

A CONSUMER GUIDE TO

Long-Term Care Insurance

Be secure and confident
in the decisions you make



Presented by The Insurance Marketplace Standards Association (240) 497-2900



INSURANCE MARKETPLACE STANDARDS ASSOCIATION

*Committed to honesty,
integrity and ethics*

How likely is it that you will need long-term care? Americans are living longer thanks to advances in medical technology, preventive care and healthier lifestyles.

- Over the next three decades, the U.S. population age 65 and older is expected to double, to 70 million, comprising 20 percent of the population by 2030.¹
- The number of people aged 85 and older, the fastest growing segment of the older population, will reach nearly 9 million by 2030.²

While this increased longevity is good news, it also has a downside. Longer life spans mean a greater number of people living with chronic conditions, disabilities and functional limitations that require on-going care.³

THINK AHEAD

plan
ask questions





make

informed decisions

Information you should consider:

- The U.S. Department of Health and Human Services reports that the total number of Americans needing long-term care is expected to rise from 15 million in 2000 to 27 million in 2050, an increase of nearly 100 percent.¹
- According to some estimates, 4 million Americans—one in 10 persons over the age of 65 and almost half of those more than 85 years old—suffer from Alzheimer's disease, and an estimated 14 million Americans will have the disease by 2050 unless a cure or prevention is found.² With half of all nursing home residents already experiencing some type of dementia, the need for long-term care will continue to increase as the number of persons with Alzheimer's climbs.
- About 44 percent of Americans 65 and older will enter a nursing home at least once in their lifetime, and more than half of them will stay for at least a year.³

As you and your loved ones plan for the future, the following questions and answers may help you make more informed decisions.

¹ *Retirement Security for the American Worker: Opportunities and Challenges*, testimony of William J. Scanlon at hearing before the Subcommittee on Employer-employee Relations, Committee on Education and the Workforce, Serial No. 107-37, Nov. 1, 2001, p. 24.

² *Projections of the Resident Population by Age, Sex, Race and Hispanic Origin: 1999-2010*, Populations Projections Program, U.S. Census Bureau, Jan. 13, 2000, p.11.

³ *Beyond 50: A Report to the Nation on Trends in Health Security*, AARP, Washington, DC, May 2002, p. 3.

⁴ *The Future Supply of Long-term Care Workers in Relation to the Aging Baby Boom Generation: Report to Congress*. Department of Health and Human Services' Office of the Assistant Secretary for Planning and Evaluation. May 14, 2003, p. v.

⁵ *2001-2002 Progress Report on Alzheimer's Disease*, National Institute on Aging, p. 2.

⁶ "New Estimates of Lifetime Nursing Home Use," *Medical Care* 2002, Urban Institute, October 2002; 40 (10) 965-967.

MAKE SURE you cover your long-term care needs



What is long-term care?

It is care for someone who no longer can perform “activities of daily living” (ADL) such as eating, bathing, toileting, dressing, moving between a chair and a bed, and remaining continent. Insurance companies generally use a certain number of ADLs or a cognitive impairment, such as Alzheimer’s or similar diseases, to determine when a person is eligible to receive benefits from a long-term care insurance policy.

What does long-term care cost?

The national average cost of nursing home care in 2001 was \$56,000 a year, according to AARP, but nursing homes may cost nearly twice that amount in some regions of the country. This does not include the price of medication and therapies.⁷

Home care, essentially bringing aides to your home two to three hours a day, three times a week, to assist with personal care and household chores, cost around \$1,000 a month or \$12,000 annually in 2001, according to the Health Insurance Association of

America.⁸ Home visits by physical therapists and other skilled professionals run much higher, as does around-the-clock care.

Won’t the government or my private health insurance pay for my long-term care needs? Can’t I pay for it myself?

Generally speaking, neither Medicare, nor private Medicare supplemental insurance, nor the health insurance policy your employer provides will pay for long-term care.

