A Guide to Long-Term Care Insurance

HEALTH INSURANCE ASSOCIATION OF AMERICA HIAA

VOICE OF AMERICA'S HEALTH INSURERS

Guide to Long-Term Care (LTC) Insurance

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What is long-term care?

Most Americans know about the kind of health insurance that pays doctor and hospital bills. But the kind that pays for long-term care in a nursing home or at home is not as familiar.

Long-term care goes beyond medical care and nursing care to include all the assistance you could need if you ever have a chronic illness or disability that leaves you unable to care for yourself for an extended period of time. You can receive long-term care in a nursing home, or in your own home, in the form of help with such activities as bathing or dressing. Long-term care can be of help to a young or middle-aged person who has been in an accident or suffered a debilitating illness. But most long-term care services are used by older people.

Beyond nursing homes, there is a range of services available in the community to help meet long-term care needs. Care given by family members can be supplemented by visiting nurses, home health aides, friendly visitor programs, home-delivered meals, chore services, adult daycare centers, and respite services for caregivers who need a break from daily responsibilities.

These services are becoming more widely available. Some or all of them may be found in your community. Your local Area Agency on Aging or Office on Aging can help you locate the services you need. Call the Eldercare Locator at 800-677-1116 to identify your local office.

Are you likely to need long-term care?

This year about seven million men and women over the age of 65 will need long-term care. By the year 2005, the number will increase to nine million. By the year 2020, 12 million older Americans will need long-term care. Most will be cared for at home; family members and friends are the sole caregivers for 70 percent of elderly people. But a study by the U.S. Department of Health and Human Services indicates that people of age 65 face at least a 40 percent lifetime risk of entering a nursing home. About 10 percent will stay there five years or longer.

The American population is growing older, and the group over age 85 is now the fastest-growing segment of the population. The odds of entering a nursing home, and staying for longer periods, increase with age. In fact, statistics show that at any given time, 22 percent of those age 85 and older are in a nursing home. Because women generally outlive men by several years, they face a 50 percent greater likelihood than men of entering a nursing home after age 65.

You may never need a nursing home. But the longer you live, the greater the chance that you will need some form of long-term care.

What does long-term care cost?

Long-term care can be very expensive. As a national average, a year in a nursing home is estimated to cost more than $50,000. In some regions, it can easily cost twice that amount.

Home care is less expensive but it still adds up. Bringing an aide into your home just three times a week (two to three hours per visit) to help with dressing, bathing, preparing meals, and similar household chores—can easily cost $1,000 each month, or $12,000 a year. Add in the cost of skilled help, such as physical therapists, and these costs can be much greater.

Who pays the bills?

For the most part, the people who need the care pay the bills. Generally, neither Medicare nor private Medicare supplement insurance nor the health insurance you may have either on your own or through your employer will pay for long-term care.

Medicare supplement insurance (often called Medigap or MedSupp) is private insurance that helps cover some of the gaps in Medicare coverage. Those gaps are hospital deductibles, doctors' deductibles, and coinsurance payments or what Medicare considers excess physician charges—but they are not long-term care.

About one-third of all nursing home costs are paid out-of-pocket by individuals and their families. Only about 12 percent is paid by Medicare, for short-term skilled nursing home care following hospitalization. Medicare also pays for some skilled at-home care but only for short-term unstable medical conditions and not for the ongoing assistance that many elderly people need. Most of the balance of the nation's long-term care bill—almost half of all nursing home costs—is picked up by Medicaid, either immediately, for people meeting federal poverty guidelines, or after nursing home residents "spend down" their own savings and become eligible. Many people who begin paying for nursing home care find that their savings are not enough to cover lengthy confinements. If they become impoverished after entering a nursing home, they turn to Medicaid to pay the bills. Turning to Medicaid once meant impoverishing the spouse who remained at home as well as the spouse confined to a nursing home. Recent changes in the law, however, permit the at-home spouse to retain specified levels of assets and income.

You cannot predict what kind of care you might need in the future, or know exactly what the costs will be. But since you may have long-term care expenses, you need to know if long-term care insurance is appropriate for you.

What kind of insurance is available?

Long-term care insurance is similar to other insurance in that it allows people to pay a known and affordable premium that offsets the risk of much larger out-of-pocket expenses. Although long-term care insurance is relatively new, more than 100 companies now offer coverage.

Several types of policies are available, but most are indemnity policies. This means that they pay a fixed dollar amount for each day you receive specified care either in a nursing home or at home.

