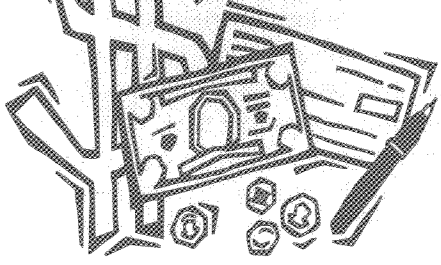


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# FINANCE

## Long-Term Care Insurance

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by J. McKenna and L. Kubin<sup>1</sup>

### 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.

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.

In 1999, the yearly cost of Denver nursing homes ranged from \$42,705 to \$52,925. If costs increase 5 percent per year, by 2010 this will be \$73,040 to \$90,519.

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.

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 covers all costs for skilled care for 20 days after a hospital stay. In general, individuals pay \$97 per day for the next 80 days. After 100 days, Medicare pays nothing. For those with supplemental health care policies, the Medigap/Medicare policies may pay the \$97 per day.

Some financial planners recommend long-term care insurance. Others say that 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 taken care of, you can make a permanent application later.

### How Do People Pay for Custodial Care?

There are four ways to cover long-term care:

**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



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### **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 or at home, 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.*

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. (See "For More Information," below.)

**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 4 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. While more than 125 companies sell these policies, most are sold by about 12 companies. 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 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. You want good service, not lost claims or slow claim handling.

## For More Information

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/index1.html](http://www.cdhs.state.co.us/oss/aas/index1.html).

Colorado Senior Law Handbook, Colorado Bar Association, 1900 Grant St., Denver, CO 80203.  
Phone: (800) 332-6736. \$8.00 plus shipping.

ElderPage, National Institute on Aging, 330 Independence Ave., SW, Washington, DC 20201.  
Phone: (202) 619-7501.  
Web: [www.aoa.dhhs.gov/elderpage.html](http://www.aoa.dhhs.gov/elderpage.html).

Healthcare Financing Administration, 7500 Security Blvd., Baltimore, MD 21244.  
Phone: (410) 786-3000.  
Web: [www.hcfa.gov](http://www.hcfa.gov).

"NAIC's Shopper's Guide to Long-Term Care Insurance." Contact the National Association of Insurance Commissioners or the Colorado Department of Insurance.  
Web: [www.seniorselect.net/Articles/LongTermCare/longtermcare.html](http://www.seniorselect.net/Articles/LongTermCare/longtermcare.html).

National Academy of Elder Law Attorneys, Inc., 1604 No. Country Club Rd., Tucson, AZ 85716.  
Phone: (520) 881-4005.  
Web: [www.naela.org](http://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.aoa.dhhs.gov/elderpage/locator.html](http://www.aoa.dhhs.gov/elderpage/locator.html).

## 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 needed.

Steer clear of policies that require prior hospitalization in order to qualify for nursing home and/or home-care stays. 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 raises 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 in your area. A policy might pay half, 80 percent or full coverage for a semiprivate or private room. Know what you must pay yourself, such as a private phone, hair care, meals away from the facility, transportation to medical 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). Consumers can compare these packages with the company's other offerings.

The information in Table 2 was taken from policies available to Colorado residents in April 1999. It compares companies with the highest, middle and lowest premiums for both the basic and standard plans. It also 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
Covered services	Nursing home care.	Nursing home and home care, including medical and nonmedical services provided in the home (e.g., homemaker services, assistance with ADLs, personal care services, adult day care).
Daily benefit	\$100/day nursing home care.	\$100/day nursing home care and \$50/day home care.
Lifetime benefit maximum	3 years or \$109,500.	\$125,000 for any combination of nursing home and home care.
Deductible period	60 days once per lifetime.	
Inflation protection	5% compound automatic annual increase; may be waived.	
Benefit triggers	Policy coverage starts when insured is deficient in either 2 or 3 activities of daily living (i.e., bathing, continence, dressing, eating, toileting, transferring) or has severe cognitive impairment.	
Federal tax status	Meet federally qualified long-term care policy criteria for favored tax status.	
Target market	People with limited incomes.	People with middle and upper incomes.

**Table 2: Comparison of sample policies.**

Sample company	S&P <sup>1</sup> rating	No. of policies (1997)	ADL <sup>2</sup> eligibility trigger	Price per year if purchased at age:			
				60	65	70	75
<b>Colorado basic nursing home insurance plan</b>							
A (highest premium)	AA+	19,871	3 of 6	\$1,382	\$1,762	\$2,443	\$3,621
B (middle premium)	AA	105,047	3 of 6	\$830	\$1,101	\$1,664	\$2,669
C (lowest premium)	AAA	18,448	2 of 6	\$473	\$706	\$1,092	\$1,890
<b>Colorado standard nursing home/home care insurance plan</b>							
A (highest premium)	AA+	19,871	3 of 6	\$1,936	\$2,453	\$3,405	\$5,043
B (middle premium)	AA	28,320	2 of 6	\$1,261	\$1,725	\$2,413	\$3,469
C (lowest premium)	AAA	65,079	2 of 6	\$768	\$1,140	\$1,692	\$2,700

Source: Colorado Division of Insurance, 1999.

<sup>1</sup> Standard and Poor's ratings of the strength of insurance companies. The more As, the better.

<sup>2</sup> Activities of daily living.

**Table 3: Comparing long-term care insurance policies.**

Comparative factors	Policy A	Policy B	Policy C	Policy D
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).				

<sup>1</sup> 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.

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