Private Long-Term Care Insurance: To Buy or Not to Buy?

A Special Report from United Seniors Health Council, a Program of The National Council on the Aging

United Seniors Health Council
A PROGRAM OF THE NATIONAL COUNCIL ON THE AGING

Many people today are concerned about the high costs of long-term care. Long-term care services help people who have difficulty performing ordinary activities of daily living (ADLs) such as bathing, dressing, or eating, or who need supervision due to a mental impairment such as Alzheimer's disease. The most expensive form of long-term care is provided in a nursing home. However, families can also face substantial bills paying for help at home, in an assisted living facility, or in community settings like an adult day service center.

Medicare, Medigap, and regular health insurance do not cover long-term care. Medicaid primarily subsidizes nursing home care for older people with low incomes or who have exhausted their financial resources to pay for long-term care. Medicaid coverage is limited for seniors who need help to stay at home or in the community, and services it covers vary by state. Medicare generally covers only a short nursing home stay, only under certain conditions.

One option for covering long-term care expenses is private long-term care insurance. This type of insurance may be available to retirees through their former employer or can be purchased from numerous insurance companies. Using insurance to protect yourself from devastating long-term care costs sounds good, but does it make sense for you and how can you tell? This Special Report raises important questions for you to answer if you are considering private long-term care insurance and offers help in selecting an appropriate policy.

What Are Your Chances of Needing Long-Term Care?

- At least 6.4 million people aged 65 or older need long-term care, with one in two over the age of 85 requiring such care.
- One in 10 persons over 65 and nearly half of those over 85 have Alzheimer's disease.

Long-Term Care Financing: What Are Your Options?

Home Equity Conversion (Reverse Mortgage)

Homeowners age 62 and older who want to receive help at home may consider tapping into the equity in their home. The amount of money you can borrow depends on your age, your home, interest rates, and the reverse mortgage program you select. This is an important option for those who cannot afford private insurance or are uninsurable because they already have a chronic illness or disability. You do not have to repay the loan as long as you live in your home.

Medicaid

Eligibility rules vary from state to state, but beneficiaries are generally required to "spend down" their incomes and assets to qualify for Medicaid, a welfare program of medical assistance jointly financed by state and federal governments. Spend down refers to the process of applying, when applicable, incurred medical expenses to reduce an individual's income and assets to a state-prescribed level for purposes of becoming eligible for Medicaid. Nursing homes cannot discriminate against Medicaid patients, but they do not have to accept new residents once the required percentage of Medicaid beds is filled. Some nursing homes do not participate in the Medicaid program and therefore do not accept Medicaid clients. Home and community coverage under Medicaid varies widely from state to state.

Self-Funding

Paying out-of-pocket is a gamble. Self-funding long-term care is primarily an option for wealthy people with substantial liquid assets, who are not concerned about preserving these assets.

New Income Sources

Planning ahead can help you generate additional income to fund long-term care. If you are retired and still healthy, you might want to get a part-time job. If you are currently working, you might work a few years longer than you had planned. If space permits you could consider renting out a spare room in your home. You could also sell your current home and use some of the proceeds to purchase an annuity or other income producing investments. These options enable you to put aside a nest egg specifically for future long-term care needs or to pay for private insurance. You can check the fast, free and confidential BenefitsCheckUp® on the Web (www.benefitscheckup.org) to find out about federal and state programs that can help you stretch your resources.

Long-Term Care Insurance

Older people usually give the following reasons for buying long-term care insurance:

- To avoid being a burden on others
- To maintain their financial independence
- To maximize their choice of services, and stay at home as long as possible
- To preserve their assets for their spouse and heirs
- To ensure peace of mind.

Long-term care insurance may not be appropriate for people of limited means who would quickly qualify for Medicaid in any event.

Plan early. The older you are when you apply, the higher the premium will be, and if you have already developed a disability or severe illness you may not be insurable. Private long-term care insurance may be the right choice for you, but you need to consider all of the prior options to determine whether any of these alternatives may make the most sense in your situation.

Can You Afford Long-Term Care Insurance?

