FINANCE

Long-Term Care Insurance no. 9.152

by J. McKenna and L. Kubin [1]

Quick Facts...

Of the 12 million people needing long-term care, only 1.5 million are in nursing homes.

Long-term care doesn't happen just to an individual, it happens to an entire family.

When shopping for long-term care insurance, compare at least three companies.

Benefits should be triggered by inability to perform activities of daily living ***or*** (not *and*) cognitive impairment.

Inflation protection is important.

Premiums are based on your age when you purchase the policy.

Colorado State University Cooperative Extension

Putting Knowledge to Work

Nearly two in five people 65 or older spend some time in a nursing home. Half of these stays are less than 90 days, often covered by Medicare. Three-fourths of nursing home stays are less than one year. But one out of every four people will spend a year or more in a nursing home; one in 11 will spend five years or more. Men average two years in a nursing home, women four.

But long-term care is much more than nursing home care. Of the 12 million people needing long-term care, only 1.5 million are in nursing homes. Other choices include home care, assisted living and adult day care.

In 2002, the yearly cost of Denver assisted living homes averaged $37,800 and nursing homes averaged $55,115. If costs increase 5 percent per year, by 2010 these annual average costs will be $55,848 and $80,654, respectively.

Long-term care doesn't happen just to an individual, it happens to an entire family. One in three workers take care of an aging family member. Worker productivity is affected by family health problems. Insurance can provide personal and professional care services at home to ease the caretaking load.

Why Long-Term Care Insurance?

You can't predict whether you will need nursing home, assisted living or home-care services. You might want to purchase long-term care insurance for several reasons: to ensure a choice of facilities and services; to preserve assets for a spouse, children or others; to preserve your independence; or to ease the burden on caretakers.

Medicare does not pay for long-term nursing home care, but rather for short stays under very specific rules. Medicare pays skilled nursing facility (SNF) costs for up to 100 days per benefit period. Days 1 through 20 in a SNF may be paid by Medicare with no co-pay or deductible required from the individual. Days 21 through 100 require a substantial co-payment that may be covered by the individual's supplemental health care insurance. When Medicare benefits end, the individual must pay the nursing home costs with their personal funds, long-term care insurance, or Medicaid.

Some financial planners recommend long-term care insurance. Others say the newness of this type of insurance makes them only a best (and expensive) guess. Also, policies often are full of disclaimers, so you might not get what you need even after paying premiums for years.

People often put off this decision because they feel fine now. However, there is no guarantee on your health. If you are unsure about purchasing insurance, do a trial application. If you are rejected, it will not go on your permanent health record. If your health problems can be remedied, you can make a permanent application later.

How Do People Pay for Custodial Care?

There are four ways to cover long-term care costs.

Self insurance: If you plan to use your own assets for long-term care, be sure you understand the Medicaid guidelines that affect the noninstitutionalized spouse. What will happen to your spouse if there are not enough assets to cover these costs? Consult with experts if you face a nursing home decision. Call your local area agency on aging, eldercare locator or an elder care attorney for assistance. You might consider a reverse mortgage on your home to increase the availability of funds for long-term care. (See “For More Information” sidebar.)

Medicaid: Medicaid is jointly funded by federal and state governments and managed by the states. Rules differ from state to state. It covers nursing home costs for people whose income and assets fall below a certain level. If the person is expected to return home or if there is a noninstitutionalized spouse, Medicaid exempts the home and a vehicle below a certain value. Many states place a lien against the home to repay the state after the patient dies.

Single-premium life insurance: One way to pay for long-term care is to purchase a single-premium life insurance policy. The investment is guaranteed to earn a minimum rate of interest, say 3 percent. This builds up a cash reserve to cover nursing home or at-home care. Money not spent goes to heirs as a life insurance death benefit. Some policies cover both husband and wife. If one spouse uses only a portion of the benefit, the remainder is available for the other spouse.

Long-term care insurance: This covers all or part of needed care. The choice is to spend money on premiums now on the chance it will save money later. One rule of thumb is to add up all the premiums you would pay until age 85. Usually this is less than the cost of one year in a long-term care facility. Be very sure that you will be able to pay the premiums in the future. If you cannot keep up premium payments, you lose not only your protection but all the money you already paid into premiums. Purchase one policy that covers all the needs you anticipate, not several policies that duplicate coverage.

Evaluating Agents and Companies

It often is difficult to make an informed decision based on a sales brochure or presentation. Shop around and compare at least three companies. It is risky to buy from a door-to-door salesperson or a telephone solicitation. Check with local agents who can provide service after you purchase a policy.

