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Long-Term Care Insurance

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Long-Term Care Insurance (LTCI) as a Protection Planning Tool

What is it?

Long-term care insurance (LTCI)

In return for your payment of premiums, a long-term care insurance (LTCI) policy will pay a selected dollar amount per day (for a selected period of time) for your skilled, intermediate, or custodial care in nursing homes and, sometimes, in alternative care settings, such as home health care. Because Medicare and other forms of health insurance do not pay for custodial care, many nursing home residents have only three alternatives for paying their nursing home bills: their own assets (cash, investments), Medicaid, and LTCI.

In general, long-term care refers to a broad range of medical and personal services designed to provide ongoing care for people with chronic disabilities who have lost the ability to function independently. The need for this care often arises when physical or mental impairments prevent one from performing certain basic activities, such as feeding oneself, bathing, dressing, transferring, and toileting.

Long-term care may be divided into three levels:

- Skilled care--Continuous "around-the-clock" care designed to treat a medical condition. This care is ordered by a physician and performed by skilled medical personnel, such as registered nurses or professional therapists. A treatment plan is drawn up.
- Intermediate care--Intermittent nursing and rehabilitative care provided by registered nurses, licensed practical nurses, and nurse's aides under the supervision of a physician.
- Custodial care--Care designed to assist one perform the activities of daily living (such as bathing, eating, and dressing). It can be provided by someone without professional medical skills, but is supervised by a physician.

Tip: *Note that the preceding terms may be defined differently by Medicare.*

How is LTCI useful as a protection planning tool?

The risk of contracting a chronic debilitating illness (and the resulting catastrophic medical bills incurred) is considered by many to be one type of risk best transferred to an insurance company through the purchase of LTCI.

A number of factors can increase your risk of requiring long-term care in the future. Naturally, your health status affects your likelihood of incurring a long stay in a nursing home. Indeed, people with chronic or degenerative medical conditions (such as rheumatoid arthritis, Alzheimer's disease, or Parkinson's disease) are more likely than the average person to require long-term nursing care. And because women usually outlive the men in their lives (if any), females stand a greater chance of requiring long-term nursing care. However, if you already have a primary caregiver (like a spouse or child), your likelihood of needing a long stay in a nursing home will be less--particularly if you're a man. Because the cost of long-term care can be astronomical and may exhaust your life savings, purchasing LTCI should be considered as part of your overall asset protection strategy.

Example(s): *Irene is a 75-year-old widow with two children, Donald and Maria. Irene owns her condominium apartment and has $200,000 in liquid assets. After enjoying independence much of her life, Irene suffers a stroke and now needs help with such things as bathing, dressing, and eating. Donald and Maria look into home health care and discover that it will cost $1,500 per week (or $78,000 per year). The money that Irene had hoped to pass on to her children will instead be spent on expenses that may otherwise have been covered by an LTCI policy.*

Tip: *Bear in mind, also, that purchasing an LTCI policy while you are still healthy helps you to maintain control over your assets until such time as you actually require care. This stands in contrast to most Medicaid planning tools. Medicaid planning can also enable your nursing home bills to be subsidized by a third party (the state); however, it often involves transferring your assets promptly to avoid Medicaid penalties. With LTCI, there is no need for you to divest yourself of assets years ahead of time.*

If you transfer some of your assets to your children while your LTCI is paying your nursing home bills, will you be subject to any penalties?

This depends on a number of factors, including the duration of benefits you selected in your LTCI policy. As mentioned, LTCI can be employed as part of your overall Medicaid planning strategy if your goal is to qualify for Medicaid at some point. If you are very wealthy and have no intention of ever applying for Medicaid, transferring your assets will make no difference. If you do envision receiving Medicaid assistance with your nursing home bills at some point, however, then transferring your assets within a few years of the time you apply for Medicaid could pose a real problem.