Premiums for long-term care insurance vary greatly among companies. Premiums are based on your age at time of application, the benefits you select, and the number of years you want a company to pay benefits. Discounts may be available if you are in good health, are married, or buy a policy through your employer. Based upon experience counseling seniors, United Seniors Health Council (USHC) suggests that in most cases consumers should:

- Be able to pay premiums without adversely affecting your lifestyle.
- Be able to absorb possible increases in premiums without financial difficulty.
- Have annual retirement income of at least $25,000-$35,000 or for a couple at least $35,000- $50,000. This is a national average and may be high or low depending upon costs where you live or plan to live.
- Own assets of at least $75,000 (excluding home and automobile).

It is important to remember that each situation is unique, and that the income and asset minimums are only guidelines and should not be treated as absolute. For example, long-term care insurance might be appropriate for a person with modest means if a relative wishes to pay the premiums.

Long-Term Care Insurance Policy Annual Cost

The premiums quoted at right assume a $100/day benefit with 5% compounding inflation protection; 90 or 100-day elimination period; two years to unlimited benefit length; and with or without marital discount. The $100/day benefit is for illustrative purpose only. The national average cost for a nursing home was $181.24 /day in 2003 for a private room (MetLife Mature Market Institute).

Age	Basic Coverage Facility-Only	Comprehensive Coverage Facility and Community-Based Care
	Premium Range	***Premium Range***
55	$ 450 to $1,100	$ 580 to $1,400
65	$ 920 to $2,200	$1,000 to $2,650
75	$2,000 to $5,800	$2,200 to $6,000

Source: N. P. Morith, Inc. (www.npmorithinc.com)

Some Key Points To Consider in Choosing A Policy

Types of Services Covered

You can select a policy to deal with a specific concern, such as nursing home care, or a comprehensive policy to cover a full range of services. These services include home care, care provided at an adult day center, care provided at an assisted living facility, nursing home and hospice. Pay particular attention to coverage for assisted living facilities to be sure that basic costs of room and board are properly covered (many offer services a la carte.) Choosing a policy with flexible benefits will give you wider options should your health require more care than can be managed at home.

Daily Maximum Benefit

The daily maximum benefit is the limit up to which covered expenses will be reimbursed. Most long-term care insurance policies are structured to pay a maximum dollar amount of care per day, also known as a "daily maximum." You choose your daily amount when you purchase the policy and it is very important that you choose it wisely. You do not need to insure the full cost of care. In order to keep premiums down you could plan to pay some of the cost yourself.

Benefit Length

Keep in mind that the chances of needing long-term care for more than five years are relatively small. For most people, a policy covering three to five years will be more cost-effective. If, however, your primary concern is protection if you get Alzheimer's disease, which can last a long time, you should consider the more costly option of lifetime coverage.

Eligibility for Benefits/ Benefit Triggers

All policies contain provisions that determine if and when benefits are payable. The provisions companies use to determine benefits are sometimes called "benefit triggers." Benefits are triggered when a policyholder needs help to perform ADLs or due to a mental impairment such as Alzheimer's disease. Typically benefits are payable when a person is unable to perform a certain number of the ADLs, such as two out of five.

Inflation Protection

If you purchase a policy before the age of 75, inflation protection is essential to ensure that you have adequate coverage several years from now. This protection is intended to keep pace with the cost of inflation. USHC recommends policies that automatically increase benefits at the rate of 5% annually. Compounded inflation protection is recommended for people applying who are at least 65, but for people applying at age 75 and beyond, then simple inflation or higher coverage amounts would also be appropriate. This protection increases the costs of the policy but gives you coverage that will mean something when you need it. In order to afford this protection you may need to choose a shorter benefit length policy.

Tax Treatment

Policies issued after January 1, 1997, which provide tax incentives, are classified as "Tax-Qualified Policies" (TQ), and those without any tax incentives are classified as "Non Tax-Qualified Policies" (NTQ). Premiums for "TQ" policies may be included as a medical expense if you itemize your deductions, and if your medical expenses exceed 7 1/2% of your adjusted gross income, the excess is deductible. There are maximum premium allowances based upon age. Policy benefit payments, when received, are free from federal income tax. Premiums for "NTQ" cannot be deducted as a medical expense and it is unclear if benefits received will or will not be taxable. Most policies issued before 1997 are considered "Tax Qualified Policies."

How Do You Choose the Right Insurer?

Please note, we did not say: the right policy. No matter how good a policy sounds, it's worth little or nothing if the company cannot stand behind it. Think of long-term care insurance as you would think of a long-term financial investment.

