plans that meet federal standards will be rewarded with a deduction for their long term care insurance premiums (subject to limitations) and benefits excluded from taxation. Information about all benefits paid under both qualified and non-qualified plans must be reported by the insurance company to the Internal Revenue Service.

Summary of Advantages for Federally Qualified Long Term Care Insurance Policies

- LTC insurance premiums will be deductible as a medical expense for those who itemize, subject to limitations.
- LTC insurance benefits received by a claimant will be tax-free to the recipient, subject to limitations.
- LTC expenses that are not covered by insurance will be deductible for those who itemize, subject to limitations.
- Employers who pay LTC insurance premiums on behalf of an employee will be entitled to deduct that premium as a business expense, as they do for medical insurance.
- LTC insurance premiums paid by an employer on behalf of an employee will not be treated as income to that employee.

4. Long Term Care Glossary

Activities of Daily Living (ADLs)

Daily activities used to measure functional disability. In long term care insurance policies the common ADLs used are bathing, dressing, toileting, continence, transferring or mobility, and eating or feeding. Bathing is usually the first functional loss. The ease of access to policy benefits is determined by how the above activities of daily living are defined and what level of personal assistance is required in order for one to be deemed to fail an activity of daily living.

Access to Policy Benefits (Benefit Triggers)

There are two ways to access long term care insurance policy benefits:

Activities of Daily Living—the insured requires personal assistance with 2 or 3 activities of daily living. Each policy will define 5 or 6 ADLs. Personal assistance may be defined in different ways in each policy but generally will refer to either hands-on assistance, stand-by assistance (for the safety of the insured) or directional assistance (cueing) to help the insured by reminding them.

Cognitive Impairment—deterioration or loss in intellectual capacity measured by clinical evidence and standardized tests.

Adult Day Care

A community-based group program that provides health, social, and related support services in a facility licensed or certified by the state as an Adult Day Care Center for impaired adults. It does not mean 24-hour care.

Alternate Care Facility

A hospice or facility engaged primarily in providing ongoing care and related services to inpatients in one location and meets all of the following criteria:

1. Provides care and services 24 hours a day to sufficiently support needs resulting from inability to perform Activities of Daily Living or Cognitive Impairment
2. Has a trained and ready to respond employee on duty at all times to provide that care
3. Provides 3 meals a day and accommodates special dietary needs
4. Is licensed or accredited by the appropriate agency to provide such care
5. Has formal arrangements for the services of a physician or nurse to furnish medical care in case of emergency
6. Has appropriate methods and procedures for handling and administering drugs and biologicals.

Alternate Plan of Care

If the insured would otherwise require confinement in a long term care facility, the insurance company, the insured and the insured's physician may agree that an alternate plan of treatment or alternate site of care such as an assisted living facility would be appropriate; and the insurance policy would pay for this care. Some policies will also pay for durable medical equipment if, as an alternative to nursing home care, a person would then be able to receive care in his or her own home. Modifications to the insured's home may also be included under this policy provision. It should be noted that the definition of the alternate plan of care may vary from one insurance policy to the next.

Benefit Increase Option (BIO), Automatic Inflation Benefit (AIB), Inflation Option

Inflation provisions included in a long term care insurance policy will usually take one of three forms:

Benefit Increase Option—periodic offer (usually every one, two, or three years) to purchase additional insurance without regard to any changes in one's health. An additional premium is charged based on the amount of the increase and the age of the insured at the time the additional insurance is purchased. The additional premium is level and charged for the

remaining life of the policy. This offer is generally not made after any claim has been made against the policy.

5% Simple Inflation Option—the daily benefit will automatically increase on each policy anniversary date by 5% of the original daily benefit amount selected. An additional premium is charged for this option and the premium is scheduled to remain level for the life of the policy. Some policies will limit the amount of increase permitted under this option by either a defined number of years (i.e. 20 years), by age (i.e. no increases permitted after age 85), or by a defined cap in dollars (i.e. an initial benefit of \$100 per day will increase until a benefit of \$200 per day is reached).

Compound Inflation Option—the daily benefit will automatically increase on each policy anniversary date by 3, 4, 5% or linked to the current Consumer Price Index (whichever rate was originally chosen) of the prior year's daily benefit amount selected. An additional premium is charged for this option and the premium is scheduled to remain level for the life of the policy. Some policies will limit the amount of increase permitted under this option by either a defined number of years (i.e. 20 years), by age (i.e. no increases permitted after age 85), or by a defined cap in dollars (i.e. an initial benefit of \$100 per day will increase until a benefit of \$200 per day is reached).

