

Long-Term Care Insurance: Basics You Need to Know

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Summary

Long-term care insurance (LTCI) covers expenses if you need to go into a nursing home or get similar care at home, and may also provide for assisted living care, and other similar services. Although it normally covers expenses for skilled nursing, it is not medical insurance, and does *not* cover doctor visits, medical tests, hospital stays, medical equipment, or drugs.

This paper explains the basics of how such policies work, when you might do well to purchase one (and when you might not), what kind of options you can get, and how to obtain LTCI if you decide you want it.

If you don't have LTCI, you're not covered

Most of us have known people who spent significant time in a nursing home. You yourself are at risk. The typical person has about a one-in-three chance of needing such care ó though women are somewhat more prone to need it, and men less so, because women live longer and therefore are less likely to have a spouse around as a caregiver. The odds are closer to two-in-three if you include needs for assisted living or at-home care.

Fortunately, it's not quite as bad as it may sound. Most nursing home stays are relatively short ó a majority are three months or less. Furthermore, Medicare Parts A and B cover some or all of the costs for people who are over 65 and who need skilled nursing care (though custodial care is not covered), if they need such help for 100 days or less.

But about one person in every eight or nine eventually requires a nursing home stay of more than three months. Costs vary a lot by state and city, and of course private rooms cost more than semi-private ones, but most people pay at least \$175 a day, and many pay more than that ó so it adds up fast. If you are one of the unlucky 5% or so who end up in a nursing home for more than three years, the costs really pile up.

And apart from those modest Medicare benefits, you will be on your own financially. Standard medical insurance policies do not cover either nursing home care, or equivalent care at home. So most people have to pay for it themselves.

A safety net does exist: Medicaid. If you use up all of your own money, a nursing home cannot kick you out. As a poor person, you will now be covered by your state's Medicaid plan. But you will no longer be allowed a private room, if you had one, and any money that does come to you will be diverted to your care provider. Neither you nor your family will have much say in the quality of the care you receive.

So Medicaid is not a good choice if you can avoid it ó and as the elderly population increases and government resources grow more strained, Medicaid could well become an even worse choice in the future. In addition, if you have a spouse still living while you are in a nursing home, his or her finances are likely to be severely affected if you are going to qualify for Medicaid as an indigent person (rules about spouses vary by state).

To avoid Medicaid, you require your own way of paying for long-term care, should you need it. There are only two other ways: out-of-pocket, or with long-term care insurance.

Can you pay your own way?

Even if you are not wealthy, the answer may be *yes* especially if some of the following apply to you:

- If you have people who can help give you care at home, you are less likely to need expensive professional care, or may need less of it. If you live with one or more other adults or a spouse, an adult child, another family member, or even close friends or if you have children or other close relatives living nearby, you may have help available. Don't overestimate this: untrained caretakers cannot do everything you might need, and if your need for care continues for a long time, even someone who really loves you might not be able to endure the strain forever. But don't underestimate it, either: if you do have someone who can help, and it means you can live at home rather than in a nursing home, even if you still need to hire trained nurses or other professionals to come in and help with some of your needs, you could still save a lot of money, plus have the benefit of staying home or if your condition is not too severe.
- If you own your own home, that perhaps can be your *insurance*. If you are single (or become a widow or widower), if you do need to go into a nursing home for several years at the end of your life, you are unlikely to need your house any longer. You can sell it, or get at the equity in some other way, and use that to pay for your nursing care. Or if your care needs are not that severe, you might find someone who needs a place to live and who will provide some basic care in exchange for lodging (many localities have agencies that help match up people in these situations).
- Some employers provide LTCI as a group benefit (but if yours does, make sure it's really LTCI or and not disability coverage, which is something different). Some retirement communities make provisions for care that might significantly reduce your need for a nursing home. Some life insurance and annuity products come with long-term care riders that make it possible for you get at funds that normally would not be available to you. If you are covered explicitly in one of these ways, then you may not need to own long-term care insurance, or not as much of it.
- Or if you do have significant savings, that may be good enough.

