

Financial Information

Understanding Long Term Care Insurance

Many Americans do not plan ahead financially for their long term care needs. Others wrongly assume that Medicare, Medicare supplemental policies or standard health insurance policies will cover the costs of long term care services provided in settings such as nursing facilities or assisted living residences. Consequently, many Americans are needlessly impoverished each year by the costs of long term care.

Long term care insurance is an excellent way to protect yourself from these expenses, and this brochure will help you through the important process of understanding and comparing long term care insurance policies. Finding a good policy will take some effort, but the effort will be worthwhile. To help you start, here are some steps to take when considering the purchase of long term care insurance:

- Talk to your financial planner or insurance agent about the advantages of long term care insurance in your particular situation.
- Investigate sources on your own at various websites.
- Call your state government's Office on Aging or Insurance Department for information.

After you narrow your search to a few companies or insurance agents, consider the following:

- Check with insurance rating services to make sure the insurance company you are considering is financially secure.
- Make sure the insurance agent is licensed to sell long term care insurance in your state.
- Review all the details and options of the policies. Do not rely solely on the marketing materials or outline of coverage.
- Make sure you understand all the provisions before you purchase any policy.
- Discuss policies with family members and others whose opinions you respect.
- Don't be pressured into making quick decisions.

Selecting the right long term care insurance policy will offer you and your family financial security, peace of mind and choice in care settings for the future.

When to Buy

Because long term care insurance premiums are based on age at the time of purchase, the younger you are when you purchase a policy, the less expensive it will be. Premiums for most policies stay level each year as you age (unless they are increased for all policyholders at once). If you buy at age 50, a typical policy may cost \$800 per year. However, if you wait until you are 65, the cost of the same policy could double.

Selecting a Company

More than 110 companies now offer long term care insurance products, according to the Health Insurance Association of America. Contact your state Insurance Commissioner's office for a list of companies authorized to sell long term care insurance in your state.

Investigate the financial health of any insurance company that you are considering. Look for ratings from insurance rating services, such as A.M. Best, Moody's or Standard & Poor's. The insurance company should be rated in one of the top two categories by at least two services and have no low ratings. You can find these rating services in the

reference section of your library, or call A.M. Best at 908-439-2200; Moody's at 212-553-0300; or Standard & Poor's at 212-438-2000.

Selecting a Policy

Long term care insurance may be sold directly to individuals or through an employer group or other organization.

With group policies, while you do not generally have a choice of companies, the advantage is that your organization likely searched for and selected a company and policy to offer you. However, you may have fewer choices in the amount of coverage and options in the policy.

The most important factor in selecting a policy is the set of conditions required to qualify for coverage. Buying a policy that covers long term care services will not help if you do not qualify for benefits. Many policies require a policyholder to have a cognitive or physical impairment to qualify for benefits.

Normally there are two methods of qualifying for benefits:

1. Cognitive Impairment – People who are cognitively impaired typically have Alzheimer's disease or other forms of dementia. A policy's definition of cognitive impairment should not refer to the activities of daily living (ADLs) since people with dementia usually can perform them.
2. Physical Impairment – People who have a physical impairment need assistance with the ADLs, such as eating, dressing, transferring (e.g., out of bed to a chair), bathing and taking medications. Policies differ in the number of impairments a person must have before they qualify for benefits.

Another important factor is who decides whether or not you qualify for benefits. This entity is often called a "gatekeeper." Most policies require a licensed health care practitioner to write a plan of care. Some insurance companies offer a care (or case) manager to determine if you qualify or continue to qualify for benefits.

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How Much Insurance to Buy

Long term care insurance policies pay a daily maximum amount for covered services. When you buy a policy, you decide the value of the daily maximum amount and the length of time your benefits will run. For example, if you buy a policy that pays up to \$100 per day for three years, the policy value is \$109,500, lifetime maximum.

Reminder: No policy guarantees to cover all costs of long term care without a limit.

Because most retirement income is fixed and may not keep pace with inflation, your ability to afford premiums may diminish. Buying too much insurance may mean that you cannot afford to pay the premium later. Knowing the following four components will help you determine how much insurance to buy:

- **Benefit Amount** – This is the daily maximum amount that a policy will pay each day.
- **Inflation Adjustment** – This is the increase of the benefit amount to cover the impact of inflation. Generally, companies offer a five percent inflation protection.
- **Benefit Period** – This is the time the policy will pay for covered services.
- **Deductible Period** – This is the number of days for covered services before the policy pays (also called "elimination period").

Covered Services

A good long term care policy will cover all levels of care in nursing facilities and other residential care settings, such as assisted living.

Under home care, most policies include the community services of adult day care, respite care (temporary overnight care to relieve family caregivers) and hospice care. Policies should cover personal care.