Benefit Period

The time during which the policy will pay benefits. There are three different approaches to defining the benefit period:

Time Frame—the benefit period is described in years (i.e. 2 years, 3 years, 4 years, 5 years, 6 years, lifetime). Once a period of care begins, the policy will cover all of the eligible care received for as long as the policy is in force (until the benefit period limit is reached). Generally this type of policy will have a restoration of benefit feature included.

Pool of Days—the benefit period may be stated in years but it is also stated in days (i.e. 3 years would also be shown as 1095 days (3 years X 365 days)). When the benefit period begins, only the days that you actually receive care are counted and deducted from the policy. You may have a policy that has a stated benefit of \$120 per day, but if the actual costs are \$60, the policy would reimburse \$60 and one day would be charged against the policy.

Pool of Funds—the pool of funds is established by multiplying the number of years (or days) in the policy benefit period by 365 days times the daily benefit selected. For example, a 5 year policy with a \$100 per day benefit would provide a pool of funds of \$182,500 (5 X 365 X \$100 per day). The policy lasts as long as money remains in the pool of funds. Only those dollars that are actually paid out by the policy are charged against the pool of funds.

Cognitive Impairment

The deterioration or loss of intellectual capacity such as dementia, Alzheimer's Disease, and Parkinson's Disease. The eligibility for benefits under a long term care insurance policy is determined by clinical evidence or standardized tests, which judge the areas of memory, orientation and reasoning. It is important to have a separate trigger or means of access to a long term care policy for cognitive impairment. Some long term care insurance policies permit access to benefits only if the insured requires directional assistance or cueing in two or more ADLs.

Home Health Care (HHC)

Care received in one's home generally provided by family members, friends, licensed health care professionals (registered nurse, licensed practical nurse, physical therapist or occupational therapist) or certified health care professionals such as a nurse's aide or home health aide, homemakers or providers of chore services. Many long term care insurance policies only reimburse for services provided by licensed health care professionals or certified health care professionals provided through a state licensed home health care agency. It is important to check for specifics of who is allowed as caregiver.

Indemnity Benefit vs. Cost Incurred Benefit

An indemnity benefit is paid to the insured regardless of the actual costs of care. The stated daily benefit amount is paid in full in some long term care insurance policies even if Medicare payments are being received for the same care. A cost incurred benefit reimburses for actual costs up to the stated daily benefit amount. Policies will generally provide for either reimbursement of 80% or 100% of costs incurred up to the daily benefit amount.

Instrumental Activities of Daily Living (IADLs)

In addition to the Activities of Daily Living (ADLs), IADLs identify the full range of activities necessary for independent living in the community. IADLs include meal preparation, handling personal finances, shopping, traveling, doing housework, using the telephone and taking medications.

Levels of Care

Skilled Care—care provided by a Registered Nurse (RN), Licensed Practical Nurse (LPN), Licensed Vocational Nurse (LVN), Physical Therapist (PT) or Occupational Therapist (OT). When the assistance of these care providers is required every day the level of care is called skilled care.

Intermediate Care—care provided by the above licensed professionals less than every day.

Custodial Care—assistance with activities of daily living provided by a family member, friend, companion or certified professionals such as a nurses aide or home health aide. It may also include homemaker or chore services.

Medical Help System

A communication system, located in your home, used to summon medical attention in case of a medical emergency.

NAIC Model Regulations

The National Association of Insurance Commissioners issues and amends a body of model laws and regulations governing long term care insurance as a guide to state legislation and regulation of long term care insurance. Most states have adopted all or a portion of these standards.

Pre-existing Conditions

A policy provision that states no benefits will be paid for nursing home or home health care confinement that begins during the first 6 months of the insurance policy if the care required is the result of a condition for which care or treatment was received during the 6 months prior to the effective date or start date of the policy. Some companies will waive the preexisting condition clause if the condition was mentioned in the application. Some policies have no preexisting condition provisions.

Restoration of Benefits

If benefits are received from the policy and the insured does not require long term care assistance for a period of 180 consecutive days, then any subsequent incident would be considered a new period of care and the full original benefit period for care would be available.

Waiting Period (Elimination Period or Deductible)

The number of days the insured must pay for care before the policy starts paying benefits. After a period of 180 days of not requiring care, a subsequent period of care would require a new waiting period. Some policies have a one time-only waiting period.

5. Instructions for Completing the Quote Request Form

In order for us to respond promptly and accurately to your request for pricing information and policy recommendations, the Long Term Care Pre-Qualifying Inquiry Form must be completed and faxed or mailed to our office. The recommendations you receive from us will depend upon your age and health history.

1. Complete one form for each applicant (even if husband and wife are both applying).
2. Fill in all information.
3. Fax or mail to our office.

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