In general, if you transfer certain assets for less than fair market value within what's known as the look-back period, the state presumes that the transfer was made solely to qualify you for Medicaid. Therefore, the state will impose a waiting period or period of ineligibility upon you before you can start to collect Medicaid benefits. Purchasing an LTCI policy allows you to transfer your assets to your loved ones after you enter a nursing home. If you select the proper duration of benefits provisions in your policy, your LTCI policy should cover your nursing home bills during the ineligibility period caused by the transfer. Thus, you can give your assets away, enjoy paid nursing home bills during the ineligibility period, and qualify for Medicaid when the insurance policy runs out.

Example(s): *Marge is a 75-year-old widow who purchased a five-year LTCI policy a few years ago. Marge enters a nursing home, which charges $5,000 per month. At the same time, she transfers all of her assets (worth $250,000) to an irrevocable trust to qualify for Medicaid when the insurance benefits run out.*

Example(s): *Transferring certain assets into an irrevocable trust within 60 months of applying for Medicaid creates a waiting period or period of ineligibility for Medicaid, based on a formula. In Marge's case, the applicable waiting period would be 50 months (the amount she transferred divided by the cost of care in her area). Marge has no funds left to pay for her care, and Medicaid won't kick in until the 50 months have elapsed. Fortunately, Marge's LTCI policy will cover her nursing home bills during the ineligibility period. And, when her insurance benefits run out five years from now, she will qualify for Medicaid.*

Tip: *The Deficit Reduction Act of 2005 gave all states the option of enacting long-term care partnership programs that combine private LTCI with Medicaid coverage. Partnership programs enable individuals to pay for long-term care and preserve some of their wealth. Although state programs vary, individuals who purchase partnership-approved LTCI policies, then exhaust policy benefits on long-term care services, will generally qualify for Medicaid without having to first spend down all or part of their assets (assuming they meet income and other eligibility requirements). Although partnership programs are currently available in just a few states, it's likely that many more states will offer them in the future.*

When can it be used?

You anticipate the need for long-term care, you wish to protect your assets for your loved ones, and you can afford to pay the premiums.

When buying an LTCI policy, you must consider not only whether you can afford to pay the premiums now, but also whether you'll be able to continue paying premiums in the future, when your income may be substantially decreased. Overall, however, purchasing LTCI is a wise move for older Americans who are financially comfortable (or who are at least able to afford the premiums), who wish to maintain control over assets for as long as possible, and who'd rather give away houses and other assets to loved ones.

Strengths

Subsidizes nursing home bills

Aging is inevitable, and the gradual inability to function independently is a great concern for many people. Although the prospect of entering a nursing home is a daunting one, equally frightening is the expense of nursing home care.

Purchasing an LTCI policy can give you some peace of mind; it's comforting to know that at least some of the cost of the first few years of nursing home care will be paid for. Moreover, because nursing homes may limit the number of beds available to Medicaid patients, you may have a wider choice of facilities if you're covered by LTCI than if you had to rely on Medicaid to pay for your care.

Allows you to protect your assets

Purchasing an LTCI policy allows you to transfer your assets to your loved ones after you enter a nursing home. The policy should cover your nursing home bills during the Medicaid ineligibility period caused by the transfer. Without such a policy, you'd either have to transfer your assets years before entering a nursing home or else deplete some of your assets by private-paying the nursing home during the period of Medicaid ineligibility caused by your late transfer of assets. The LTCI policy allows you to preserve your assets for your loved ones instead of spending them on nursing home bills.

Tradeoffs

May be expensive

The cost of LTCI varies depending on your age, the benefits you choose, the insurer, and other factors. When buying an LTCI policy, you must consider not only whether you can afford to pay the premium now, but also whether you'll be able to continue paying premiums in the future (when your income may be substantially decreased).

Risk is involved

Paying insurance premiums each year in the expectation that you might (at some future time) require nursing home care is a risky move. There is always the possibility that you will remain healthy and able to function independently as you grow older. The money you pay out in premiums is money that you cannot give to your children or other loved ones, so be aware of the tradeoff.