Today, many companies also offer "integrated policies" or policies with "pooled benefits." This type of policy provides a total dollar amount that may be used for different types of long-term care services. There is usually a daily, weekly, or monthly dollar limit for your covered long-term care expenses. For example, you purchase a policy with $200,000 of "pooled benefits." Under this policy, you may be allowed to use up to $150 a day towards your covered nursing home, assisted living, or home care expenses. No policy is guaranteed to cover all expenses fully.

Policyholders usually have a choice of daily benefit amounts ranging from $50 to more than $300 per day for nursing home coverage. The daily benefit for at-home care may be less than the benefit for nursing home care. Note, though, that you are responsible for your actual nursing home or home care costs that exceed the daily benefit amount you purchased.

Because the per-day benefit you buy today may be inadequate to cover higher costs after a number of years, most policies offer an inflation adjustment feature. In many policies, for example, the initial benefit amount will increase automatically each year at a specified rate (such as 5 percent) compounded over the life of the policy.

Some life insurance policies offer long-term care benefits. Under these accelerated or living benefits provisions, a portion of the life insurance benefit is paid to the policyholder if long-term care is needed instead of to the beneficiary at the policyholder's death. Some companies make these benefits available to all policyholders; others offer them only to people buying new policies.

What do policies cost?

The cost of long-term care insurance varies widely. Inflation adjustments can add 40 percent to over 100 percent to your premium, depending on the option you select, but can keep benefits in line with rising costs.

The actual premium you will pay depends on many factors, including your age, the level of benefits, and the length of time you are willing to wait until benefits begin. Here are details:

Age

In 1999, a policy offering a $100 per day long-term care benefit for four years, with a 20-day deductible, cost a 50-year-old about $409 per year. For someone who was 65 years old, the same policy cost about $1,002, and for a 79-year-old, the cost was $4,166. The same policy with an inflation feature may cost $881 at age 50, $1,802 at age 65, and $5,895 at age 79.

Premiums generally don't increase with age but remain the same each year (unless they are increased for an entire class of policyholders at once). The younger you are when you first buy a policy, therefore, the lower your annual premium will be.

Benefits

The premium is also directly affected by the size of the daily benefit and the length of time for which benefits will be paid. For example, a policy that pays $100 a day for up to five years of nursing home care costs more than a policy that pays $50 a day for three years.

Elimination or deductible periods

So-called elimination or deductible periods refer to the number of days you must be in residence at a nursing home or the number of home care visits you must receive before policy benefits begin. Most policies offer a choice of deductible ranging from zero to 100 days. A 20-day elimination period, for example, means that your policy will begin paying benefits on the 21st day. The longer the elimination or deductible period, the lower the premium.

You can lower your own costs for long-term care coverage, therefore, by buying a policy at an early age and by selecting carefully both the level of benefits and the deductible period. In making your selection, bear in mind that while 45 percent of nursing home stays last three months or less, more than one-third last one year or longer. It is the costly longer stay that may be the devastating financial blow that you may want to insure against.

What do long-term care insurance policies cover?

Most long-term care policies will pay benefits either when need is demonstrated by the inability to perform a specific number of personal functions or activities of daily living, such as bathing, dressing, or eating, or when care is needed due to cognitive impairment.

Today's policies cover skilled, intermediate, and custodial care in state-licensed nursing homes. Long-term care policies usually also cover home care services such as skilled or nonskilled nursing care, physical therapy, homemakers, and home health aides provided by state-licensed and/or Medicare-certified home health agencies.

Many policies also cover assisted living, adult daycare, and other care in the community, alternate care, and respite care for the caregiver.

Alternate care refers to non-conventional care and services developed by a licensed health care practitioner that can serve as an alternative to more costly nursing home care.

Benefits may be available for special medical care and treatments, different sites of care, or medically necessary modifications to the insured's home, like building ramps for wheelchairs or modifications to a kitchen or bathroom. A health care professional develops the alternate plan of care, the insured or insurer may initiate the plan, and the insurer approves it. It is important to note that the benefit amount will reduce the maximum or lifetime benefit available for later confinement in a long-term care facility and that policies may limit the expenses covered under this benefit (i.e., 60 percent of the lifetime maximum limit).

Alzheimer's disease and other organic cognitive disabilities, leading causes for nursing home admissions (and a leading cause of worry for many older Americans), are generally covered under long-term care policies.

What is not covered?

All policies contain limitations and exclusions. Otherwise premiums would become unaffordable. But the specific limitations and exclusions are likely to differ from policy to policy.

