



# Understanding Individual Long Term Care Insurance



**By: Rick Lavis, CLTC, LTCP**

The cost of long-term care is staggering. For example, a year in a nursing home now averages \$76,000 nationally and can exceed \$110,000 in some areas.

Home health care can cost as much or more than the cost of a nursing home. In fact home health care expenses can run \$170-200 per day or more for a single shift.

**1** LTC is really not confined to old age problems. Debilitating accidents or sickness can strike any of us at any time...

**2** LTC insurance is one way to have all or some of the cost of LTC paid by an insurance company rather than from your assets

**3** LTC insurance offers you the flexibility to customize your coverage to fit your needs and protect your retirement portfolio.

## What is Long-Term Care?

Long-term care is the kind of care needed by persons requiring assistance or supervision with the everyday activities of daily living due to physical or cognitive impairments or for persons needing medically necessary care for an acute or chronic condition. Care can be provided at home, an adult day care center, an assisted living facility or nursing home. More than 85% of care today is received outside of a nursing home setting.

## The Need for Long-Term Care

Americans are living longer. When you get old, you may get sick. And when you get sick, you may need care. Providing that care can have a devastating emotional and financial impact on your family and retirement portfolio. Establishing a plan in advance about how you would want to be cared for and providing a way to fund that plan could greatly reduce the burden on your family and help protect your retirement portfolio.

## Who Pays for Long-Term Care?

People with assets usually end up paying for long term care out of their own pockets.

Government programs cover much less than most people think.

Medicare doesn't pay most nursing home bills. Certain conditions apply and for those who qualify, coverage is typically for short-term skilled care. Medicare does not pay for custodial care.

Medicaid (Medi-Cal in California) pays a large portion of nursing home expenses for those who have spent down their assets to the state required level (\$2000 or less in most states). Even then it may not cover most care at home, where many people would prefer to be when receiving care.

## Long-Term Care Insurance

The most popular coverage is a comprehensive plan that covers Home care, Adult daycare, Assisted Living and Nursing Home. Regardless of the type of policy, there are four basic choices made to build a plan: the maximum daily benefit, the benefit period, the elimination period and the inflation option.

## Maximum Daily Benefit

This is the maximum daily amount the policy will pay when you are receiving care. Some policies use a weekly or monthly maximum for home care, which gives greater flexibility.



## A Word About Medical Conditions

LTC Insurance is not available to everyone; it depends on your medical condition at the time the application is made for LTC Insurance. Conditions that might quickly lead to requiring the type of help covered by LTC policies will prevent acceptance by the insurer. Some conditions may require higher premium ratings and some such as a previous heart attack may not cause any change in the rating structure. Disclose all medical conditions when you begin your investigation of LTC and you will know quickly where you stand.

## Benefit Period

The length of time you want your policy to pay benefits. Typically, 3, 4, 5, 6, 10 years or Unlimited.

## Maximum Lifetime Benefit

This is the total amount the policy will pay during your lifetime for all benefits provided by the policy. This is figured by multiplying the maximum daily benefit by the benefit period. For example:

$$\begin{aligned} 3 \text{ years} &= 1095 \text{ days} \\ 1095 \times \$200 \text{ maximum daily benefit} \\ &= \$219,000 \text{ initial maximum lifetime benefit} \end{aligned}$$

This is your “pool of money” you can use for any type of care covered by your policy. If you are spending less than the maximum daily amount the policy will last longer until the pool is exhausted.

## Inflation Option

Options are available to increase the value of the policy over time. This could be an automatic 5% compound or simple annual increase in the daily benefit. Both the daily maximum and the maximum lifetime benefit increase with the option. At 5% compound \$219,000 would inflate to approximately \$438,000 in 15 years and \$876,000 in 30 years.

## Elimination Period

This is the number of days of paid care that you are required to pay for before the policy provides benefits. Think of it as a deductible.

The most common choices are 30 or 90 days. Most policies have one elimination period per lifetime.

## Benefit Eligibility

Generally, you become eligible for benefits when a licensed health care practitioner certifies that you need substantial assistance with two activities of daily living for a period expected to last 90 days – or when you need substantial supervision due to a cognitive impairment. The activities of daily living are bathing, continence, dressing, transferring, toileting, and eating.

## The Cost of Waiting

If you decide that long term care insurance is the right decision to protect your assets and your family’s financial future, the best time to buy is now. Buying while you are young

and healthy means a lower premium. Even though you pay that lower premium for more years the cumulative lifetime premiums are much less. In addition you avoid the risk of developing a condition that would make you uninsurable later.

## Payment Options

In addition to the regular pay for life plans, limited pay policies are available that can be fully paid up in 10 years or when one reaches age 65. The limited pay plans reduce exposure to future premium increases and lock in the premium after the vanish year.

## Tax Benefits

Congress passed legislation effective in 1997 that gives tax breaks to purchasers of long-term care insurance policies that meet certain federal standards. Policies that are labeled as “Federally Tax Qualified” use the federal standards for paying benefits. Benefits received at claim time are income tax free regardless of whether an individual or a business paid the premium.

Some or all of the premiums for these policies may be tax deductible depending on the business entity involved. Ask your agent for the free publication that details these deductions.

## Endorsed Group Plans

Multiple sales under an endorsed or sponsored group plan are often eligible for discounted premiums. Plans can be established for employees of a company or members of an association. In addition select family members are also eligible for the discount. Employee plans can be fully or partially employer paid or voluntary.

## How to Buy LTC Insurance

There are many companies selling LTC insurance policies. These policies offer a substantial number of options and the premiums and underwriting vary.

It is obvious that you should seek an agent that is either an expert in LTC insurance, or works with an expert. In addition the agent should have access to a wide range of competitive insurers from which to select your coverage. Your situation is unique and depends on many factors such as your age, health, marital status, income, assets, etc. An honest discussion with an expert LTC insurance agent will help you to choose the company and plan that’s right for you.