



Long-term Care Insurance – LTCI Some Basics and Caveats for OSURAnS

This material is drawn from:

- a. the Ohio Department of Insurance
- b. federal website (www.longtermcare.gov) and
- c. consumer law website (www.consumerlawpage.com)

It is not intended to be legal advice.

A. Basic Elements

Long-term Care Insurance (LTCI) is insurance designed to protect savings by easing the costs of long-term care in nursing homes, assisted living centers, and in the home.* By paying premiums, the insured can receive benefits to cover all or part of the expense of long-term nursing care once eligibility criteria are met.

LTCI, unlike fire insurance where claims are rare and life insurance where claims are certain, depends upon such factors as age, gender, lifestyle, health, and family history of long-term care use. Based on estimates from the U.S. Department of Health and Human Services, 58 percent of men at age 65 will require some long-term care, while 79 percent of women will require such care. Half of this group will need long-term care for one year or less and 20 percent will need more than five years of long-term care. Only five percent of those over 65 have LTCI and of these numbers, half who purchase LTCI will not maintain coverage until they are 80 because of the difficulty in making premiums.

The average costs in the United States (in 2008) are:

- \$187/day for a semi-private room in a nursing home
- \$209/day for a private room in a nursing home
- \$3,008/month for care in an assisted living facility (for a one-bedroom unit)
- \$29/hour for a home health aide
- \$18/hour for homemaker services
- \$59/day for care in an adult day health care center

It is important to remember that Medicare is of little value for long-term care, as noted below:

- Nursing Home Care – pays in full for Days 0-20 if you are in a skilled nursing facility following a recent hospital stay. If your need for skilled care continues, Medicare may pay for Days 21 through 100 after you pay a \$128/day co-payment.
- Assisted Living Facility (and similar facility options) – does not pay
- Continuing Care Retirement Community – does not pay
- Adult Day Services – not covered
- Home Health Care – limited to reasonable, necessary part-time or intermittent skilled nursing care, home health aide services, and some therapies that are ordered by your doctor and provided by a Medicare-certified home health agency. Does not pay for on-going personal care or custodial care needs only (help with activities of daily living)

Many companies offer LTCI. The prospective buyer should investigate each in terms of the issues below and their own circumstances.

1. Eligibility Criteria to Receive Benefits

Eligibility generally means:

- a. The inability of the insured to perform two of the six physical activities of daily living (ADLs); namely, toileting, eating, bathing, dressing, continence, and transferring (moving from one place to another), or
- b. Loss of mental competence

- c. Certain medical conditions at the time of application (some conditions which can disqualify an applicant include a history of cancer, heart disease, Alzheimer's and Parkinson's diseases)
2. Benefit Amounts
Benefits are daily payments of dollar increments, typically \$25-\$200 or more depending on the policy. These may cover some but not necessarily all costs of nursing home, assisted living, and home health care costs depending upon location and facility.
3. Inflation Protection
Most policies can adjust future benefits to cover some part of the cost of inflation (with added premiums).
4. Premium Waiver
Most policies will waive premiums once benefits are paid.
5. Duration of Benefits
Policies can be written for two to seven years or the lifetime of the insured. Longer term benefits, of course, mean higher annual premiums.
6. Settings for Benefits
Benefits can apply to nursing homes, assisted living centers, adult care centers, hospice care, and home health care, depending upon the policy.
7. Home Health Care
Some policies limit home health care benefits to 50 percent of the benefits to nursing homes, but at twice the duration. The costs of professional skills are covered, namely nursing and therapeutic and social services as well as medical equipment.
8. Tax Qualified Plans
Some policies allow for benefits to be tax-free and premiums may be deductible as a medical expense on tax returns.

Premiums are dictated by:

1. Applicant age
2. Benefits desired (\$/day)
3. Length of elimination period (days that benefits begin after a claim is approved – 20-120 days)
4. After a loss of two or more of six activities of daily living (ADLs); namely, bathing, feeding, transport, toileting, continence, and dressing, or as specified by the policy
5. Cost-of-living provisions in the policy
6. Years of benefits covered

Calculators are available from insurance company and government web sites that give rough estimates of premiums from the factors above.