Only the official company wording in the brochure or the policy is legally binding. Don’t rely on an agent’s verbal comments, promises, or notations written on a brochure. Tape record the sales pitch. Read the fine print. Never withhold information about pre-existing conditions, even if an agent says they aren’t important. This might allow the company to void the contract.

The financial stability of the company is important. The company should have billions, not millions, in assets. Smaller companies should have reinsurance. If you buy a policy from a shaky company, you may have premium increases in the future, or the company could go out of business. This type of insurance is new. No one is sure what the impact will be when many people start using it.

Choose an experienced company. There are fifty Colorado licensed companies marketing long-term care insurance. The company should have high ratings for stability, at least A or higher on the Standard & Poor or other rating agency scales.

The premiums should be competitive with other policies, not significantly below market rates. Cut-rate premiums may jump significantly in the future. Benefits should be comparable to other policies. If premiums

What Is Long-Term Care?

There are several types of care related to illness and physical conditions. Some medical conditions require specially trained nurses or therapists, usually 24 hours a day. Intermediate nursing care requires daily supervision but not 24 hours a day. Long-term care covers daily care needed by a person with an acute or long-term illness or disability who cannot care for himself or herself. The level of care ranges from bathing and dressing at home to skilled services in a nursing home.

Medicare sometimes covers some skilled nursing care in nursing homes, but there is no coverage for intermediate or custodial care or prolonged home health care.

How Do You Qualify for Benefits?

Many policies state that you are eligible for funds if you can’t perform two or three out of five or six activities of daily living (ADLs), including bathing, dressing, continence, toileting, transferring and eating. All tax-qualified policies state that you must be evaluated by a designated person such as a doctor and certified that you are chronically ill and expected to continue this illness for at least 90 days.

Incentives for Purchasing Long-Term-Care Insurance

Premiums are deductible on federal taxes if they exceed 7.5 percent of your adjusted gross income and the plan is tax qualified. Tax qualified means that you don’t pay taxes on benefits. There are limitations based on age and tax year. Credits may apply on state tax returns as well.

For more information:

Colorado State Division of Insurance, 1560 Broadway, Suite 850, Denver, CO 80202. Phone: (303) 894-7499. Web: www.dora.state.co.us/insurance/senior/ltc.htm

Area Agency on Aging. See your local phone book or contact the Colorado Department of Aging (below).

Colorado Department of Aging, 110, 16th St., Denver, CO 80203. Phone: (303) 620-4147. Web: www.cdhs.state.co.us/oss/aas/about1.html.

Colorado Senior Law Handbook, Colorado Bar Association, 1900 Grant St., Denver, CO 80203. Phone: (800) 332-6736.

National Institute on Aging, 330 Independence Ave., SW, Washington, DC 20201. Phone: (202) 619-7501. Web: www.aoa.dhhs.gov

Center for Medicare and Medicaid Services, 7500 Security Blvd., Baltimore, MD 21244-1850. Phone: (877) 267-2323. Web: www.cms.hhs.gov

"Understanding Long-Term Care Insurance." Contact the Colorado Department of Insurance, www. www.dora.state.co.us/insurance/consumer/tip4.pdf

National Academy of Elder Law Attorneys, Inc., 1604 No. Country Club Rd., Tucson, AZ 85716. Phone: (520) 881-4005. Web: www.naela.org.

National Eldercare locator service, National Association of Area Agencies on Aging, 927 15th St., NW, Washington, DC 20005. Phone: (800) 677-1116. Web: www.eldercare.gov.

are too low or benefits too generous, the company may not be in business when you need it. Look for companies that haven't increased rates in the last 10 years, and for a high claims payout percentage versus the claims filed. Determine if benefit enhancements are made to existing clients and not just new ones. Compare services.

Comparing Policies

Select policies that clearly define the criteria to qualify for benefits, especially your ability to perform daily living activities (ADLs). Avoid policies that require continual one-on-one assistance to qualify for benefits.

The policy should cover all levels of care that the doctor orders in any state-licensed facility. It should cover ADLs ***or*** (not *and*) cognitive impairment such as Alzheimer's disease.

Some policies cover adult day care, nursing homes, assisted living and home health care. You might want home care if someone lives with you. If you live alone, however, having someone come in a few hours a day or a few times a week may not be enough care. Some policies have a care manager who works with the family and doctor to determine how to provide the care.

Steer clear of policies that require prior hospitalization in order to qualify for nursing home stays and/or home-care. By law, no company can require a prior hospital stay in order to qualify for benefits. Nevertheless, a company might write this into a policy.

