

More and more Americans recognize the need to save for retirement. But few are aware of the need to protect their retirement savings against the steadily growing costs of long-term care. A lifetime of retirement savings can be wiped out by an unexpected need for nursing home, assisted living, or at-home care.



LONG-TERM CARE INSURANCE

Protection for Your Future

This happens more often than anyone expects—one in four Americans between ages 65-74 and 62 percent of those over 85 suffer some limitation of activities. The cost for long-term care services—both nursing home stays and care at home—is expensive.

Today, a one-year stay in a nursing home averages \$75,000. By 2030, the same stay will cost nearly \$207,000.

Most Americans cannot save enough to cover these high costs on their own. But long-term care insurance can cover the costs of long-term care services and protect lifetime savings.

This guide, prepared by the American Council of Life Insurers, answers commonly asked questions about long-term care insurance and provides tips and a checklist for selecting a policy.

What is long-term care?

Long-term care is the everyday assistance needed when a person suffers from a cognitive impairment—such as Alzheimer’s disease—or can no longer perform activities of daily living. For example, when a person has trouble with simple functions such as bathing, dressing, or eating, he or she may require some kind of assistance. This care can involve someone coming into the home weekly to help with household chores, daily cooking, or assistance with hygiene. Or it can involve skilled around-the-clock care in a nursing home. Long-term care differs from the medical care received in a hospital or health care provider’s office, which usually is covered by private health insurance or Medicare.

What are the chances I will need long-term care?

A person of any age may require long-term care, but older people most often need long-term care services. The longer a person lives, the greater the chance he or she will need some type of long-term care. And people are living much longer today. The average life expectancy for Americans born in 1900 was 49.2 years. For those born in 1940, it is more than 63.6 years. Now the average 65-year-old can expect to live to the age of 83.

Retirement savings can be wiped out by an unexpected need for long-term care services.

While many people enjoy good health as they age, a surprising number of people over age 65 will experience an illness that limits their ability to function. Today, one in four Americans between ages 65-74 and 62 percent of those over 85 suffer some limitation of activities. Because women generally live longer than men by several years, they are almost twice as likely as men to need a nursing home after age 65.

How much do long-term care services cost?

Long-term care services are expensive. One year in a nursing home averages \$75,000, and the cost can be considerably higher in some parts of the country. Home care is less expensive, but still costly. A visit by a home health aide to help with bathing, dressing, and household chores can cost \$2,700 a month. If skilled help is needed, such as physical therapy, the expense is greater.

Does health insurance, Medicare, or Medicaid cover long-term care?

Health insurance plans generally do not pay for long-term care services. Many Americans mistakenly believe Medicare will cover their long-term care needs. However, Medicare provides skilled nursing-home care only for a short time following hospitalization. It also limits help at home to those who need skilled nursing care and rehabilitative therapy.

Medicaid is the federal-state health insurance program for the poor. Middle-income individuals may qualify for long-term care under Medicaid, but only after spending down their savings. To be eligible, Americans must meet increasingly strict Medicaid rules regarding income, assets, and depletion of life savings. In states with long-term care partnership programs, benefits paid to long-term care insurance policyholders are eligible as an “asset disregard” under Medicaid’s eligibility requirements. For example, if you receive long-term care benefits totaling \$350,000 and must apply for Medicaid, you will be allowed to keep \$350,000 of your assets and not have to “spend down” the \$350,000 to be eligible for Medicaid.

When and how does long-term care insurance pay?

After a waiting (elimination) period, most long-term care insurance policies pay a fixed dollar amount per day, week, or month. Policyholders choose a benefit amount, length of elimination period, and length of time the policy will cover. For example, policies can provide one year, six years, or a lifetime of coverage. Benefits can begin immediately or follow a 30-day, 90-day, or even a six month elimination period. These variables will affect the cost of the policy: a 90-day elimination period is less costly than a 30-day elimination period.

The younger you are when you purchase long-term care insurance, the lower its cost.

What services are covered by long-term care insurance?

Long-term care insurance covers a range of services that help people live at home or receive care outside the home. Services range from assistance with daily living activities—bathing, eating, using the bathroom, moving from place to place, and dressing—to 24-hour skilled nursing care. Services can be provided at home, in a nursing home or community-based care facility, such as adult day care, or in an assisted living setting.