Keep in mind that if you do go into a nursing home, even though it is expensive, Medicare and other private medical insurance (if you have it) will probably cover much of your costs for doctors, hospitals, and perhaps medicines. Your food and lodging are provided for, as are utilities, and most other necessities of life. As for the non-necessities, you won't have as much opportunity or ability to take advantage of them. So while nursing care is still expensive, the costs are somewhat offset by what you save on your normal living expenses. This is especially true if you are single, or end up being the last survivor of a couple, because in those cases you can get rid of all of your other housing and transportation expenses: mortgage, rent, real estate taxes, utilities, maintenance, car payments, gas, auto repairs, groceries, furniture, appliances, etc. If you still need to maintain the home for your spouse or some other living companion, savings are less, though perhaps a smaller residence would be feasible for the one still at home.

If you are reading this paper because of a retirement analysis from RetirementWorks® II software, then these factors have already been taken into account in the recommendation. This doesn't mean you shouldn't further evaluate this decision on your own, because you might either decide that you like the added security of LTCI coverage even if it was not recommended, or you might prefer to take a chance even if it was recommended.

Other factors to consider in making this decision

If you can't afford to pay your own way, and are concerned about that, long-term care insurance might be for you. Like most kinds of insurance, it requires that you pay premiums during the years when you don't require help, but if and when you do need care, the insurer will pay whatever has been promised. Points to consider:

- Should you end up needing nursing care for an extended period of time, the LTCI will have been the best investment you could buy, even if you can afford to pay for the care yourself. That's because the majority of people won't need to collect benefits at all, so those who do need serious help collect a lot more than the value of what they themselves put in. Yes, it's a bit of a gamble, and if you really can afford to pay for your own care, you don't need to take this gamble. But if you can't afford to pay for your own care, the gamble is probably a smart one.
- Even so, most people experience sticker shock when they first get a price quote (expect a 4-figure annual price tag). The older you get, the more such insurance costs. If you are still in your 50s or 60s, and you think you might want LTCI, you should decide sooner rather than later.
- If you expect to want LTCI, get it while you are still healthy. If you have certain illnesses or a family history that makes it more likely that you will eventually need nursing care, it will cost more if you can get it at all.
- If you are married, you can get policies that cover both of you together cheaper than you can get two policies separately. That might be a good idea. But another good idea might be to take a guess, based on age, sex, current health, and family history, which of you is more likely to need it, and just get a policy for one of you, if the cost of covering both seems too high.
- The benefits you collect, if you unfortunately need to, are generally not taxable. The premiums you pay are also federally tax-deductible up to fairly high limits (depending on your age), assuming you itemize deductions and have total medical expenses in excess of 7½% of your adjusted gross income. Some states also offer tax deductions or credits for LTCI premiums.
- Most states participate in the federally-defined "LTCI Partnership Program," which allows you to retain one dollar in assets for each dollar of LTCI coverage you buy, before you are considered impoverished, for purposes of qualifying for Medicaid. *Without* this program, for example, you are probably not eligible for Medicaid until you have spent all but \$2,000 of your savings. *With* this program, if you bought LTCI insurance that paid \$100,000 in benefits, you would then qualify for Medicaid when you still had \$100,000 in assets. This program can be big help, especially if you have financial obligations other than to yourself.

What to look for in LTCI insurance

In general, anything you like is going to cost something. Here are some things you should watch for and consider when reviewing specific LTCI products:

- Do you trust the company offering the insurance? It is, in fact, extremely unlikely that you will end up paying premiums to a company, need to collect benefits, and then find that the company can't pay. In the insurance business, if one company goes under, others step in and provide the benefits. But still, not all companies are equal:
 - ◇ The more financially sound a company is, the less likely that it will have to raise premiums later.
 - ◇ Companies with a good record of customer service are much to be valued. The last thing you want is to need benefits, and then find that your insurer is trying to think of every possible reason why you aren't eligible.
 - ◇ Ask how often the company has increased its LTCI premium rates in the past. Some companies have very good track records, and others don't.
- How much do you need in order to cover the cost of care in your part of the country (minus whatever you think you'll be able to afford out of pocket)?
- Look for features and options of value to you:
 - ◇ Can you (if you want to) cover two people with the same plan?
 - ◇ How impaired do you have to be to start collecting benefits? Typically you need to be incapable of two "ADLs" (activities of daily living: feeding yourself, toileting yourself, bathing yourself, dressing yourself, being able to get around your house, being continent) or else to have a serious mental impairment, such as Alzheimer's disease. Make sure you know just what conditions trigger benefits in any policies you are considering and who evaluates them. It's better if your physician, not an insurance company staffer, makes the determination.
 - ◇ Is assisted-living care as well as skilled nursing care covered? Are in-home and/or community-based services (e.g. adult daycare, respite) covered and, if so, under what conditions? Will needed home modifications be paid for?
 - ◇ Are there restrictions on what facilities you can use? Do nursing homes have to be Medicaid-certified, or can you use any state-licensed facility?
 - ◇ What limits are there to the length of time you can receive benefits, or to the total dollar amount paid? Do they differ depending on the type of care you are getting? Is it worth the extra cost to extend the period beyond three years?
 - ◇ Will you be able to collect benefits if you need them later because of a condition you already have today? If so, is that true from Day One, or do you have to wait some period of years before you are covered?

