An Introduction to Long Term Care Insurance

Baron Long Term Care Insurance

By Mark Baron, March 2014, (3rd edition)

Most of us will live a long life. Getting old increases the probability of becoming ill and needing care. There are also countless things that can go wrong before getting old that cause the need for long term care. When you need care, the consequences to your family and friends can be devastating; especially if it drags on and on for many years. And you are on the hook for the cost of that care. Long-term care isn't some sort of unlikely event that may or may not happen, that is worth gambling on. It's important to simply recognize that needing care later in life is a normal part of aging, and people should plan for that, just like they plan for retirement.

Unfortunately, there isn't a reliable system within our government or health insurance industry that you can count on to pay for ongoing long-term care where and when you want to receive it. A major effort by the federal government to launch a national long-term care insurance plan 2012, the CLASS ACT, failed in dramatic fashion, when it was repealed overwhelmingly by both Democrats and Republicans. Then is was killed altogether, so it could not be reintroduced in the future. It was one of the last major goals of Ted Kennedy's, and it had actually passed into law prior to being repealed. It became obvious that the program would never be able to sustain itself financially. The government clearly has no answer for this crisis.

If you want to stay in your own home and receive daily ongoing long term care services of your choosing, or if you want to choose an assisted living facility, it will likely come out of your retirement savings. This usually means your principal, which is meant to provide the income you are counting on for a secure retirement. Most people count on retirement savings for their retirement dreams, family, and legacy, but not for long term care costs. Even if you have enough money to pay for several years of care, your spouse could live on for several years with a reduced standard of living. Your children could bear the brunt of the caregiving while trying to juggle things with their own families, and they also may live far away. Long-term care for one family member usually affects the entire family.

Long-term care insurance doesn't replace all family involvement, but it can help them provide better care for a longer period. The insurance can be used exclusively, or just as a tool to subsidize family members who have other responsibilities. There is significant evidence showing that a healthy spouse can become ill trying to provide the care.

Care Coordination

Most policies give you the option to be provided with a care coordinator, to help put a plan of care in place, find caregivers in the area, help with claims, and oversee the entire process. You can't underestimate the importance of this benefit, because a care manager can make the entire difference in how smoothly the process can work for a family, and how easy it is to remain at home and receive care. Virtually all insurance policies pay for some level of care coordination. Some companies have no limit on how much this care coordinator is available to you. Even if the plan doesn't pay for full care coordination, any level of that will be a huge help. If you don't have long-term care insurance, it still makes sense to start the care process with the assistance of a care coordinator. It will always be money well-spent.

Understanding the Insurance

Long term care insurance can be simple, if you look at the big picture. You typically make choices on a daily or monthly limit, and also a pot of money that could last anywhere from two years to as much as ten years, or more, depending on how fast you spend the money. You can receive benefits whether you are home, or in a facility. There are several ways to acquire long-term care coverage. The most common types of plans purchased, in order of popularity, are: 1) Traditional long-term care plans, 2) Hybrid plans that combine rich long-term care coverage with a basic life insurance or annuity component, and 3) Permanent Life Insurance plans, that allow access to a portion of the death benefit for long-term care costs. Each of these plans have a place, and the important part is finding out which type is most suitable for you. These are discussed below.

You will qualify for benefits on these plans if your doctor or other licensed health care practitioner states that you need care for 90 days or more, with at least two of six specifically-defined activities of daily living. Separately, if you are simply **unsafe to be alone, due to cognitive issues**, such as Alzheimer's, you will qualify for benefits on just that issue alone.

The six main Activities of Daily Living are: **bathing, eating, dressing, transferring, toileting, and continence.** If you are in poor health to start with, qualifying for the insurance might be difficult. However, conditions such as high blood pressure, being overweight, asthma, depression, and well-controlled diabetes are not automatic disqualifiers.

How do the policies work?

If you need care that satisfies the triggers above, virtually all plans sold today will cover the cost of **home care, adult day care, assisted living, and nursing homes**. Most plans reimburse you for your actual costs, but some older plans, and a few that are still being sold, pay out a specific cash benefit, regardless of the actual costs. Plans usually include an elimination period to be satisfied before expenses start getting paid, similar to a deductible. You can choose how long that is, but shorter periods are more costly. Most people choose 90 days. There are variations in how these work, so make sure you understand that part.