Medicaid will pay for nursing home care and for some home and community-based services, but only for those who qualify. Medicaid was not designed to pay long-term care expenses. To receive Medicaid, you must have spent down your assets to required levels. Federal law requires states to attempt to recover assets from an estate to compensate for Medicaid benefits received, though states vary in their approach. There are exceptions. For example, states cannot attempt to recover funds while a spouse or dependent child lives in the home.

⁷ Tucker, Natalie Graves and Enid Kassner, *Long-term Care*, FS27R, AARP Public Policy Institute, May 2000, p. 1.

⁸ *A Guide to Long-term Care Insurance*, Health Insurance Association of America (HIAA), HIAA-101-03, “What Does Long-term Care Cost?” 2002, p.6

Also, federal law requires states to protect some income and assets of spouses.

AARP reports that Americans are split over whether or not they are financially prepared for the costs of long-term care—49 percent say they are either “very” or “fairly” prepared, with 46 percent saying they are “not very” or “not at all” prepared. In some instances, people may believe they have coverage when they do not, creating a false sense of security.⁹

Individuals and their families pay for about one-third of all nursing home costs out-of-pocket. Medicare pays for only about 12 percent of nursing home costs, and only for a short period of time, when a patient is recovering from acute illness or injury after a hospital stay. Medicare covers a limited amount of care at home and does not cover care in assisted living facilities.¹⁰

What is long-term care insurance?

Long-term care insurance is coverage that is available on an individual or group basis to pay for personal care needs and other services for individuals who are limited in their activities of daily living or are cognitively impaired. Policies may pay for care in your own home, in an assisted living type facility, or in a state-licensed nursing home.

Should I buy long-term care insurance?

Long-term care insurance can help ensure that you or a family member will be able to receive personal assistance and nursing care and help protect your assets and your family’s inheritance. According to the U.S. Centers for Medicare and Medicaid Services, Americans spent \$100 billion in 2000 on long-term care. Most of these costs—46 percent for nursing home stays and 62.2 percent of home care—were paid for out-of-pocket by patients and their families.¹¹

The National Council on the Aging reports that a major worry of Americans about living to age 75 and beyond is that they will have to spend all of their money on long-term care.¹²

The National Association of Insurance Commissioners advises consumers to buy long-term care insurance only if they can afford the premiums on a policy that will offer worthwhile benefits.¹³

How do I determine if I need long-term care insurance?

Long-term care insurance is designed to provide some flexibility and choice as to where and how you live if you lose the ability to care for yourself. It also allows you to remain relatively independent and can help to protect your assets.

⁹ *The Costs of Long-term Care: Public Perceptions Versus Reality*, AARP, December 2001, p. 19.

¹⁰ *A Guide to Long-term Care Insurance*, Health Insurance Association of America (HIAA), HIAA-101-03, “Who Pays the Bills,” 2002, p. 6.

¹¹ “An Overview of the U.S. Healthcare System: Two Decades of Change, 1980-2000,” *Sources of Payment for Long Term Care*, Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, 2000, Table 1.11.

¹² *American Perceptions of Aging in the 21st Century—Update 2002*, The National Council on the Aging, 2002, p.12.

¹³ *A Shoppers Guide to Long-term Care Insurance*, National Association of Insurance Commissioners, 2003, pp. 7-8.

After calculating the potential costs of long-term care, determine what you would be prepared to pay from your own financial resources—including retirement income, personal savings, and other assets. Then you can estimate how much an insurance policy will need to cover.

Be sure to balance the amount and type of coverage you estimate you will require, with your ongoing ability to pay the premium costs. Keep in mind that a spouse or other family member who does not require long-term care will need assets or income to live on and to pay medical and other bills. Your financial planner or insurance agent should be able to provide you with some guidance.

What does long-term care insurance cover?