Assisted living residence services are either covered under home care or alternate care or may be a separate policy benefit. Some policies cover assisted living residences under nursing facility benefits. If you are interested in assisted living coverage, make sure you know how the policy handles this setting.

Services Not Covered

Like all insurance, long term care insurance policies contain limitations and exclusions. In general, long term care may not be covered if resulting from the following conditions:

- Alcohol and drug addiction;
- Illnesses caused by an act of war;
- Wounds resulting from intentionally self-inflicted injury, such as attempted suicide; and
- Treatment already paid for by the government.

All other conditions are generally covered after the policy is issued.

The Cost

The cost of a long term care insurance policy primarily depends on your age. The older you are when you purchase a policy, the higher your premium. For example, a typical premium for a 50-year-old person for a policy that covers a \$100 daily benefit, four years of coverage and includes a five percent compounded inflation protection, is about \$850 annually. This same policy for a 65-year-old is about \$1,800 annually; for a person aged 79, the cost is about \$5,500 annually.

You can control premium costs by controlling the policy amount and options you purchase. Higher daily benefits and optional features, such as inflation protection and nonforfeiture benefits, increase your premium. Studies of the cost of different long term care insurance policies show a three-fold difference from a low-option policy to a high-option policy in every age category. Some companies may not write long term care insurance policies for persons over 85.

Health Status

All insurance companies ask questions regarding your current health status and you should fully disclose your medical conditions. Many companies will medically underwrite the policy by asking you to complete a medical history form and to supply the name of your physician. If you are denied a policy, ask the company why it refused to insure you and consider an appeal. (The policy should explain how to file a complaint, where to get information from your insurance company and how to appeal a claim denial).

Additional Pointers

- Most companies target their policies to people who are reasonably healthy and at a relatively low risk of needing long term care in the near future.
- A good company asks detailed medical questions up front.
- Some companies are reluctant to sell to a person over 85, or may sell only a lower benefit policy.
- Some companies require a waiting period of up to six months for preexisting conditions.

Policy Review & Change

You should review the actual policy before buying. Your agent should be willing to leave a sample policy for you to review. After you buy, you usually have the right to review the policy for 30 days with an option to cancel for a full refund.

There might also be situations in which canceling an existing policy to buy a new one makes sense. You should carefully compare the increased premiums to the added benefits of the new policy. Remember that your premium is based on your age at the time you initially purchase a policy. Insurance companies introduce new products every few years. Be sure to ask your agent about the company's practices regarding policy upgrades.

Tax Initiatives and Consumer Protections

Since January 1, 1997, individuals have been able to include out-of-pocket expenses for long term care and long term care insurance premiums with their other itemized medical expenses on their annual federal income tax returns. Long term care and other medical expenses are deductible, to the extent that they exceed the federal government's 7.5 percent threshold of adjusted gross income. (Talk to your financial advisor to ensure that you are eligible for this deduction). The insurance benefits consumers receive, for the most part, will not be taxable as income. Note: All long term care policies issued before that date were grandfathered.

The amount of LTC insurance premium that may be treated as an annual medical expense for federal income tax purposes is limited according to the following table:

Age	Limitation
40 or less	\$200
41 to 50	\$375
51 to 60	\$750
61 to 70	\$2,000
71 and over	\$2,500

Benefits paid under a long term care insurance policy will not be treated as income for federal tax purposes - except that, for policies that pay a fixed sum per day of disability, amounts in excess of \$175 per day will be considered income. The \$175 daily limit will rise with inflation in future years. A number of states have also recognized the importance of long term care insurance by providing their own tax incentives.

Employer Deductions

Employers will have the option of deducting as a business expense the cost of establishing long term care insurance policies for employees, in addition to any contribution they make toward premiums.

Consumer Protections

Long term care policies sold after 1996 must meet the consumer protection standards in the law in order to qualify for favorable tax treatment. Some of these protections include:

- Early in the sales process, customers must receive a description of the policy's benefits as well as an explanation of the limitations of the policy, referred to as the "outline of coverage."
- Companies selling policies are prohibited from sales practices that mislead and pressure customers.
- Insurance companies must offer each purchaser the option of adding inflation protection to their long term care insurance policy.

In general, policies may not limit coverage based on medical conditions, accidents or type of treatment. However, in some cases, policies are permitted to deny coverage for preexisting conditions or diseases, alcoholism, drug addiction or nervous disorders (except Alzheimer's).

Note: A policy cannot exclude coverage for preexisting conditions for more than six months after the effective date of coverage.

Conclusion

Long term care insurance can protect your assets and inheritance for your family, give you greater choice in selecting long term care settings and provide you and your family with financial security. Remember to carefully consider how much insurance to buy and the options you need. There is no one best policy. However, with some research and discussion with your financial advisor and family, you will find a policy that affordably fits your present lifestyle and future needs.