How to decide what company is right?

First, you should consider companies that are rated significantly higher financially as a group, or maybe one that is more flexible with specific medical conditions you may have. Your health conditions are considered carefully when applying for coverage, and the industry has become much more strict on who they accept. Plenty of past medical conditions, such as cardiac, or cancer issues, don't necessarily exclude you from consideration. It depends on the history, severity, and combinations of conditions. Other things that affect the cost, and help you determine which company may rise to the top of your list, are marital/partner status, age, and gender. Long-term care insurance is regulated by each state's division of insurance, including the costs. An insurance agent is not able to negotiate costs; only find you the best plan.

It's important to consult an expert in long term care insurance to seek recommendations.

There is constant change in the industry, and there are many pitfalls to beware of, that a specialist can guide you through to help you identify the best choice. There is also a lot of misinformation out there. If your financial planner, accountant, or lawyer is being included in the decision making process, they really should have some knowledge about this. Or they should certainly take the time to learn from the long term care specialist. Many financial professionals regularly tap into a local long-term care specialist for help with their own clients.

Tax Implications

Most plans sold today are tax-qualified plans. This means that the plans must follow specific guidelines to have favorable tax status. Benefits that are paid to cover care usually won't be taxable to you, and there may be tax deductions for business owners who purchase the insurance through their business. Even non-business owners can use some of the money from a Health Saver Account to pay premiums for tax-qualified long term care plans. Some states have their own deductions or tax credits. You should consult your tax advisor to learn more about this.

Traditional Long-Term Care Insurance Plans

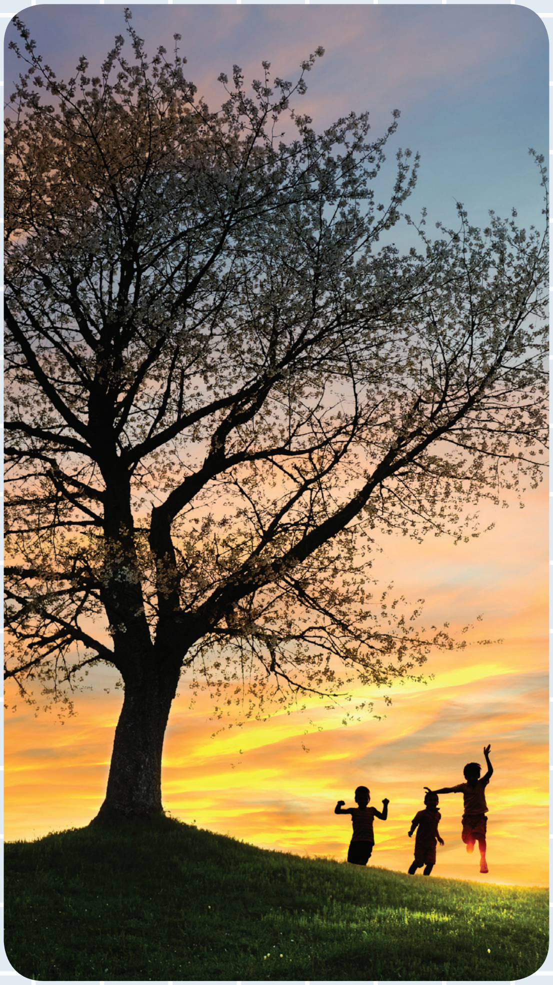
Traditional plans are paid like health insurance and do not have cash value. You pay premiums each year, and you typically stop paying premiums when you are receiving benefits. There may be a plan in your state that gives you the option to pay much higher premiums for 10 or 20 years, and then be paid-up for life. However, most paid-up options have been discontinued. There are many options (riders), but let's consider the most important choices to make first. These are the choices that need to be made before you look at riders. They are: Benefit Amount, Benefit Period, Inflation Growth, and Elimination Period.

- **Benefit amount** – depending on company, usually range from $50 to $500/day, or $1,500 to $15,000/month;

- **Benefit period** – usually between 2 years through 10; but it is actually specified as a dollar amount. The dollar amount is what really dictates how long the money will last. The number of years is only the minimum time, if you use up all the money by then. The plan will always last until the money is actually gone.