Policies may include reimbursement for respite care (temporary care to help relieve the primary caregiver), medical equipment, care coordination services, and even home modifications. Some policies pay family caregivers, and some pay for services such as assisted living.

What is the cost of long-term care insurance?

The cost of premiums vary by:

- Type of services covered (care at home or in a facility)
- Amount of daily, weekly, or monthly benefit
- Length of elimination period for benefits to begin
- Duration of coverage

Other factors may affect the price of a policy, such as whether it has inflation protection or a nonforfeiture clause that provides some level of benefits for a period of time if you cancel your policy.

The age at which you purchase a policy also affects its cost: The younger you are, the lower the cost. A 45-year-old pays about half of what a 60-year-old pays for long-term care insurance. Once a policy is purchased, premiums cannot be increased because of age. Premiums can only be raised if the increase applies to a whole group of insureds.

Generally, the cost of premiums is far less than what a person would pay for long-term care services. A 45-year-old woman today could pay about \$950 a year for a long-term care policy. By age 85, if she enters a nursing home, she will have paid about \$38,000 in premiums for her long-term care insurance policy—far less than the nearly \$420,000 that a one-year stay in a nursing home will likely cost in 40 years.

Even though premiums are higher for older people, the cost of those premiums is still less than the cost of care. A 60-year-old man today would pay about \$1,767 a year for a comprehensive long-term care policy. By age 85, he will have paid about \$44,175 in long-term care insurance premiums—less than the \$185,529, which is the anticipated cost of care in 25 years.

How can I purchase long-term care insurance?

Long-term care insurance is sold to individuals or through a group plan offered by an employer. Employees covered under qualified group plans can continue their coverage when they leave their employer, as long as they continue to pay the premium.

Individuals also can obtain long-term care coverage through an accelerated death benefit added to a life insurance policy. This benefit allows policyholders to collect a percentage or all of their policy's death benefit to finance specific long-term care needs. Upon the policyholder's death, the benefit that the beneficiary receives is reduced by the amount accelerated to pay for long-term care.

Are long-term care insurance premiums tax-deductible?

Qualified long-term care insurance policies and qualified long-term care services are treated the same as health insurance for federal tax purposes. Both premiums for long-term care insurance and out-of-pocket expenses can be deducted from federal income taxes if the costs exceed the tax code's 7.5 percent base for medical expense deductions. The amount of annual premiums that can be deducted depends on age. In addition, insurance benefits from qualified long-term care policies are not taxable as long as the benefits received do not exceed certain limits.

Most long-term care policies purchased before 1997 are considered qualified for federal tax purpose.

Long-term care insurance covers a wide range of services.

How are consumers protected under long-term care insurance policies?

All long-term care insurance policies must meet consumer protection standards set by the state in which they are sold. In addition, any long-term care policy that qualifies for federal tax deductions must meet consumer protections set by the federal government. For example, qualified policies:

- May not limit or exclude coverage for certain illnesses, such as Alzheimer's disease.
- Cannot increase premiums due to advancing age.
- Cannot be canceled because of advancing age or deteriorating health.
- Must offer a nonforfeiture benefit. If purchased, this feature ensures that if you cancel your policy or let it lapse, some portion of your benefits will still be available for a certain period of time.
- Must offer an inflation protection benefit. If purchased, this feature helps benefits keep pace with inflation—particularly important for those who plan for the future by purchasing a policy at a younger age.

Tips on Buying Long-Term Care Insurance

Look for an insurance company licensed in your state that is reputable, consumer-oriented, and financially strong. Several services rate the financial strength of insurance companies: A.M. Best Company, Standard & Poor's Insurance Rating Services, Duff & Phelps, Inc., Fitch Investors Service, Inc., and Moody's Investor Services, Inc. More about ratings can be obtained from your agent and public or business libraries.

