

A CONSUMER GUIDE TO

Long-Term Care Insurance

Be secure and confident
in the decisions you make



Presented by The Insurance Marketplace Standards Association
(240) 497-2900



INSURANCE MARKETPLACE STANDARDS ASSOCIATION

*Committed to honesty,
integrity and ethics*

On a daily basis, 13 million people in the United States need assistance with personal maintenance, hygiene, eating, and basic household tasks, according to the Direct Care Alliance, a coalition of professional home health aides, certified nursing assistants and personal attendants.

Although most Americans are cared for at home by family members and friends, a 1998 study for the U.S. Centers for Medicare and Medicaid Services warned, “As the population ages and develops chronic illnesses, the need for long term care services, including nursing facility services, increases.”

THINK AHEAD

plan ask questions





make

informed decisions

- Over the next three decades, the U.S. population age 65 and older is expected to double, to 70 million, comprising 20 percent of the population by 2030.
 - The number of people aged 85 and older, the fastest growing segment of the older population, will reach nearly 9 million by 2030.
 - According to some estimates, 4 million Americans – one in 10 persons over the age of 65 and almost half of those more than 85 years old – suffer from Alzheimer’s disease, and an estimated 14 million Americans will have the disease by 2050 unless a cure or prevention is found. With half of all nursing home residents
- already experiencing some type of dementia, the need for long-term care will continue to increase as the number of persons with Alzheimer’s climbs.
- About 44 percent of Americans 65 and older will enter a nursing home at least once in their lifetime, and more than half of them will stay for at least a year, according to the National Association of Insurance Commissioners.

As you and your loved ones plan for the future, the following questions and answers may help you make more informed decisions.

MAKE SURE you cover your long-term care needs



What is long-term care?

It is care for someone who no longer can perform “activities of daily living” (ADLs) such as eating, bathing, toileting, dressing, moving between a chair and a bed, and remaining continent. Insurance companies generally use a certain number of ADLs or a cognitive impairment, such as Alzheimer’s or similar diseases, to determine when a person is eligible to receive benefits from a long-term care policy.

What does long-term care cost?

The national average cost of nursing home care in 2001 was \$56,000 a year, according to the U.S. Department of Labor, but nursing homes may cost nearly twice that amount in some regions of the country. This does not include the price of medication and therapies.

Home care, essentially bringing aides to your home 2-3 hours a day, three times a week, to assist with personal care and household chores, cost \$12,000 to \$16,000 annually in 2001, according to the National Association of Insurance Commissioners. Home

visits by physical therapists and other skilled professionals run much higher, as does round-the-clock care.

Won’t the government or my private health insurance pay for my long-term care needs? Can’t I pay for it myself?

Generally speaking, neither Medicare, nor private Medicare supplemental insurance, nor the health insurance policy your employer provides will pay for long-term care.

Medicaid, a government program for the low income, will pay for nursing home care and for some home and community-based services, but only for those who qualify. To receive Medicaid, you must have spent most of your assets. Federal law requires states to attempt to recover assets from an estate to compensate for Medicaid benefits received, though states vary in their approach. There are exceptions. For example, states cannot attempt to recover funds while a spouse or dependent child lives in the home. Also, federal law requires states to protect some income and assets of spouses.

Individuals and their families pay for about one-third of all nursing home costs out-of-pocket. Medicare pays for only about 12 percent of nursing home costs, and only for a short period of time, when a patient is recovering from acute illness or injury after a hospital stay. Medicare covers a limited amount of care at home and generally does not cover care in assisted living facilities.

In a 2000 study examining the ability of the elderly to pay for long-term care services, James R. Knickman and Emily Snell of the Robert Wood Johnson Foundation estimated that only 27 percent of older Americans had enough income and assets to pay costs estimated at \$150,000 for a three-year period. Another 28 percent of the elderly would exhaust their income and assets to pay for long-term care. An estimated 45 percent had such limited financial resources that they would need to rely on Medicaid.

What is long-term care insurance?

Long-term care insurance is coverage that is available on an individual or group basis to pay for personal care needs and other services for individuals who are limited in their activities of daily living or are cognitively impaired. Generally it pays for care in your own home, in an assisted living facility, or in a state-licensed nursing home.