May not be necessary if you'll qualify for Medicaid

If you have modest resources, very likely, you can qualify for Medicaid by spending down some assets and/or engaging in a little Medicaid planning a few years ahead of time. That way, you'll be able to avoid paying the high cost of premiums over a number of years.

How to do it

If you are interested in purchasing LTCI, there are a couple of steps you should follow:

Compare policies and check the financial security of the companies you're reviewing

You can determine the financial security of a company by reviewing its A. M. Best's rating along with the ratings of other services, such as Moody's or Standard & Poor's, at your local library. You should select a company that has received a rating of A or A+ from A. M. Best.

Review the policy's provisions carefully to ensure that it offers the features you require

There are a number of factors you should be concerned about, such as inflation protection, a full range of care (including home health care), and exclusions for pre-existing conditions.

Tax considerations

Income tax

Benefits you receive from a "qualified" LTCI policy are not taxable to you as income and are treated as excludable benefits received for personal injury and sickness to the extent that such benefits do not exceed a per diem limitation. However, benefits received from a policy that is not a tax-qualified one might be taxable as income.

Deductibility

Federal law allows you to deduct all or part of the premium paid for a tax-qualified (LTCI) contract. A portion of your LTCI premium should be added to your other deductible medical expenses. To claim a tax deduction, the total of your medical expenses must exceed 10 percent of your adjusted gross income.

Caution: *Not all long-term care contracts are tax-qualified--your policy must meet certain federal standards.*

What to Avoid When Buying a Long-Term Care Insurance Policy

Avoid these	Here's why
Non-tax-qualified policies	Tax-qualified policies provide tax benefits. Moreover, certain minimum standards are required of tax-qualified policies.
Gatekeepers (e.g., a hospital admission) prior to a claim for benefits	Gatekeepers make it more difficult to claim benefits.
Claims-made policies	A policy is issued now, but your application is evaluated at claim time--when you can be denied coverage.
Care facility restrictions	These provisions limit care to home care or nursing home care, rather than including all types of facilities.
Pre-existing condition exclusions	These exclusions limit care for a specified period of time for medical conditions that exist before the purchase of the policy.
Mental or emotional disorder exclusions	These exclusions deny claims for illness without an organic disease, except for Alzheimer's disease.
Requirement that more than two activities of daily living (ADLs) can't be performed before you qualify for benefits	Inability to perform just two ADLs means that benefits from the policy are probably needed.
Insurance companies that are poorly rated, or companies that generate excessive consumer complaints.	When the benefits of the policy are needed, you want to make sure that they are available. Research ratings services and call your state's insurance division before you buy your policy.

Comparing Long-Term Care Insurance Policies

Because long-term care insurance (LTCI) is a relatively new product, policies are not standardized. This can make it especially difficult to compare policies when you're shopping for this type of insurance. However, comparing LTCI policies is a lot easier when you know what to look for and follow a few simple guidelines.

Compare insurance companies

One of your first steps should be to compare and evaluate insurance companies. But since there are many companies that sell LTCI, how do you narrow the field down to a few good ones? You can start by talking to friends, family members, or anyone else you know who's bought LTCI. How satisfied have these people been with their companies' handling of claims and overall customer service? To learn more about company reputations, check out consumer websites and publications. You can also contact your state's insurance department for information about different companies, such as customer complaints lodged within the last year.

In addition, there are private firms that make a business of rating insurance companies, usually on a letter-grade scale. Some of the well-known rating service firms are A. M. Best, Moody's, The Street.com (formerly Weiss), Fitch, and Standard& Poor's. You can contact one of these firms directly, though their ratings may be available at your local public library. The ratings are typically based on a company's financial strength and other factors. Financial strength is particularly important because it tells you whether a company is likely to meet its future claims payments and other obligations.

