

## **L O N G - T E R M**

## **c a r e**

## What You Need to Know

### **Questions & Answers Regarding Long Term Care Insurance**

**Long term care will be one of the costliest expenses relative to other experiences in your life. It is estimated that 40% of the population, over 65 years old, will need some form of care in an assisted living facility or nursing home in their lifetime. The average length of stay is two to three years, at an average cost of \$50,000 per year.**

**Given these staggering statistics, more and more of the population will be purchasing long term care insurance. This guide is intended to answer the basic questions related to long term care insurance.**

#### **What is Long-Term Care Insurance?**

Long Term Care Insurance is intended to help individuals pay for care while protecting their assets from the high cost of long-term care services.

#### **Won't Medicare, my Health Plan, or Medicaid pay for long term care?**

It may, but it is usually very limited. Medicare and health insurance programs are designed to pay for medically necessary care related to hospital stays. Skilled care services may be covered with limited benefits if qualifying criteria are met. In most cases, they will not pay for most long-term care services.

Medicaid is funded by both federal and state government and is designed to provide care to individuals who are indigent or have limited resources. Medicaid is usually the option of last resort and requires the spend-down of assets to certain levels specified by the state.

#### **What will Long Term Care Insurance cost?**

Costs can range from \$500 and up per year. The average premiums, throughout the industry, will range from approximately \$1,000 to \$1,500 per person per year. Keep in mind that the older you are when you purchase long term care insurance, the higher the cost.

#### **How do Long Term Care Insurance policies pay?**

There are two types of policies available, either expense incurred (reimbursement) or indemnity:

- Expense incurred (reimbursement) policies will pay the incurred expenses up to the maximum benefit level purchased;
- Indemnity policies will pay the benefit level purchased even if the expense incurred is less.

## **What do the Long Term Care Insurance policies cover?**

Most of today's policies are very comprehensive insurance plans covering all levels of care. Levels of care include Skilled, Intermediate and Custodial (please refer to the Glossary of Terms for further definitions).

## **Where can I receive long term care services?**

Care can be provided in many settings ranging from your home, assisted living facilities and full nursing home care.

## **What should I look for in a policy – things to consider?**

### 1. Is the policy a Tax Qualified or Non-Tax Qualified Plan?

Tax Qualified Plans are treated like any other medical insurance expense for deduction of the premiums from your federal income tax filings, whether you are an individual or business. While a Non-Tax Qualified Plan cannot be deducted, there is uncertainty whether confusion the benefits received are taxable. As you read below, there will be some benefit differences that should be evaluated prior to purchasing a plan.

### 2. How are the benefit triggers defined? In a Tax Qualified plan, triggers "a" or "b" will qualify you, while under a Non-Tax Qualified trigger "c" applies.

Triggers are defined as:

- Activities of Daily Living- when you need assistance with two out of six activities out of daily living (i.e. bathing, dressing, eating, toileting, transferring and continence) or
- Cognitive Impairment (i.e. Alzheimer's, Senility, Dementia)- some plans exclude mental conditions without organic origin. However, all plans today must cover Alzheimer's and those conditions related to aging.
- Medical Necessity (available only on Non-Tax Qualified plans) which allows a doctor to determine the need for care independent of the other two triggers.

While most plans may look the same, it is important to determine how the carrier defines assistance – is it Hands-On only or will it cover both Hands-On or Stand-By assistance?

Hands-On only definitions are more restrictive because a person must reach the point of physically needing help vs. someone standing by to assist if necessary.

This is only a general overview. Policies need to be examined in detail before you purchase.

### 3. Will the policies cover services beyond physical care?

While policies will pay for all levels of care (Skilled, Intermediate and Custodial) in the home, homemaker services are the most basic in nature (i.e. cooking, cleaning, shopping) and can be the most important to the person who is trying to remain at home. You will also want to determine at what level the policy will pay for home care services.

4. Is inflation protection within a policy important?

Inflation protection is vital to any insurance program because it will increase the benefits you have chosen and typically comes in three forms; Compound Inflation, Simple Inflation or Cost of Living Inflation (COLI).

Compound Inflation and Simple Inflation are the most common and the amount of the benefit is usually increased five percent (5%) per year. Simple Inflation will increase from the initial base amount while Compound Inflation increases on the new amount each year. Compound Inflation is an important benefit for individuals under 70 years of age (some exceptions may apply), while Simple Inflation is more common above for those over 70.

COLI allows the opportunity to purchase additional benefits, in the future, which are guaranteed but the cost will be at your current age. This benefit is the least expensive type of inflation protection in the beginning, however it can become very costly as you age and purchase additional benefits

You may also opt for no inflation protection. However, keep in mind, the cost of care is likely to continue to rise on a yearly basis.

5. Will policies pay non-licensed caregivers?

Some plans will provide benefits for caregivers that are not formally licensed: a trusted friend, neighbor and sometimes even family.

6. Will policies pay for medical equipment in the home?

Many plans will pay for equipment in the home: medical alert systems, medication dispensing and other similar types of equipment may be covered.

7. What is an Alternate Plan of Care?

Alternate Plans of Care will allow the claimant to receive care or services that are not specifically written into the contract but can be agreed upon by you, your doctor and the carrier.

Home modifications (i.e. ramps, bars, stairs, or elevators) may be covered under this area. It will be important to evaluate how the carrier will pay for home modifications and to what extent they will pay for this type of service.

8. Other important areas to evaluate:

Care Management is provided to help families make decisions as to what type and where care is needed. It is important to evaluate how the insurer administers, is it mandatory or only recommendations given by the carrier?

Bed Reservation, which will hold an empty bed while you are away, is included in many plans. Some plans will allow payment for any absence such as visiting family for a holiday.

Elimination Periods are a deductible at the time you need services. You have many choices ranging from no deductible to 20,30,60,90,180 & 365 days of Elimination Period. These options must be evaluated carefully.

Benefit Riders are available by most companies and will vary greatly. These riders typically enhance the standard but will add costs to the premium.

#### 9. What about exclusions?

Most insurance contracts have exclusions. Take time to understand how the exclusions in a contract may affect you.

### **Do some companies sell policies as to where you receive care?**

Yes! Some Long Term Care Insurance Policies cover all levels of care in all settings including your home.

A Facility Only contract will cover care only in a facility setting.

A Home Health Care policy will cover you only at home.

These types of policies need to be carefully considered.

### **What else should I look for in a company Long Term Care Insurance?**

Be sure to evaluate the stability of the carrier through rating agencies (such as A.M. Best) that evaluate each carrier. You can request a copy of these ratings from the carrier.

It is also important to find out how long the carrier has been marketing their Long Term Care Insurance program. Have they entered and stayed in this business? Have they been in marketing products for more than five years? Ten years?

### **How do I know if Long Term Care Insurance is right for me?**

There is no right answer for this as everyone has a different situation.

*For further definitions of the terms used in this document, please refer to the "Glossary of Terms" available on the Chamber's website, <http://www.grandrapids.org/advocacy/healthcare-committee.htm>*