- Get the name, address, and telephone number of the agent and insurance company.
- Ask for outlines of coverage so you can compare the features of several policies. Take your time when making a purchase.
- Make sure you understand what the policy covers. Note when the insurance becomes effective.
- When filling out applications, answer questions about medical history and health truthfully.
- Verify the information in your application. Promptly notify your agent or insurance company of errors or missing information.
- Pay with a check or money order made out to the insurance company, not with cash. Get a receipt.
- To ensure continuous coverage, consider having your premium automatically deducted from your bank account.
- You usually have a 30-day "free-look" period after receiving the policy when you can change your mind. If you decide not to keep the policy, the company will cancel it and give you an appropriate refund.
- Contact your agent or the insurance company if you don't receive your policy within 60 days.
- If you purchased a policy before 1997, ask your agent or insurance company if your policy is qualified for federal tax purposes.
- Check with your accountant, attorney, or state tax department to find out if your state offers tax credits or deductions as incentives to purchase long-term care insurance.
- If you have a complaint about your insurance agent or company, contact the customer services division of your insurance company. If you are still dissatisfied, contact your state insurance department.

Long-Term Care Insurance Policy Checklist

Long-term care insurance can make sure your lifetime savings and your family's financial security are protected from the costs of long-term care. Before purchasing a policy, make sure you understand what is covered and what is not. Evaluate the policy's premiums, benefits, eligibility criteria, elimination periods, duration of benefits, and type of services and facilities covered. Compare two or more policies before making a final decision.

This checklist will help you compare policies offered by different companies, or different policies offered by the same company. Duplicate this form and fill out a separate checklist for each policy.

_____ Company name

_____ Type of policy

_____ Telephone

Policies differ in the range of services they cover. A policy that provides benefits to meet your lifestyle and financial goals is best.

Do services under this policy include:

- Home and community-based support, such as personal care, home modifications, caregiver training, adult day-care services, or assisted living?
- Nursing home care?

Receiving benefits *Policies differ in the way they pay for long-term care services. Are benefits paid:*

- As a fixed daily payment?
- As reimbursement for the cost of care, up to the policy's daily maximum for a specific setting (for example, \$100 per day for nursing home care or \$50 per day for care at home)?

Benefit protection *Many policies protect against inflation, which can threaten a policy's long-term value. Does this policy offer:*

- Automatic inflation protection?
- The opportunity to purchase additional coverage at periodic intervals?

Nonforfeiture benefit *This provision ensures that some portion of benefits will still be available if you cancel your policy or let it lapse. Does this policy offer:*

- Automatic nonforfeiture?
- The opportunity to purchase nonforfeiture as an additional benefit?

Discounts *If you are married and you and your spouse both buy policies, you may receive a discount. Does this policy offer a discount?*

- Yes
- No

Waiver of premiums *After you have received long-term care services for a certain period of time, most policies waive premiums while you receive benefits. Does this policy include a waiver of premiums?*

- Yes
- No

Tax deductions *For policies that are federally tax-qualified, benefits are not taxed as income up to certain limits. Is this policy tax-qualified at the federal level?*

- Yes
- No

Tax Treatment *Your state also may offer tax deductions or credits for long-term care insurance premiums. Is this policy tax-qualified at the state level?*

- Yes
- No

Length of benefit period *Policies can provide benefits for different lengths of time (i.e., one year to lifetime). How long does this policy pay benefits for:*

_____ Home and community-based care?

_____ Nursing home care?

Total dollar amount of benefit *In some policies, the maximum benefit limit is a total dollar amount. If this policy has a total dollar amount for the following services, what is the limit for:*

_____ Home and community-based care?

_____ Nursing home care?

Elimination period *Policies differ in the amount of time that must elapse before the policy begins to pay. The longer the elimination period, the lower the cost of the policy. What is the elimination period for:*

_____ Home and community-based care?

_____ Nursing home care?

Benefit amount *The amount the insurer will pay for daily, weekly, or monthly benefits varies among policies. What is the daily benefit amount for:*

_____ Home and community-based care?

_____ Nursing home care?

Eligibility *Benefit triggers determine when a policy will begin to pay. Are the benefit triggers for this policy:*

_____ A specified number of activities of daily living (ADLs) that require assistance, such as bathing, dressing, eating, toileting, continence, or moving from place to place? (List number of ADLs)

_____ Cognitive impairment (such as Alzheimer's)?

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