

• **Is Alzheimer’s disease covered?**

Most policies cover Alzheimer’s disease and other cognitive disorders, often referred to as “organically based mental conditions.”

• **When will benefits begin?**

Benefits commonly begin when a physician determines that a person is unable to perform two activities of daily living (ADLs) without assistance. Cognitive impairments associated with conditions such as Alzheimer’s disease or Parkinson’s disease may also trigger benefits.

• **How long will benefits last?**

Oftentimes, you have a choice as to the duration of your benefits, which may be available up to a lifetime maximum. Consider your age, the amount you can afford to pay for premiums, and your risk tolerance based on your own health and the income and assets you expect to have in the future.

• **What is the daily benefit amount?**

Daily benefits vary depending on where you live and the type of care you are receiving. For example, a person may receive benefits ranging from \$100 to \$150 a day for nursing home care, or around \$100 a day for at-home care. Remember, it is important to know if your benefits will be adjusted for inflation.

• **Is there an elimination period?**

You may have to wait for a prescribed amount of time—often called an “elimination period”—before receiving benefits, during which time you will be responsible for expenses. In general, elimination periods range from 21 to 365 days. A longer elimination period may reduce your premium.

• **Will premiums be waived while you receive benefits?**

You should not have to pay premiums while you are receiving benefits. Some insurers may require that

you receive benefits for a prescribed period of time, 90 days for example, before premiums are waived.

• **How much does a policy cost?**

Typically, the amount you pay is based on three factors: age, current health, and specific policy features, such as breadth of coverage, levels of care, and length of benefits. For example, a person age 45 at the time of purchase may pay \$746 per year, whereas a person age 65 may pay \$2,580 per year.

• **Who can purchase long-term care insurance?**

Anyone over age 40 who is in moderately good health should be eligible. The more tenuous your health and the older you are, the harder it may be to qualify and the more likely you are to pay a higher premium.

Preparing for Long-Term Care Needs

It is difficult to prepare for the possibility that you or someone you love may need long-term care as a result of an accident or illness. Your world could change dramatically, affecting not only your quality of life, but also your finances. While you may not see long-term care on your horizon, it may enter your life through someone you love. The AARP estimates that 44% of Americans between the ages of 45 and 55 have aging parents or in-laws and children under the age of 21. Furthermore, 40% of people in need of long-term care are between the ages of 18 and 64.

While we might not know what the future holds, we can hope for the best and plan for the worst. Planning today for an uncertain tomorrow may afford you more independence with your savings, offer you more options for care, and bring you peace of mind.



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Long-Term Care Insurance

Are Your Assets Sufficient to Cover Your Care? And for How Long?



Sometimes, planning for the future is like staring into a thick fog. How can we know what the years to come will bring? It is especially difficult to face the prospect of our own failing health or that of a loved one. Many of us just avoid thinking about it altogether, hope for the best, and assume we'll have the resources to cross that bridge if and when we get to it. But, our anticipated capacity to deal with the needs of **long-term care (LTC)** may be founded on common misperceptions about the cost of care, the likelihood that we may actually need it, and the availability of public funding.

You Might Need Long-Term Care

Many people are unaware of the actual costs associated with long-term care. In 2006, the American Association of Retired Persons (AARP) conducted a survey of Americans age 45 and older, and it revealed that only 8% of participants could estimate the cost of a nursing home stay within 20% of the actual national average, 17% of respondents did not know the cost, and 63% thought it would cost less than it actually does—\$75,192 per year. Furthermore, only 17% of respondents could correctly estimate the average monthly costs for assisted living—between \$2,500 and \$3,000.

What is the likelihood that you or someone you know may need long-term care? According to the U.S. Department of Health and Human Services, an estimated nine million people over age 65 needed long-term care in 2006; however, this number may increase to twelve million by 2020. Long-term care refers to the broad range of services that assist those with chronic conditions in performing the essential **activities of daily living (ADLs)**, such as getting around the house, dressing, bathing, or eating, or the **instrumental activities of daily living (IADLs)**, such as travel outside the home, preparing meals, or taking medication. A person is generally considered to be in need of long-term

care if he or she has difficulty performing two or more ADLs or IADLs because of physical limitations, cognitive impairments, or both. The most common forms of long-term care assistance are nursing homes, assisted living facilities (ALFs), adult day-care centers, and in-home care.