Most long-term care insurance policies pay benefits when a policyholder either is unable to perform a specific number of activities of daily living or is cognitively impaired. Policies cover skilled, intermediate, and custodial care in state-licensed nursing homes. Plans usually pay for home care services as well, and many cover assisted living, adult day care, and other community services. Long-term care insurance covers Alzheimer's disease and other organic cognitive disabilities diagnosed after the insurance policy is in force.

All policies have conditions, limitations, and exclusions that differ from contract

to contract. Policies may pay a fixed dollar amount for every day you receive specific care at home or in a nursing home or they may pay for actual charges incurred up to a maximum daily benefit. Many policies pay a total dollar amount for "pooled benefits," which may include a combination of services in nursing homes, your home, adult day care centers, and assisted living facilities. Some plans also insure hospice, counseling, and referral services, even respite care for the caregiver.

Does long-term care insurance cover all my costs?

Usually not. To hold down premiums, consumers often choose a lower daily benefit. (Daily benefits range generally from \$50 to \$300 or more.) Consumers must pay the difference between what is covered and what the long-term care provider charges, plus the costs of pharmaceuticals and medical care, which usually are not covered fully by other insurance.

What should I look for in choosing a long-term care insurance policy?

Check whether the insurance company offering the policy is a member of IMSA, the Insurance Marketplace Standards Association. IMSA membership demonstrates that the insurance company issuing your policy is committed to ethical standards when selling, marketing and servicing long-term care insurance.

Look at what the policy covers, including:

- When coverage begins. Most policies have a waiting period of 0 to 100 days after care starts before the company starts paying. The shorter the elimination or deductible period, the higher your premium. “Elimination days” may be consecutive calendar days from the time you first received care or only those days on which you received a service covered by the policy. Some policies have a once-in-a-lifetime requirement, while others start anew with each “episode of care.”
- The kinds of care and services the policy covers.
- Whether the policy has an inflation clause covering escalating benefits costs by a fixed percentage after a period of time. Every company should offer this type of protection at the time of purchase.
- What types of care facilities the policy covers.
- Coverage limitations.
- What conditions will make you eligible for coverage payment to begin, such as inability to perform activities of daily living, cognitive impairment (the onset of dementia or the decrease of mental capacity), and physical necessity for care.
- The premium.
- How much you will need to pay to supplement what the policy covers.
- Waiver of premium, which allows you to stop paying the premium once you begin receiving benefits or after you have received the benefits for a set period.
- The number of years or total benefit amount the policy covers.
- Other options such as premium refund at death, restoration of benefits, nonforfeiture benefits, and ability to downgrade your coverage if you’re having trouble meeting the premiums.
- Keep in mind that some of these options may mean an additional charge.

Carefully choose
YOUR
long-term
care
insurance policy



What should I expect to pay for long-term care insurance premiums?

The cost of long-term care insurance varies widely, depending on your age, your health, the benefit amount, the length of coverage, the type of care covered, and when the policy begins paying out.

What's the right age to start considering long-term care insurance?

If you are in reasonably good health, can take care of yourself, and are between the ages of 18 and 84, you probably can buy long-term care insurance coverage. In 2001, the average age at which people bought long-term care insurance was 62.¹⁴

However, if you purchase a policy at a younger age, your premiums are lower, although you may pay for a longer period of time. For example, the annual premiums of a 50-year-old generally will

run a little less than half of those for a 65-year-old.¹⁵ (Some experts suggest that since consumers will pay the same amount in the end, they should buy policies when premiums are lower and more affordable.)

Premiums depend on many factors and vary widely.

Does my health history affect long-term care insurance premiums?

Certain pre-existing conditions, health problems you have/had when you apply for the insurance, may cause you to be rejected for coverage, although this varies from company to company. In addition, insurance companies may impose a time requirement before a policy begins paying for care related to pre-existing conditions.

¹⁴ *Long-term Care Insurance in 2000-2001*, Health Insurance Association of America, January 2003, p. 4.

