



Understanding Long-Term Care Insurance

Americans are living longer than ever. As life expectancy increases so does the number of people requiring long-term care in their later years. According to the U.S. Department of Health and Human Services (HHS) about 12 million of the nation's senior citizens will require long-term care by 2020. The cost can be a huge financial strain on personal and family budgets. Long-term care insurance may make sense as part of your financial planning strategy. The National Association of Insurance Commissioners (NAIC) offers tips and considerations to help determine whether long-term care insurance is right for you.

What is long-term care insurance?

Long-term care (LTC) refers to a wide range of medical, personal and social services. Someone with a prolonged physical illness, a disability or a cognitive impairment such as Alzheimer's often needs specialized care. LTC services may include help with daily activities, home health, respite or hospice care, adult day care, or a move to a nursing home or assisted living facility. LTC insurance is designed to help pay for these types of services.

Long-term care insurance will pay for or reimburse policyholders an amount (usually up to a daily or weekly limit) for qualified services. Different policies cover various benefits and types of care. Most policies have limits on how long or the total amount they will pay.

How is the cost determined?

With LTC insurance, you pay a premium and then the policy pays for covered services when you need them, up to limits in your policy. The cost depends on the amount and type of care you need and where you get it. LTC can be expensive, and your premium may increase.

Some of the cost of your policy is impacted by:

- Your age when you buy the policy.
- The maximum amount that a policy will pay per day.
- The maximum number of days or years that a policy will cover.
- The lifetime maximum amount that the policy will pay. This is determined by the amount per day times the number of days over the life of the policy.
- Any optional benefit you choose, such as benefits that increase with inflation.

When will benefits be available?

LTC policies have an elimination period. This is the number of days you must qualify under the policy for nursing home or home health care before your policy pays benefits. A shorter elimination period means a higher premium. Elimination periods typically range from 0 to 180 days. In addition, coverage is not guaranteed until you satisfy certain requirements. For example, most policies require that you be unable to perform a given number of daily living activities, such as dressing, bathing and eating without assistance. Many policies further limit payment to qualified services received consistent with a coordinated plan of care established by specific individuals under the policy. Also, most policies have a benefit trigger for cognitive impairment. For example, you may only qualify for these benefits if you are unable to pass a test assessing your mental functioning.

How much in benefits will the policy pay?

Policies normally pay benefits by the day, week or month. You may choose a benefit period that is a specific number of days, months or years. A maximum benefit period may range from one year to the remainder of your lifetime. It is important to ask if the benefit amounts will increase with inflation, and if that coverage increases your premium.

Are there exclusions?

Every policy has an exclusion section. Some states do not allow certain exclusions. Many LTC policies exclude coverage for the following:

- Mental and nervous disorders or diseases (except organic brain disorders);
- Alcoholism and drug addiction;
- Illnesses caused by an act of war;
- Treatment already paid for by the government; and/or
- Attempted suicide or self-inflicted injury.

Is long-term care insurance right for me?

Whether you buy LTC insurance should be considered as part of a comprehensive financial strategy. Take into consideration factors such as your age, health status, overall retirement goals, income and assets. It is not a decision to be made quickly without consulting those close to you. Many people buy a policy because they want to stay independent of government aid or do not want to rely solely on the help of family. However, LTC insurance policies are costly and are not likely to cover *all* of your LTC needs. Bottom line, you should not buy a policy unless you have substantial resources to guarantee you can afford the premium now and well into the future.

Some additional things to consider:

- Age and life expectancy: The longer you live, the more likely it is that you

will need LTC. Do you have family members that have lived a long time? The younger you are when you buy the insurance, the lower your initial premiums will be. However, there is no guarantee your rates will not go up. Look for policies with provisions that give you money back if your premiums become unaffordable – called nonforfeiture provisions.

- Gender: Women are more likely to need LTC because they have longer life expectancies.
- Family situation: If you have a spouse or adult children, you may be more likely to receive care at home from family members. If family care is not available and you cannot care for yourself, paid care outside the home may be the best alternative. As policies cover different types of LTC, it is important to buy a policy that will cover the type of care you expect to need and will be available in your area.
- Family health history: If chronic or debilitating health conditions run in your family, you could be at greater risk than another person of the same age and gender.
- Income and assets: You may choose to buy a LTC policy to protect assets you have accumulated. On the other hand, a long-term care policy is not a good choice if you have few assets or a limited income. Some experts recommend you spend no more than five percent of your income on a long-term care policy.

Do you qualify for Medicaid?

As an older adult, you may qualify for Medicaid, which pays almost half of the nation's LTC bills. To qualify for Medicaid, your monthly income must be less than the federal poverty level, and your assets cannot exceed certain limits. Medicaid will cover you only in approved nursing homes that offer the level of care you need. Under certain circumstances, Medicaid will pay for home health care.

Some states have LTC insurance programs designed to help people with the financial impact of spending down to meet Medicaid eligibility standards. Under these partnership programs, when you buy a federally qualified partnership policy, you will receive partial protection against the Medicaid maximum asset requirement.

More information

To find out which insurance companies offer long-term care insurance, contact the Bureau of Insurance at www.scc.virginia.gov/boi or call (804) 371-9741 or 1-800-552-7945 (VA Only).