Consider:

Preexisting conditions

Insurance companies may require that a period of time pass before the policy pays for care related to a health problem you had when you became insured. Such health problems are called preexisting conditions. Some companies exclude coverage of preexisting conditions for six months. If you need long-term care within six months of the policy's issue date for a condition for which treatment was either underway or had been recommended before you took the policy, you may be denied benefits.

Specific exclusions

Before you buy, be sure you understand exactly what is and is not covered under a particular policy. Some mental and nervous disorders are often not covered.

Alcoholism and drug abuse are usually not covered, along with care necessitated by an intentionally self-inflicted injury.

What else should I know before I buy?

Virtually all policies now cover Alzheimer's disease and no longer require a hospital stay before paying nursing home benefits. Despite some move to uniformity, there are different options available under different policies. These are some of the things to consider:

Eligibility

If you are in reasonably good health and can take care of yourself, and if you are between the ages of 18 and 84, you can probably buy long-term care insurance. Most companies do not sell individual policies to people under age 18 or over age 84.

Note that these age limitations apply only to your age at the time of purchase, not at the time you use the benefits.

Duration or dollar limitations of benefits

Long-term care policies generally limit benefits to a maximum dollar amount or a maximum number of days and may have separate benefit limits for nursing home, assisted living facility, and home health care within the same policy. For example, a policy may offer $100 per day up to five years of nursing home coverage (many policies now offer lifetime nursing home coverage) and only up to $80 per day up to five years of home assisted living and health care coverage.

Generally, there are two ways in which companies define a policy's maximum benefit period. Under one definition, a policy may offer a one-time maximum benefit period. A policy with five years of nursing home coverage, issued by a company using this definition, would pay just up to five years in a policyholder's lifetime. Other policies offer a maximum benefit period for each "period of disability." Under this second definition, a policy with a five-year maximum benefit period would cover more than one nursing home stay lasting up to five years each if the periods of disability were separated by six months or more.

Renewability

Virtually all long-term care policies sold to individuals are guaranteed renewable; they cannot be canceled as long as you pay your premiums on time and as long as you have told the truth about your health on the application. Premiums can be increased, however, if they are increased for an entire group of policyholders.

The renewability provision, normally found on the first page of the policy, specifies under what conditions the policy can be canceled and when premiums may increase.

Nonforfeiture benefits

This benefit returns to policyholders some of their benefits if they drop their coverage. Most companies now offer this benefit as an option. The most common types of nonforfeiture benefits offered today are "return of premium or a shortened benefit period." With a "return of premium" benefit, the policyholder receives cash, usually a percent of the sum of premiums paid to date after lapse or death. With a "shortened benefit period," the long-term care coverage continues but the benefit period or duration amount is reduced as specified in the policy. A nonforfeiture benefit can add from 20 to 100 percent to a policy's cost.

Some policies may offer "contingent nonforfeiture benefits upon lapse," a feature that gives policyholders additional options in the face of a significant increase in policy premiums. If you do not purchase the optional nonforfeiture benefit, then a contingent nonforfeiture benefit is triggered if policy premiums rise by a

specified percentage. For example, if, at age 70, your premium rises to 40 percent above the original premium, you have the option of either decreasing the amount your policy pays per day of care or of converting to a policy with a shorter duration of benefits.

Waiver of premium

This provision allows you to stop paying premiums during the time you are receiving benefits. Read the policy carefully to see if there are any restrictions on this provision, such as a requirement to be in a nursing home for any length of time (90 days is a typical requirement) before premiums are waived.

Disclosure

Your medical history is very important because the information you provide on your application is used by the insurance company in assessing your eligibility for coverage. The application must be accurate and complete. If it is not, the insurance company may be within its rights to deny coverage when you file a claim. In fact, many companies now waive the preexisting condition requirement if you fully disclose your medical history and are issued a policy.

What about switching policies?

New long-term care insurance policies may have more favorable provisions than older policies. Newer policies, as noted above, generally do not have requirements for prior hospital stays or for prior levels of care. But, if you do switch, provisions excluding preexisting conditions for specified periods of time will have to begin again. In addition, your new premiums may be higher because they will be based on your current age. So you should never switch policies before making sure the new policy is better than the one you already have. And you should never drop an old policy before making sure the new one is in force.