- **Inflation option(rider)** – Benefit growth, usually chosen is 3% compound, but there are several more choices;

- **Elimination period** – Deductible time period that you pay for your own care. 90 days is most popular, but some other choices are available, such as 30, 60 or 180.



Most Popular Optional Riders include:

- **Shared Benefit** – This is an option to share benefits together with a spouse/partner.

- **Joint Waiver of Premium**- Both spouses stop paying premiums if either spouse needs care.

- **Waiver of the Elimination Period for Home Care**- This rider allows home care to be paid on the very first day, without being required to satisfy the elimination period.

- **Calendar Day Elimination Period** - Some plans already include this. The elimination period is satisfied directly off the calendar, without any receipts for care required.

Other less commonly purchased riders can be discussed with your long-term care advisor. They might fit a specific need.

Combination Life/LTC, or Annuity/LTC

An alternative to traditional long term care insurance plans described above are those that combine life insurance or annuities with long term care benefits. There are several insurance carriers that offer such plans. It's very important to understand the distinction between this type of plan and a regular life insurance plan that offers long-term care acceleration of the death benefit. Combination plans, also known as Hybrid plans, are designed to be heavy in long-term care benefits, and not so much in life insurance death benefits. These plans typically have a guaranteed conservative life insurance death benefit that is paid if you pass away without using any long term care benefits, or they can operate just like a traditional long term care plan, with guaranteed benefits. Many of these plans include a feature that allows you to cancel the plan and receive a full refund of your premium. The premiums are most commonly made as a one-time single payment, although some plans allow you to pay in for 3-10 years. This may be an attractive option depending on your financial situation and personal preferences.

The key attraction of these plans is to provide solid long-term care coverage, while still being guaranteed that your money will be returned to you, one way or another. It will either be long-term care benefits, life insurance benefits, or you can cancel and get a full refund of your original premium. Some people have difficulty coming to terms with paying annual premiums on traditional long-term care plans for the rest of their life, concerned that they would lose the money if they passed away without needing care. Others view traditional long-term care plans as basic insurance, such as health insurance, and they are fine with that. It's a personal decision, based on your own concerns and financial situation. These plans have been popular in a low interest rate environment, because it doesn't cost much to park the money in a plan like this, for the type of benefits that are provided. **Annuity combination plans** are similar in many ways, but have the advantage of allowing 1035 exchanges from older annuities that may have significant taxable growth. If the annuity is used for long-term care expenses, taxes are avoided altogether.

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Life Insurance, with Long-Term Care Access Riders, or Accelerated Death Benefits

Many insurance companies offer long term care access riders that can tap into the existing death benefit on life insurance plans. In most cases, long-term care benefits are paid using the same qualifying triggers as traditional long-term care plans. However, some companies may require the condition to be chronic. If you have a recoverable condition from an accident, or cancer, it may not qualify for benefits. But that is less common. These plans are usually meant for life insurance first, and long-term care coverage second. There are some exceptions, but most life insurance plans with access to long-term care benefits don't have very rich extensions on the continuing long-term care benefits the way a combination or hybrid plan provides. Almost none of these LTC access riders offer any inflation growth on the monthly benefit limit. If someone really isn't shopping for life insurance, primarily concerned about long term care benefits, this is probably not the best solution. However, if you are in the market for considerable life insurance coverage anyway, adding long-term care benefits access could work well for you.

Waiting to Purchase LTC Insurance

If you have decided that you are interested in purchasing this insurance, it rarely ever makes financial sense to put off the purchase. The only reason to delay purchasing the insurance is if you aren't sure you want to buy it in the first place. Otherwise, it will always cost you much more over the long haul to delay the purchase, even if you saved in the beginning. Aging, benefit growth from inflation riders, and re-pricing of new policies all contribute to increasing costs to those who wait. Buying the insurance while you are healthy might even get you a better health rating that can be locked in for life. The worst thing to do is assume you can wait until you become ill or old before considering the insurance, because you may not even qualify for coverage.

What if I Can't Qualify Because of Health Issues

There are annuities that may double the payout if long term care is needed during the distribution period. There are life insurance plans that may provide some access for long-term care costs that only look at your health from a life insurance perspective. Veterans who saw active duty during wartime, and their spouses, likely have some benefits available that are not widely publicized.