B. Some Caveats for Prospective Buyers of LTCI

1. Never trust verbal sales pitches – always read the policy carefully and with a discriminating friend or legal adviser. Be aware that commissions for insurance agents in this field average over 45 percent of first-year premiums as opposed to auto policies of about 10 percent. This can lead to selling pressure.
2. Be honest about your responses to health questions at application, especially for any pre-existing condition, such as heart problems or Alzheimer's. If not sure, refer to your physician. Rather than be definitive, state that "you can't recall." Visits to physicians about memory problems can lead to denial of coverage.
3. Always get inflation protection, if possible, using compound interest. While cost-of-living inflation might be three percent, medical care inflation will likely be six percent or higher. Nursing home care costs are expected to double in 12 years.
4. Be careful about adding benefits to an existing policy. These will be made at current premium rates and not at the rates when the original policy was purchased.
5. Avoid purchasing LTCI policies too early (e.g., at age 45, poor investment) or too late (e.g., at age 75) when premiums will be excessive.
6. Consider your ability to afford the premiums 20 years from now.
7. Make sure ADLs (activities of daily living) are clearly specified.
8. Choose carefully the years that benefits will be made. Data suggest that while 50 percent of those over 65 will need long-term care, the duration of this care will depend upon several factors. Most males will stay less than a

year in a nursing home; females will stay much longer. Durations are affected by other factors, such as medical innovation, family history of long-term care use, lifestyle, health, and longevity.

9. Choose an elimination period (number of days benefits will begin after a claim is approved) consistent with your financial condition. Longer elimination periods mean lower premiums.
10. Determine how benefits will be distributed. Some policies pay benefits to the insured; others pay benefits directly to the care provider.
11. Investigate whether or not the insurance company is fiscally sound. In these days of bailouts for insurance companies, one must be concerned that the issuing company will survive the current economic crisis.

C. Common Pitfalls

1. Failure to account for inflation.
2. Non-forfeiture of Benefits means the insurance company will pay some benefits even if the policy is cancelled due to non-payment of premiums. This benefit is usually not significant.
3. Gate-keepers limit claims under specified conditions. Some shameful practices that are used to minimize claims include:
 - a. requiring the loss of three ADLs instead of two.
 - b. having a reduced number of ADLs from which a loss might be determined. For example, some policies exclude bathing as an ADL, which is one of the most common activities where assistance is needed.
 - c. requiring hospitalization before claims are allowed.
 - d. requiring an acute medical condition before a claim is approved.
 - e. limiting benefits to skilled care.
 - f. having the insurance company define ADL loss.
 - g. requiring only nursing homes certified by Medicare, and
 - h. vaguely defining an ADL.
4. Assuming LTCI will protect all your assets.
5. Added death benefits (when you die before care is needed) are never free and need scrutiny.
6. Not covering home care. This is important since there is a trend to home health care.
7. Assuming premiums are fixed through the life of the policy. Your premiums can become higher if the insurance company can justify them to state insurance agencies.
8. Tax-certified policies are the rule, but this only means that premiums can be added to medical expenses in Schedule A in your tax form. As yet, there are no provisions to let one deduct premiums from your total tax.

D. Conclusion

The above material is not to suggest one should avoid LTCI; rather, one should make decisions carefully. Older persons, often alone and in poor health, can be victims of high-pressure sales pitches. Decisions also depend upon your financial estate, fiscal obligations, and your family history of long-term care needs. If you have limited resources, Medicaid will likely be the source of your future skilled care needs. However, this will require signing over many of your assets to the state or care center.

LTCI policies are evolving. Now shared policies for husband and wife are available. Experts agree that LTCI policies are complicated instruments requiring care in selection.

* The OSURA publication, "Guide for Evaluating Continuing Care Retirement Communities" includes a description of these levels of care. It is available on the OSURA web site (hr.osu.edu/osura), click on "Links."