A summary of features

The National Association of Insurance Commissioners has developed standards that protect consumers. Look for a policy including:

- At least one year of nursing home or home health care coverage, including intermediate and custodial care. Nursing home or home health care benefits should not be limited primarily to skilled care.
- Coverage for Alzheimer's disease, should the policyholder develop it after purchasing the policy.
- An inflation protection option. The policy should offer a choice among:
  - automatically increasing the initial benefit level on an annual basis,
  - a guaranteed right to increase benefit levels periodically without providing evidence of insurability,
  - or covering a specific percentage of actual or reasonable charges.
- An "outline of coverage" that systematically describes the policy's benefits, limitations, and exclusions, and also allows you to compare it with others. A long-term care insurance shopper's guide that helps you decide whether long-term care insurance is appropriate for you.
- A guarantee that the policy cannot be canceled, nonrenewed, or otherwise terminated because you get older or suffer deterioration in physical or mental health.
- The right to return the policy within 30 days after you have purchased the policy (if for any reason you do not want it) and to receive a premium refund.
- No requirement that policyholders:
  - first be hospitalized in order to receive nursing home benefits or home health care benefits,
  - first receive skilled nursing home care before receiving intermediate or custodial nursing home care,
  - first receive nursing home care before receiving benefits for home health care.

Before you buy

Insurance policies are legal contracts. Read and compare the policies you are considering before you buy one, and make sure you understand all of the provisions. Marketing or sales literature is no substitute for the actual policy. Read the policy itself before you buy. Discuss the policies you are considering with people whose opinions you respect—perhaps your doctor, financial advisor, your children, or an informed friend or relative.

Ask for the insurance company's financial rating and for a summary of each policy's benefits or an outline of coverage. (Ratings result from analyses of a company's financial records.) Good agents and good insurance companies want you to know what you are buying.

And bear in mind: Even after you buy a policy, if you find that it does not meet your needs you generally have 30 days to return the policy and get your money back. This is called the "free look."

Do not give in to high-pressure sales tactics. Do not be afraid to ask your insurance agent to explain anything that is unclear. If you are not satisfied with an agent's answers, ask for someone to contact in the company itself. Call your state insurance department if you are not satisfied with the answers you get from the agent or from company representatives.

Long-term care policy checklist

The following checklist will help you compare policies you may be considering:

1. What services are covered?
   - Nursing home care
   - Home health care
   - Assisted living facility
   - Adult daycare
   - Alternate care
   - Respite care
   - Other

2. How much does the policy pay per day for nursing home care? For home health care? For an assisted living facility? For adult daycare? For alternate care? For respite care? Other?

3. How long will benefits last in a nursing home? At home? In an assisted living facility? Other?

4. Does the policy have a maximum lifetime benefit? If so, what is it for nursing home care? For home health care? For an assisted living facility? Other?

5. Does the policy have a maximum length of coverage for each period of confinement? If so, what is it for nursing home care? For home health care? For an assisted living facility?

6. How long must I wait before preexisting conditions are covered?

7. How many days must I wait before benefits begin for nursing home care? For home health care? For an assisted living facility? Other?

8. Are Alzheimer's disease and other organic mental and nervous disorders covered?

9. Does this policy require: An assessment of activities of daily living? An assessment of cognitive impairment? Physician certification of need? A prior hospital stay for nursing home care? Home health care? A prior nursing home stay for home health care coverage? Other?

10. Is the policy guaranteed renewable?

11. What is the age range for enrollment?

12. Is there a waiver-of-premium provision for nursing home care? For home health care?

13. How long must I be confined before premiums are waived?

14. Does the policy have a nonforfeiture benefit?

15. Does the policy offer an inflation adjustment feature? If so, what is the rate of increase? How often is it applied? For how long? Is there an additional cost?

16. What does the policy cost?
    - Per year?
    - With inflation feature
    - Without inflation feature
    - With nonforfeiture feature
    - Without nonforfeiture feature
    - Per month?
    - With inflation feature
    - Without inflation feature
    - With nonforfeiture feature
    - Without nonforfeiture feature

17. Is there a 30-day free look?

HIPAA's impact on long-term care insurance

The Health Insurance Portability and Accountability Act of 1996 (HIPAA), affects long-term care insurance. The following are answers to commonly asked questions about the law's tax clarification provisions and consumer protection standards.

Tax clarification

Q. What is tax clarification for private long-term care insurance, and why is it necessary?

A. The tax clarification provisions for long-term care insurance are contained in HIPAA. The clarifications assure that the tax treatment for qualified long-term care insurance is the same as for major medical coverage.

Q. Will benefits received by consumers under a long-term care policy be taxed?

A. With the clarifications, benefits from qualified long-term care coverage, generally, are not taxable. Without the clarifications, benefits from long-term care insurance might be considered taxable income.

Q. Will consumers be able to take a tax deduction for the cost of tax-qualified long-term care insurance? Can consumers deduct from their taxes costs associated with receiving long-term care?

