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The Women's Institute for a Secure Retirement

WISER Special Report

Long-Term Care Insurance

Private long-term care insurance can help protect people with a disability or chronic health condition from the high costs of long-term care. Private long-term care policies cover a wide range of services, such as home care, to help people live at home, or assisted living facilities and nursing homes.

What is Long-Term Care?

Long-term care refers to services that people need as they grow older or experience health problems that limit their ability to do certain things. Often referred to as activities of daily living, they include such basic activities as eating, getting dressed, or household chores. It may also include health care services that can be provided in the home.

Experts predict that the costs of long-term care will increase dramatically over the next several decades from an annual average of about $60,000 now to $200,000 by 2030.

What is Long-Term Care Insurance?

It is a type of insurance that you can buy to pay for long-term care services you might need:

- services that might allow you to stay in your own home when you are no longer able to do certain things for yourself, or
- the resources to choose an assisted living facility or nursing home.

Long-term care covers a range of services for individuals who need assistance with the activities of daily living.

- Activities include bathing, walking, taking medication, shopping, cooking and driving.
- Long-term care can be provided in a private home, assisted living facility or in a nursing home.

5 Reasons to Purchase Long-Term Care Insurance:

1. Preserve assets for your spouse and family.
2. Avoid being dependent on others.
3. Stay at home as long as possible.
4. Have a choice of nursing homes.

But Doesn't Medicare Pay for Long-Term Care?

Medicare covers very little in the way of long-term care.

- Medicare is mostly an acute care program covering hospital and physician bills.
- It pays for only limited home health care and nursing home costs – usually following a hospital stay.
- Medicaid only covers long-term care for low-income individuals without significant assets. As a result, many individuals impoverish themselves before they get assistance from the Medicaid program.
- Medicaid focuses almost exclusively on institutional care – such as a nursing home.

1146 19th Street NW • Suite 700 • Washington, DC 20036 • 202-393-5452 • fax: 202-393-5890
www.wiserwomen.org • info@wiserwomen.org

- Medicare has three requirements before it will pay for a nursing home stay:
    - You need to stay at least three days in the hospital. The day you are discharged does not count. You must be admitted to the nursing home within 30 days for the same medical condition.
    - Your doctor must prescribe "skilled" care or "therapy."
    - The nursing home must be Medicare-certified.

Private Long-Term Care Insurance

- Long-term care polices can be purchased on an individual basis and, increasingly, through group plans offered by employers.
- Most policies pay a fixed dollar amount—usually $50 to $250 per day—for long-term care services.
- Policyholders can choose the amount, the length of time benefits will be paid and the deductible period.
- The cost of long-term care insurance partly depends upon the age of purchase. It generally costs less at a younger age. Typically, premiums purchased before the age of 65 are much lower than polices purchased after the age of 65.
- Policies frequently have exclusions and limitations. It's important to read any policy carefully and ask questions before you purchase it.

Long-Term Care Insurance & Taxes

You can deduct premiums of a qualified long-term care plan from your federal taxes if your total medical expenses, including the premiums, exceed 7.5% of your adjusted gross income. The amount of the premium you can include in the deduction is limited, depending on your age. The federal government offers long-term care insurance as a benefit to federal employees. Thirty-eight states have adopted some type of state tax incentive for long-term care insurance premiums, and some make it available as a benefit to state employees.

Long-Term Care Insurance: Average Annual Premiums

The cost to the individual to purchase a policy varies widely, depending on: whether it is purchased individually or as part of a group, the benefits provided under the policy, and where the policy is sold. A recent analysis by AARP demonstrated that a hypothetical plan with a $150 in daily benefits, 4 years of coverage and inflation protection would cost about $1,100 annually for an individual at age 50, $2,300 at age 65 and $7,500 at age 79.

10 Questions to Ask Before You Buy Long-Term Care Insurance

1. Does the policy include protection against inflation?

The benefits paid by the policy should increase with the rate of inflation; otherwise, your policy may be worth very little by the time you want to use it.

2. Does the policy guarantee that premiums remain level?

If you bought your policy at age 60, the insurance company will always charge you the same rate as other 60-year old policyholders. Once you buy the policy, the company can't raise your rates because of your age (but it can raise rates for an entire class of insured individuals). Some policies guarantee that the rate will not change for a specific period of time.

3. **Does the policy cover home health care benefits and all levels of nursing home care including skilled, intermediate and custodial care?**
   Classic policies cover nursing home care and can have a rider to cover home health care. Integrated policies provide a pool of funds that can be used for a range of long-term care services.

4. **Does it provide comprehensive benefits for both home care and nursing home care?**
   Make sure that the policy covers less severe impairments and provides services that help you remain in your home.

5. **Is the policy renewal guaranteed?**
   Policies that qualify for federal tax deductions must have the renewal guaranteed, meaning that the policy cannot be canceled if you pay the premiums on time. Other policies are conditionally guaranteed and the company could cancel coverage for a group but not for you as an individual member of the group.

6. **Is the maximum benefit period one year or more?**
   The benefit period can vary from one year to a lifetime. You may also be able to choose to have coverage for a maximum number of days or maximum amount of benefits paid.

7. **Is the deductible affordable and does the policy have a waiting period of 100 days or less?**
   The deductible period is also called the waiting or elimination period. Most policies require that you pay for needed care from your own money for a certain number of days before the policy starts to pay for the services.

8. **Once approved for coverage, will the policy cover pre-existing conditions or limit coverage for certain conditions?**
   Some policies exclude preexisting conditions, or certain diseases like Alzheimer's disease. Since Alzheimer's is a major reason for nursing home admissions, make sure you know if your policy will cover you or your spouse if you develop Alzheimer's disease.

9. **Will you be able to keep up on the premium payments?**
   Important provisions, such as inflation protection and non-forfeiture, increase the cost of the benefit but also increase the value of the policy.

10. **Have you learned as much as you can about the insurance company?**

Try to choose a company that will be financially sound in the future, has an excellent reputation, and has a strong customer service record. Ratings by independent companies such as Standard and Poor's, Moody's or A.M. Best are available at public libraries.