- ◇ Do you have to wait, and if so for how long, after you *need* benefits, before you can actually start *collecting* them (longer waiting periods mean lower premiums)?
- ◇ Is the policy guaranteed to be renewable, even if your health changes?
- ◇ If you decide to stop the insurance later, will you get anything back? (Having such a feature usually adds a lot to the premiums, but if for some reason you can't keep paying premiums, you might want to be able to keep your policy in force at a reduced benefit amount.)
- ◇ Care costs continue to rise. Does the policy provide for inflationary increases in benefits over time? How much more will it cost for this feature?
- ◇ Do you have to keep paying premiums after you start collecting benefits? How much more does it cost now to have these premiums waived later?
- ◇ Will care need to be approved by a qualified professional of your choice, or by someone the insurance company chooses or employs?
- Premiums you can afford. The National Association of Insurance Commissioners recommends not spending more than 7% of your income for long-term care premiums.

For most people, the best bet is a compromise between complete permanent coverage and nothing at all. You should probably expect to pay significant out-of-pocket costs if you end up having a severe, long-term problem, but insurance can help you with the most drastic situations.

Where can you get long-term care insurance?

Only an insurance agent licensed in your state can sell you an individual long-term care policy. Most agents can provide product descriptions and quotes for more than one company, so you can compare features and prices. With a little looking, you can probably find the product that represents the right trade-off between the features you value most and the price you can afford to pay.

Internet search engines can lead you to many sources of quotes for LTCI online, but these are (1) only ballpark estimates, and (2) come-ons for people who want to sell you insurance. Neither of these is necessarily bad, but you need to understand that the actual price for LTCI will depend on the state of your health, not just your age and sex. The quotations may also not reflect the policy features you care about, or may reflect ones you do not care about.

Watch out for fraudulent offers. *America's Health Insurance Plans*, a health insurance industry group, recommends that you keep your eyes open for these warning signs:

- Offers "too good to be true"
- Requirements that you join an organization or pay dues
- Companies that promise to insure everyone, regardless of health

- Marketing materials that do not use the term “insurance”
- Requests for large payments up front, or payment in cash
- No plan documents provided when you apply, or afterwards.

For More Information

- This is a popular topic, and you can find a variety of good books on the subject, either in your library or at your local bookstore, or at online book services. But this is an area where laws, health care practices, and insurance offerings change pretty rapidly, so avoid published materials that are more than a year or so old.
- The health insurance industry group called *America's Health Insurance Plans* publishes a consumer guide to long-term care, which you can download in PDF format (i.e., you need Adobe's free Acrobat Reader to view it). Although it reflects the insurance industry's view, it is not biased toward particular products. You can find it at: <http://publications.usa.gov/USAPubs.php?PubID=5879>.
- The American Association for Long-Term Care Insurance also has an online guide, at <http://www.aaltci.org/consumer/>.
- If you want both a general overview and some specific advice, *FinancialWeb* has a useful site at: <http://www.finweb.com/insurance/long-term-care-insurance.html>.
- *Investopedia* has a nice comparison of LTCI insurance vs. Medicaid. If you are considering relying on Medicaid, or arranging this for some else, check out <http://www.investopedia.com/articles/05/031005.asp> first.
- If you have received an insurance offer you think is suspicious, go to the industry website, <http://www.avoidfraud.org/>, which gives advice on what to do next.
- For information about LTCI partnership programs, including a map showing which states have adopted this program or are in the process of doing so, visit the American Association for Long-Term Care Insurance site, at <http://www.aaltci.org/long-term-care-insurance/learning-center/long-term-care-insurance-partnership-plans.php#approved>.
- If you get to the point when you may not be able to take care of yourself any longer, see the other paper in this series, “When You Can No Longer Live Alone.”