Compare policy ins and outs

As mentioned, there is no standard LTCI policy or contract--specific benefits and features often vary widely from one policy to another. That's why detailed policy comparisons are more important with LTCI than with any other type of insurance. Once you've narrowed your list of insurance companies down to a few (e.g., three or four), ask each company for some sample policies to review. Each sample should include an Outline of Coverage section at the beginning of the policy. This section briefly summarizes the policy's benefits and highlights the major features. After you read this section, read through the entire policy to make sure you understand all of the provisions. Here are some key items to look for:

- Waiting period: This is the period of time that must pass before the insurance company will begin to pay benefits. It can be anywhere from 0 to 365 days. You'll be asked to select a waiting period--the shorter the period, the more the policy will cost.
- Duration of benefits (known as the benefit period): You'll also be asked to select a benefit period (e.g., two years or a lifetime)--the longer the period, the more costly the policy. Watch out for caps placed on the total lifetime benefits you can receive if the policy lets you carry over unused daily benefits beyond the scheduled benefit period.

- Nursing home and home health-care daily benefit: This is the amount of coverage you select as your daily benefit limit (e.g., $50, $200).
- Cost-of-living rider: This feature provides protection against loss of purchasing power due to inflation. It increases your coverage every year to keep pace with inflation (either based on the Consumer Price Index or at a fixed percentage rate).
- Range of care: A policy may provide coverage for different levels of care, such as skilled, intermediate, and/or custodial. A good policy should cover all levels of care.
- Pre-existing conditions: A waiting period (e.g., six months) may be imposed before you can receive coverage for any pre-existing conditions you might have.
- Other exclusions: Some policies may not cover certain medical conditions (e.g., Alzheimer's or Parkinson's disease). Others may specify that you have to be in certain types of facilities.
- Premium increases: Some policies may have a level premium for the period that the policy is in effect. In other cases, the premium may increase during the policy period.
- Waiver of premium: Most policies waive your premium after you've received benefits for a certain number of days, but sometimes only if you're receiving care in certain types of facilities.
- Guaranteed renewability: Most policies give you the option to renew the policy and maintain your coverage, despite any changes in your health.
- Grace period: Most policies give you a grace period if you're late with a premium payment (usually 30 days). This means that the policy will remain in effect during that period.
- Restoration of benefits: This is a feature that restores your benefits if you recover from your condition and do not require care for a consecutive period (e.g., 180 or 365 days).
- Return of premium: You may be entitled to a return of premiums paid (or a nonforfeiture of benefits or a continuation of benefits for a limited period of time) if you cancel your policy after paying premiums for a number of years.
- Prior hospitalization: Some policies require a hospital stay before you can qualify for benefits under the policy. This requirement is less common than it used to be, and you should probably avoid policies that include this provision.

How do the policies you're considering stack up against each other? Which benefits and features mean the most to you? How much can you customize each policy to your needs? These are very important questions. Knowing how to evaluate LTCI coverage in light of your own needs is the key to comparing and weeding out policies. Your final list of policies should include only ones that can offer exactly what you're looking for.

Compare premiums

Because LTCI policies vary so much, simple premium comparisons usually don't provide useful results. You run the risk of comparing premiums for policies that don't provide comparable coverage. For example, suppose you're comparing two LTCI policies with different premiums. If the more expensive policy has a larger daily benefit and longer benefit period, it may be difficult to tell which policy is the better buy. Variations in the length of the elimination period and other features may further muddy the waters. The point is that you want a policy that gives you the best total value, and the premium is only one part of the equation.

Still, the premium is important because you don't want to pay more for coverage than you have to. And you want to be sure you can afford the premiums as time goes on. Once you know your coverage needs and find a few policies that offer a good fit, you should then compare premiums. The price of an LTCI policy typically depends on the specifics of the coverage, your age at the time you buy the policy (most companies won't sell you a policy if you're under 40 or over 84), your medical history, the cost of long-term care where you live, and other factors. Note that premiums may vary widely between companies, even for policies that provide comparable coverage. The more similar the policies you're comparing, the more the premium will tell you about a policy's true value.

Consider getting help

Because LTCI is complicated, comparing and evaluating policies is no easy task. You can do it alone if you choose, but you're probably better off getting professional help. A qualified insurance professional, or financial professional can assist you with this entire process. To find the right person to help you, seek word-of-mouth references and be very selective.

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