Avoid policies that require that only registered or licensed practical nurses can provide services or where insurance-company-paid doctors determine eligibility for long-term care coverage. Look for policies that count days in the deductible period cumulatively over several stays, rather than consecutively during one stay.

Inflation protection is costly but important. A daily benefit of 100 percent of today's costs will cover only 61 percent in 10 years, 48 percent in 15 years, and 38 percent in 20 years.

The policy should provide for third-party notification so the policy can't lapse if you forget to pay a premium because of dementia. Also, legally, all long-term care policies are guaranteed renewable, so the company cannot drop you if you develop a serious health problem.

The policy is a legal contract between you and the insurance company, so read everything carefully. Most policies allow you to cancel within 10 days for a full refund if the policy does not meet your expectations.

How Much Does It Cost?

Premiums are based on your age when you purchase the policy. After age 60, premiums begin to increase substantially. You can reduce them by covering the first 90 or 100 days yourself. Also, higher daily benefits mean a higher premium. If you have Social Security or a pension benefit, you won't need to cover the full cost from insurance. Smoking increases premiums. Good health when you purchase the policy reduces them.

In addition to premiums, you often have to pay a commission to the agent. The average long-term care insurance commission is 48.5 percent for the first year and ranges from 50 to 66 percent of the first year's premium. To keep the commission to a minimum, buy only what you need, not more.

Check the cost of facilities and services in your area. Learn the facilty's policy on increasing rates. Ask the facility managers what additional costs you must pay yourself, such as a private phone, hair care, meals away from the facility, transportation to appointments, etc.

Colorado was the first state to require insurers to offer two standardized benefit packages along with any other package they sell (Table 1).

[1] J. McKenna, Colorado State University Cooperative Extension consumer science specialist, design and merchandising; and L. Kubin, Cooperative Extension director, Larimer County. *Appreciation to J. Tranel, Cooperative Extension agriculture and business management economist; N. McCambridge, Consultants for Aging Families; J. Kiskis, Kiskis Insurance Agency; and K. Conroy, CFP, and E. Krieger, Krieger & Associates, Inc., for their excellent editorial comments.*

The information in Table 3 was taken from policies available to Colorado residents in May 2003. It shows Standard & Poor's ratings, the number of policies in force in the United States, the ADLs required to trigger the policy, and the premium costs at four ages.

Table 1: Colorado standardized long-term care insurance plans.

Benefit	Basic nursing home plan	Standard nursing home and home care plan
Benefits	Comprehensive coverage of home and community care, nursing home care, and licensed residential care alternatives. Other benefit features required.	
Daily benefit	Up to $110/day.	Up to $110/day.
Maximum benefit	$115,000.	$192,000*
Deductible period	60 days once per policy life.	60 days once per policy life.
Inflation protection	5% compound automatic annual increase; may be waived.	
Benefit triggers	Meets federal definition of chronically ill individual. Standby assistance with at least 2 activities of daily living (i.e., bathing, continence, dressing, eating, toileting, transferring) or has severe cognitive impairment.	
Federal tax status	Must be federally qualified for tax-deductibility per HIPAA law and regulation.	
Target market	Must be shown to all potential purchasers.	

*Unless inflation protection is purchased

Table 2: Comparing long-term care insurance policies.

Comparative factors	Policy A	Policy B	Policy C
Covers all levels of care (nursing home, home care, assisted living,			
adult day care) in a state-licensed facility.			
Inflation protection (none, simple, compound).			
Covers ADLs or cognitive impairment, including Alzheimer's disease.			
Premiums competitive, not dramatically below market rates.			
Issuing company has billions in assets.			
Standard & Poor's rating of A or better.			
Amount of daily benefit (50%, 80%, 100%). Make sure all comparisons are equivalent.			
Deductible period.			
Length of coverage.			
Pays daily rate even when away from the facility (hospital, visiting).			
Bed reservation benefit (holds your bed for a short hospital stay).			
Length of time company has sold long-term care policies.			
Waiver of premium possibilities			
Waiting period for pre-existing conditions			
Eligibility determination - - who decides			
Marital discount possibility			
Third party notification			
Elimination period satisfied once in lifetime			

Table 3: Comparison of identical policies purchased at different ages. **

Sample company	Price per year if purchased at age: 50	60	70
A	$497	$831	$1,925
B	$407	$659	$1,464
C	$585	$1,070	$2,191

Source: Colorado Division of Insurance, 2003

**Unless the company has a rate hike that applies to all policyholders because their actuaries mispriced the policy, your price is set based upon your purchase age so does not automatically increase as you get older.

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