Should I buy long-term care insurance?

Long-term care insurance ensures that you or a family member will be able to receive personal assistance and nursing care and protect your assets and your family's inheritance. A 1996 study by the U.S. Centers for Medicare and Medicaid Services found that Americans spent \$106.5 billion that year on long-term care, nearly half of which was paid for out-of-pocket by individuals and their families.

The National Council on the Aging reported in 2002 that while 67 percent of Americans said the cost of long-term care was the greatest threat to their standard of living, only 35 percent had planned for it, and only six million had purchased long-term care insurance.

The National Association of Insurance Commissioners advises consumers to buy long-term care insurance only if they can afford the premiums on a policy that will offer worthwhile benefits.

How do I determine if I need long-term care insurance?

Long-term care insurance is designed to provide some flexibility and choice as to where and how you live if you lose the ability to care for yourself. It also allows you to remain relatively independent and can help to protect your assets.

After calculating the potential costs of long-term care, determine what you would be prepared to pay from your own financial resources — including retirement income, personal savings, and other assets. Then you can estimate how much an insurance policy will need to cover.

Be sure to balance the amount and type of coverage you estimate you will require, with your ongoing ability to pay the premium costs. Your financial planner or insurance agent should be able to provide you with some guidance.

What does long-term care insurance cover?

Most long-term care policies pay benefits when a policyholder either is unable to perform a specific number of activities of daily living or is cognitively impaired. Policies cover skilled, intermediate, and custodial care in state-licensed nursing homes. Plans usually pay for home care services as well, and many cover assisted living, adult daycare, and

other community services. Long-term care insurance usually covers Alzheimer’s disease and other organic cognitive disabilities.

All policies have conditions, limitations, and exclusions that differ from contract to contract. Generally, policies pay a fixed dollar amount for every day you receive specific care at home or in a nursing home. Many policies pay a total dollar amount for “pooled benefits,” which may include a combination of services in nursing homes, your home, adult day care centers, and assisted living facilities. Some plans also insure hospice, counseling, and referral services, even respite care for the caregiver.

Does long-term care insurance cover all my costs?

Usually not. To hold down premiums, consumers often choose a lower daily benefit. (Daily benefits range generally from \$50 to \$300 or more.) Consumers must pay the difference between what is covered and what the long-term care provider charges, plus the costs of pharmaceuticals and medical care, which usually are not covered fully by other insurance. A spouse or other family member who does not require long-term care will need assets or income to live on and to pay medical and other bills.

What should I look for when choosing a long-term care insurance policy?

Check whether the insurance company offering the policy is a member of IMSA, the Insurance Marketplace Standards Association. IMSA membership demonstrates that the insurance company issuing your policy follows ethical standards when selling, marketing and servicing long-term care insurance.

Look at what the policy covers, including:

- When coverage begins. Most policies have a waiting period of 0 to 100 days after care starts before the company starts paying. The shorter the elimination or deductible period, the higher your premium. You also may need to wait a set period before you receive payment for pre-existing medical conditions. “Elimination days” may be consecutive calendar days from the time you first received care or only those days on which you received a service covered by the policy. Some policies have a once-in-a-lifetime requirement, while others start anew with each “episode of care.”
- The kinds of care and services the policy covers.
- Whether the policy has an inflation clause covering escalating benefits costs by a fixed percentage after a period of time.
- What types of care facilities the policy covers.
- Coverage limitations, such as requirements for prior hospitalization or a doctor’s orders before home or nursing care can begin. It’s best to avoid such policies.
- What other conditions will make you eligible for coverage payment to begin, such as inability to perform activities of daily living, cognitive impairment (the onset of dementia or the decrease of loss of mental capacity), and physical necessity for care.
- The premium.
- How much you will need to pay to supplement what the policy covers.

Carefully choose
YOUR
long-term
care
insurance policy



- Waiver of premium, which allows you to stop paying the premium once you begin receiving benefits or after you have received the benefits for a set period.
- The number of years or total benefit amount the policy covers.
- Other options such as premium refund at death, restoration of benefits, nonforfeiture benefits, and ability to downgrade your coverage if you're having trouble meeting the premiums.

What should I expect to pay for long-term care insurance premiums?

