

LONG-TERM CARE INSURANCE – SHOULD I OR SHOULDN'T I?

November 2003

WHAT IS LONG-TERM CARE?

In general, long-term care refers to a broad range of services needed by people for an extended period of time because of a chronic illness or disability. Every day counselors with the Medigap Hotline at the Board on Aging and Long-Term Care hear from consumers who wonder if they should buy long-term care insurance. It is a very important question for people who want to plan for their needs should they become disabled. The decision will have significant financial consequences. A decision to buy is a decision for a lifetime. Simply put, that means that to reap any benefits from such an insurance policy you must keep it for the rest of your life.

Keep in mind that very few older people actually enter a nursing home and even fewer have long-term stays in nursing homes. For example, on any day in America, only 3% of 65-74 year olds, 8% of 75-84 year olds and 33% of 85+ year olds are in nursing homes. For the small percentage of folks who do enter nursing homes, over 40% return home or die within the first three months and 90% have returned home or died within two years. It is more likely for individuals to need help at home; however this help is less likely to be “medical.” Most likely, this will be help with grocery shopping, meal preparation, housekeeping, toileting and moving about – what is known as “activities of daily living” or “custodial care.” For long-term care insurance to be effective, therefore, the policy must cover these types of services.

DO YOU BELONG IN THIS MARKET?

Unlike health insurance, long-term care insurance is not needed by everyone. You should weigh the value of what you want to protect against the cost of protecting it. You should consider the following factors to help you determine if it would be wise to purchase long-term care (LTC) insurance.

Issues To Consider Before Purchasing Long Term Care Insurance

- What are your chances of needing long-term care? Your chances are greater if you have a family history of certain diseases such as stroke, heart attack, Parkinson's disease or Alzheimer's Disease. Many people can avoid or delay a nursing home stay if they have family members living nearby who are willing to provide care.
- What is your reason for considering LTC insurance? LTC insurance is often considered to be asset protection insurance. Do you have significant assets to protect that will justify that large expense of LTC insurance premiums? Is it important for you to protect these assets? Are there other family members, friends or causes that you are obligated to, or want to support? Can you afford enough insurance to truly protect your assets or will you be simply delaying their depletion? A couple should have a net worth of at least \$100,000 not including their home or automobile, and a single person should have at least \$50,000 before spending money on LTC insurance premiums. With less than this amount, you do not need LTC insurance.
- Are you considering this insurance because of possible tax advantages? Many long-term care insurance salespeople are encouraging older people to consider this insurance for the possible tax advantages. There are two problems with this, however. First, the tax advantages are only a possibility for consumers who buy a policy that meets federal standards, not Wisconsin standards, and these federal standards do not have as strong consumer protections as the Wisconsin standards. Second, payment of these premiums will actually

result in any tax deduction on your federal income tax only if: (1) you have any tax liability; and (2) you itemize deductions; and (3) the total medical expense deduction you claim, *including the federally tax-qualified long-term care insurance premium*, exceeds 7.5% of adjusted gross income.

- Can you afford to pay the premiums for LTC insurance out of your income without tapping into savings? No more than 7% of your annual adjusted gross income should be spent on LTC insurance premiums. Be prepared to handle future premium increases. Although premium increases cannot be based on an individual policyholder's age or health condition, insurance companies are allowed to increase premiums for all policyholders and regularly do.

Will you qualify for Medical Assistance to help pay for nursing home care? In Wisconsin, spousal impoverishment protections allow the spouse of a nursing home resident to retain the first \$50,000 of the couple's countable assets, and as much as \$90,660 if their total countable assets exceed \$181,321. These 2003 figures are indexed for inflation for future years. Exempt assets include the couple's home, automobile, personal belongings, and money set aside for burial expenses. On the other hand, a single person entering a nursing home can keep only \$2,000 in countable assets. Medical Assistance is a welfare program, available only after individuals have spent all of their own assets. Most people understand and accept this; after all, as taxpayers they have paid into these programs all of their lives, have saved and used their own savings as long as they were available, and then, after exhausting all of their own savings, turn to Medical Assistance. Other folks want to avoid relying on a government program entirely. The choice is yours.

- What other financial vehicles might be more appropriate for funding long-term care? Mutual funds, annuities, life insurance long-term care riders, reverse mortgages? You may want to consult a financial planner or elder law attorney to help you with these decisions. What is the likelihood of ever seeing a benefit from the premiums you will pay? Weigh the value of what you want to protect against the cost of protecting it.

WHAT ARE IDEAL FEATURES OF LONG-TERM CARE INSURANCE?

If you have carefully considered the above issues and come to the conclusion that long-term care insurance will be a smart commitment, now what? To compare the various products on the market, the Board on Aging and Long-Term Care provides the following points to guide you:

- "Nursing Home" policies cover only institutional care. "Home Health Care" policies cover only home or community-based care. Policies labeled "Long-Term Care Insurance" include benefits for both nursing home and home health care services. To cover the broadest range of long-term care services, purchase a "Long-Term Care" insurance policy rather than "nursing home" or "home health care" insurance.
- Be sure the policy includes alternate care facility coverage. This benefit extends coverage to assisted living facilities and community-based residential facilities (CBRFs). Some policies will limit coverage to facilities with a minimum number of residents. Policies with low minimums, such as four residents, will allow the greatest range in choice of facilities where a benefit will be payable.
- Purchase an inflation protection rider to assure that a policy continues to have a meaningful level of protection in the future.
- Predicting future long-term care needs is very difficult. Policies which pay benefits out of one pool of money are more flexible than those that assign a maximum benefit amount to each covered long-term care service such as \$100 per day for nursing home or \$50 for a therapy visit.

- An assessment of care needs is important when a need for long-term care arises. Some policies offer to perform or pay a benefit for this service. This assessment will also assure the consumer of the types of care for which the policy will pay benefits.
- Consider only companies which are financially sound. Several organizations provide financial ratings of insurance companies. Because many years may pass between purchasing a policy and filing a claim, and because claim amounts could be quite high, consider only companies which are placed in the highest possible regard by the rating organizations, such as A.M. Best and others.
- Delivery of long-term care services is changing radically and many long-term care insurance companies periodically revamp their products to include additional covered services. Check whether a particular policy gives you a written assurance that, if future policy upgrades are made, they will give you an opportunity regardless of your health circumstances to decide whether you would like to upgrade your policy. What type of claims appeal process does the insurer use in the case of disputed claims? What type of claims appeal process does the insurer use in the case of disputed claims? Look for a policy that does not permit the insurance company to have the final word in disputed claims cases. Rather, look for a policy with a claims appeal process that involves an *independent third party* to arbitrate disputed claims.

WHERE DO I GO FOR MORE INFORMATION?

The Board on Aging and Long Term Care encourages you to contact the Medigap Helpline for a discussion of your personal insurance needs. They can be reached at: 1-800-242-1060.

For a listing of policies to discover a company's complaint history or to file a complaint, contact:

The Office of The Commissioner of Insurance
 125 South Webster Street
 Madison, Wisconsin 53702
 (608) 266-3585
 (800) 236-8517
information@oci.state.wi.us

This information was prepared by the following agencies:

Wisconsin Board on Aging & Long-Term Care
 1402 Pankratz St
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 1-800-242-1060

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