Financing Considerations

The general tendency of many to underestimate the cost of long-term care often goes hand-in-hand with a tendency to *overestimate* the amount of financing available through public programs and private health insurance. Contrary to popular belief, **Medicare**—the government health insurance program for people age 65 and over, as well as for people under the age of 65 with certain disabilities and chronic conditions—does not fund long-term care. In fact, no current government program is specifically designed to cover long-term care. Medicare only covers short-term care. It may cover some nursing home or assisted living costs, but only for “skilled care” deemed medically necessary for the duration of an illness, usually limited to 100 days. It is also uncommon for **Medigap**—private health insurance intended to supplement Medicare coverage—to provide for long-term care.

As a result, **Medicaid** has, by default, become the major source of public funds for long-term care, but because it is a government program designed to help those in financial need, individuals may have to “spend down” their personal assets before being eligible for assistance. So if you have savings, in order to qualify for Medicaid, you may have to pay out of pocket for long-term care expenses, effectively exhausting your savings. This process of “spending down” your assets will eventually put you in a position of financial need that would qualify you for government assistance.

The Insurance Solution

The good news is there is an alternative. **Long-term care insurance** can help pay for long-term care expenses before you or a loved one becomes eligible for Medicaid. It may allow you to keep significantly more of your savings, as well as alleviate the burden on younger generations, who often provide financial support and act as unpaid caregivers. Many employers offer long-term care insurance plans that may permit your spouse and your parents to purchase policies as well. In addition, participation in certain policies may make you eligible for certain tax deductions.

Long-term care insurance is designed to help enable you to maintain your quality of life, while offering you independence and increased options for care. Many policies assume the costs of nursing homes, assisted living facilities, adult day-care centers, and/or home care. As you think about a plan that's right for you, consider these questions:

• Is the policy “qualified” under the Health Portability and Accountability Act?

With a **qualified LTC policy**, you may be able to deduct a portion of insurance premiums or unreimbursed expenses that exceed a certain percentage of your gross income. Unqualified policies do not meet the legislative requirements for tax deductions.

• Is the policy guaranteed to be renewable?

With this protection, an insurer cannot cancel your policy unless you fail to make payments. Many insurers also offer a grace period—generally 7 to 31 days after a premium due date—which provides an opportunity for payment before a policy may be canceled.

• Is the policy protected against inflation?

Because the purchasing power of a dollar tends to decrease over time, it is important to make sure

a policy adjusts benefits to keep pace with inflation. For example, if a policy currently agrees to pay \$100 per day, the daily rate in twenty years should be more than \$100 to account for a probable rise in costs. Be advised that some insurers offer inflation protection only under a policy rider commonly called a “benefit adjustment option.” There may be an additional charge for this rider, which could increase your premium by as much as 33%.

• Is there a pre-existing conditions clause?

While this stipulation is common, there should be no more than a six-month exclusion for pre-existing conditions.

• What are the coverage restrictions?

Comprehensive plans cover many different types of care, including nursing homes, assisted living facilities, adult day-care centers, and home care, whereas noncomprehensive plans tend to restrict coverage to either nursing homes or home care. Some insurers only offer home care with a policy rider, often at an additional charge. There also may be stipulations regarding the licensing of facilities and state certification.

• What levels of care are covered?

There are three main levels of care: **skilled**, **intermediate**, and **custodial**. Licensed medical professionals provide *skilled* care under the direct supervision of a physician. Nurses, therapists, and nurses aides provide *intermediate* care, most often nursing and rehabilitation services, under the supervision of a physician. Home health aides provide *custodial* care, which includes companion and home-maker services. While this is a nonskilled form of assistance, it accounts for the majority of long-term care and is considered by many to be one of its most important components.