The cost of long-term care insurance varies widely, depending on your age, health, benefit amount, length of coverage, type of care covered, and when the policy begins paying out. According to LIMRA International, a financial services research firm, average annual premiums were \$1,679 in 2000.

What's the right age to start considering long-term care insurance?

If you are in reasonably good health, can take care of yourself, and are between the ages of 18 and 84, you probably can buy long-term care coverage. The average age at which people buy long-term care insurance is in the mid-60s.

If you purchase a policy at a younger age, your premiums are lower, although you will pay for a longer period of time. For example, the annual premiums of a 40-year-old will run half or less of those of a 60-year-old. Some experts suggest that since consumers will pay the same amount in the end, they should buy policies when premiums are lower and more affordable.



P R E M I U M S
depend on
many factors
A N D
vary widely



IMSA membership is your **guidepost**

Does my health history affect my ability to buy long-term care insurance?

Certain pre-existing conditions, health problems you had when you bought the insurance, may cause you to be rejected for coverage, although this varies from company to company. In addition, insurance companies may impose a time requirement before a policy begins paying for care related to pre-existing conditions.

Should I buy a long-term care insurance policy with lifetime coverage?

It depends on what you can afford and what options you want. Keep in mind that the U.S. Census Bureau says the average length of a nursing home stay is 2.8 years.

How can I be sure the company offering long-term care insurance will still be in business when I need it?

Buy from a reputable company with a “secure” rating from one of the firms that grades the strength of insurers — A.M. Best, Fitch Ratings, Moody’s Investor Services, Standard & Poor’s,

or Weiss Ratings. Each state has an association that guarantees payment on policies, up to a certain limit, if a company becomes insolvent. Also check with your state insurance department to make sure the company is licensed to sell long-term care policies in your state.

Can a company cancel my long-term care insurance?

By law, companies may not cancel a policy unless you fail to pay the premiums. If you are late in paying, the policy may be reinstated up to five months later if it can be proven that you failed to pay because you were cognitively impaired.

Are long-term care insurance premiums tax deductible?

If you pay for your own policy and itemize, you may be able to deduct the cost of eligible long-term care premiums as a medical expense, but there are strict limits and only certain policies qualify for deduction. Talk with your insurance agent or financial advisor about the options, as well as your tax counselor.

Does long-term care apply just to the elderly?

Long-term care may be required for anyone who has a chronic illness or a disability or is recovering from a serious accident. The General Accounting Office says that 40 percent of those receiving long-term care services are working-age adults between 18 and 64 years old.

Why is long-term care insurance important for women?

According to LIMRA International, women who reach the age of 65 have a better than 50 percent chance of needing extended care before they die. Three out of four elderly residents of nursing homes are women, and women comprise the majority of home health care users. After being a primary caregiver for an aging spouse, women often have few options for their own long-term care needs once their husband is deceased.

What do I need to look at before I buy long-term care insurance?

Insurance policies are legal contracts. Carefully read and compare the policies you are considering and be sure you understand the provisions. Don't be rushed into buying. Ask your insurance agent to explain everything

and be sure you are satisfied with the answers. If you still have questions, contact the company.

Remember, even after you purchase a policy, if you find it does not meet your needs, you usually have 30 days during which you may return the policy and get your money back.

Where can I find more information on long-term care insurance?

The consumer section of the IMSA website, www.imsaethics.org, lists IMSA member companies that you may contact for information on their long-term care policies.

We also have links to other resources on long-term care insurance.

IMSA, the Insurance Marketplace Standards Association, is a voluntary, non-profit organization founded in 1996 to strengthen consumer trust and confidence in the life and long-term care insurance and annuities products industry. IMSA members, who comprise more than 200 of the nation's top life insurance companies, commit to maintain high ethical standards and to be fair, honest and open in the way they advertise, sell and service their individually sold products.



**INSURANCE MARKETPLACE
STANDARDS ASSOCIATION**

*Committed to honesty,
integrity and ethics*



**INSURANCE MARKETPLACE
STANDARDS ASSOCIATION**

www.imsaethics.org

Two Wisconsin Circle
Suite 320
Chevy Chase, MD 20815

*Committed to honesty,
integrity and ethics*