Consumers should only buy from companies that:

1) Have strong financial reserves and are likely to be financially sound far into the future;
2) Have a history of stable rates for their policies;
3) Are well-known and have an excellent reputation;
4) Have a good track record for customer service and few reported consumer complaints.

Although there is no foolproof method for assessing a company's financial strength, a useful measure is the company's rating by independent rating services, such as Weiss Ratings, Inc., Standard and Poor's, A.M. Best and Moody's. Many public libraries have this information. However, your agent should be able to show you the recommended insurance company's rating. Remember to ask for the rating and its meaning before purchasing a policy. Also ask to see the company's rate history for the past ten years on policies it offers. In addition, many state insurance departments maintain records of complaints against specific companies that are available for public review.

Please note: This special report was prepared to help consumers determine the appropriateness of long-term care insurance for their situation. Only the key points to consider in choosing a policy are discussed. There are additional considerations that go into the final selection of a policy.

Consumer Tips

Seek expert advice and recommendations from consumer organizations, government funded agencies and professionals (insurance agents/brokers/counselors and financial planners), that have specialized training in long-term care and other related subjects.

- Ask to see the Outline of Coverage or, even better, a sample policy. Do not rely on marketing literature alone.
- Compare more than one policy from different companies. Consider any specific features that may be of value to you.
- Become more informed on the subject by reading publications described under resources listed on the next page.

Private Long-Term Care Insurance: To Buy or Not To Buy?

Here is a summary of some of the main points for and against purchasing such coverage. Decide for yourself!

Five Reasons To Buy

1. To protect your assets against long-term care expenses.
2. To retain independence, without relying on family or friends for financial support or care needs.
3. To protect the ability to choose where and how long-term care services are received.
4. To avoid using Medicaid for your long-term care needs.
5. To maintain peace of mind that you have coverage for possible future expenses for yourself and your spouse or partner.

Five Reasons Not To Buy

1. You do not meet USHC's recommended purchasing guidelines, appropriate to where you live.
2. Other financing options for long-term care expenses are more appropriate to your situation.
3. Due to your health status, long-term care insurance is unavailable.
4. Due to your age (80 or older), long-term care insurance is extremely expensive.
5. You have no heirs and are willing to take the chance that all your assets could be needed for long-term care.

Publication of this report was funded in part by an unrestricted educational grant from the American Council of Life Insurers. The opinions expressed here are solely those of United Seniors Health Council, a program of the National Council on the Aging. We gratefully acknowledge John Cutler, Joseph Scinto, Barbara Stucki, Nancy Morith and Charles Mondin for their efforts in preparing this report.

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Resources

American Council of Life Insurers (www.acli.com)
ACLI expands awareness of how the products offered by life insurers help Americans plan for and achieve financial and retirement security. You may download from their Web site a booklet called "Long-Term Care Insurance: Protection for Your Future" or call 1-800-589-2254 for a free copy.

American Health Care Association (www.ahca.org)
Publishes "What Consumers Need to Know About Long-Term Care Insurance."

Association of Health Insurance Advisors (www.naifa.org)
Provides a list of professional member agents allowing consumers to search for local agents by typing in their zip code.

Health Insurance Association of America (www.hiaa.org)
Publishes "Long-Term Care (LTC) Insurance Directory" that contains a list of companies selling long-term care insurance.

Long Term Care Insurance Educational Foundation (www.ltcedfoundation.org)
Sponsors an annual conference that provides a non-partisan forum for educating attendees about the evolving long-term care insurance marketplace.

National Association of Insurance Commissioners (www.naic.org)
Publishers of "A Shopper's Guide to Long-Term Care Insurance". Contact your state insurance department for a free copy.

State Health Insurance Assistance Program (www.medicare.gov)
Free health insurance counseling is available in your community. To find the location nearest you call 1-800-MEDICARE.

BenefitsCheckUp (www.benefitscheckup.org)
A free and confidential web-based service to assist you in finding out about federal and state programs that can help you stretch your resources.

United Seniors Health Council (USHC)
A Program of The National Council on the Aging (www.ncoa.org).
McGraw-Hill publishes USHC's "Planning for Long-Term Care", a 150 page book that is available from your bookseller or may be ordered by sending a check payable to NCOA for $19.50 (includes postage and handling) to NCOA Publications Department, PO Box 75556, Baltimore, MD 21275-5556 or by calling 1-800-373-4906 with a VISA, MasterCard or American Express credit card.

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