¹⁵ *Fact Sheet: Long-term Care Insurance*, Enid Kassner, AARP Public Policy Institute, June 2003, p. 2.



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IMSA membership is your guidepost

Because long-term care insurance is underwritten based on present health, waiting until you are older and typically in poorer health may mean that you will not be able to qualify for the coverage when you discover you need it. If you can still qualify, you may not be able to afford the premiums.

Should I buy a long-term care insurance policy with lifetime coverage?

It depends on what you can afford and what options you want. Keep in mind that the U.S. Department of Health and Human Services says that in 1999, the average length of a nursing home stay was 2.4 years.¹⁶

How can I be sure the company offering long-term care insurance will still be in business when I need it?

Buy from a reputable company with a “secure” rating from one of the major rating agencies that grade the financial strength of insurers—A.M. Best and Company, Fitch Ratings, Moody’s Investor Services, Inc., or Standard & Poor’s

Ratings Services. Also check with your state insurance department to make sure the company is licensed to sell long-term care insurance policies in your state.

Can a company cancel my long-term care insurance?

By law, companies may not cancel a policy unless you fail to pay the premiums. If you are late in paying, the policy may be reinstated up to the time period specified in your policy (generally five to eight months) if it can be proven that you failed to pay because you were cognitively impaired.

Are long-term care insurance premiums tax deductible?

If you pay for your own policy and itemize, you may be able to deduct the cost of eligible long-term care insurance premiums as a medical expense, but there are strict limits and only certain policies qualify for deduction. Discuss your options with your financial advisor as well as your tax counselor. You also can check the IRS Form 1099-LTC worksheet on their website at www.irs.gov.

¹⁶ *The National Nursing Home Survey: 1999 Summary*, U.S. Department of Health and Human Services, National Center for Health Statistics, June 2002, Table 11, p. 16.

Does long-term care apply just to the elderly?

Long-term care may be required for anyone who has a chronic illness or a disability or is recovering from a serious accident. The General Accounting Office says that 40 percent of those receiving long-term care services are working-age adults between 18 and 64 years old.¹⁷

Why is long-term care insurance important for women?

Women are almost twice as likely to need nursing home care after age 65 because they generally live longer than men.¹⁸ More than half of the residents of U.S. nursing homes in 1999 were women.¹⁹ After being a primary caregiver for an aging spouse, women often have few options for their own long-term care needs once their husband is deceased.

What do I need to look at before I buy long-term care insurance?

Insurance policies are legal contracts. Carefully read and compare the policies you are considering and be sure you understand the provisions. Don't be rushed into buying. Ask your insurance agent to explain everything and be sure you are satisfied with the answers. If you still have questions, contact the company.

Remember, even after you purchase a policy, if you find it does not meet your needs, you usually have 30 days during which you may return the policy and get your money back.

Where can I find more information on long-term care insurance?

The consumer section of the IMSA website, www.IMSAethics.org, lists IMSA member companies that you may contact for information on their long-term care insurance policies. We also have links to other resources on long-term care insurance.

¹⁷ *A Guide to Long-term Care Insurance*, Health Insurance Association of America (HIAA), HIAA-101-03, "What Does Long-term Care Cost?" 2002, p.5.

¹⁸ *Long-term-care Insurance: Protection for Your Future*, American Council of Life Insurers, 2001, 7200101 15K-3/01, p.5.

¹⁹ *The National Nursing Home Survey: 1999 Summary*, U.S. Department of Health and Human Services, National Center for Health Statistics, June 2002, Table 11, p. 12.

IMSA, the Insurance Marketplace Standards Association, is a voluntary, non-profit organization founded in 1996 to strengthen consumer trust and confidence in the life insurance, long-term care insurance and annuities products industry. IMSA members commit to maintain high ethical standards and to be fair, honest and open in the way they advertise, sell and service their individually sold products.



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