A. The answer to both questions is "yes." Since qualified long-term care insurance will now receive the same tax treatment as accident and health insurance, premiums for long-term care insurance, as well as consumers' out-of-pocket expenses for long-term care, can be applied toward meeting the 7.5 percent floor for medical expense deductions contained in the federal tax code. However, there are limits, based upon one's age, for the total amount of premiums paid for long-term care insurance that can be applied toward the 7.5 percent floor. (Check with your accountant to see if you are eligible to take this deduction.)

Q. Will employers be able to deduct anything for the cost of providing or paying for qualified long-term care insurance for their employees?

A. Generally, employers will be able to deduct, as a business expense, both the cost of setting up a long-term care insurance plan for their employees, and the contributions that they may make toward paying for the cost of premiums.

Q. Will employer contributions be excluded from the taxable income of employees?

A. Yes.

Q. Can Individual Retirement Accounts (IRAs) and 401k funds be used to purchase private long-term care insurance?

A. No. However, under a demonstration project, tax-free funds deposited in Medical Savings Accounts can be used to pay long-term care insurance premiums.

Consumer protection standards

Q. Is there a connection between the long-term care consumer protection standards in HIPAA and the tax clarification of long-term care?

A. Yes. To qualify for favorable tax treatment, a long-term care policy sold after 1996 must contain the consumer protection standards in HIPAA. Also, insurance companies must follow certain administrative and marketing practices or face significant fines. Generally speaking, policies sold prior to January 1, 1997, automatically will be eligible for favorable tax treatment. Lastly, nothing in the new law prevents states from imposing more stringent consumer protection standards.

Q: What kinds of procedures must insurance companies comply with to protect consumers?

A: There are several. Here are some of the more important ones. Consumers must receive a "Shopper's Guide" and a description of the policy's benefits and limitations (i.e., Outline of Coverage) early in the sales process. The Outline of Coverage allows consumers to compare policies from differ-

ent companies. Companies must report annually the number of claims denied and information on policy replacement sales and policy terminations. Sales practices such as "twisting"—knowingly making misleading or incomplete comparisons of policies—are prohibited, as are high-pressure sales tactics.

Q. How do the HIPAA standards address limitations on benefits and exclusions from coverage?

A: No policy can be sold as a long-term care insurance policy if it limits or excludes coverage by type of treatment, medical condition, or accident. However, several exceptions to this rule exist. For example, policies may limit or exclude coverage for preexisting conditions or diseases, mental or nervous disorders (but not Alzheimer's), or alcoholism or drug addiction. A policy cannot, however, exclude coverage for preexisting conditions for more than six months after the effective date of coverage.

Q: What will prevent a company from canceling my policy when I need it?

A: The law prohibits a company from canceling a policy except for nonpayment of premiums. Policies cannot be canceled because of age or deterioration of mental or physical health. In fact, if a policyholder is late paying a premium, the policy can be reinstated up to five months later if the reason for nonpayment is shown to be cognitive impairment.

Q. Will these standards help people who, for whatever reason, lose their group coverage?

A: They will. People covered by a group policy will be allowed to continue their coverage when they leave their employer, so long as they pay their premiums in a timely fashion. Further, an individual who has been covered under a group plan for at least six months may convert to an individual policy if and when the group plan is discontinued. The individual may do so without providing evidence of insurability.

If you need help

Every state has a department of insurance that regulates insurers and assists consumers. If you need more information, or if you want to register a complaint, check the government listings in your local phone book for your state's department of insurance.

Additional information about health care coverage and long-term care is available from the Area Agency on Aging. For your local office, call 1-800-677-1116. Other sources include:

American Health Care Association
1201 L Street, N.W.
Washington, D.C. 20005
(202) 842-4444
www.ahca.org

National Association of Insurance Commissioners
Suite 1100
120 W. 12th Street
Kansas City, MO 64105
(816) 842-3600
www.naic.org

United Seniors Health Council
(A program of the National Council on the Aging)
409 3rd Street, SW
Suite 200
Washington, DC 20024
(202) 479-6973
www.ncoa.org

Health Insurance Association of America

HIAA is the voice of America's health insurers, who protect consumers from the financial risks of illness and injury by providing flexible and affordable products and services that embody freedom of choice.

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For more information

- You can find HIAA online at www.hiaa.org.
- HIAA's Insurance Education Program can be reached at (202) 824-1675, or 1852.
- To order the *Source Book of Health Insurance Data* and other materials, call toll-free 1-800-828-0111.
- To order HIAA's free *Guide to Long-Term Care Insurance*, call toll-free 1-877-582-4872.

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