The Basics of Long-Term Care Insurance

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The aging of baby boomers has led to a national discussion of the increased demand for long-term care services. Long-term care includes different kinds of assistance you may need if you ever have difficulty caring for yourself for an extended period of time. This care can be very expensive, even if this care is provided at home. Medicare pays long-term care expenses only under limited conditions. Medicaid can cover care costs in a certified nursing home, assisted living facility, and some long-term care provided at home. However, you must meet very limited income and asset requirements in order to qualify. Long-term care insurance was developed as a way to help individuals manage these costs.

Making the Decision

Should you buy long-term care insurance? Some may choose to buy it for peace of mind. Others may feel they need it because they cannot possibly save enough money to protect their financial security. Even if you have a high net worth, you may want to consider buying a policy to protect your assets. You should talk with your financial advisor. If you have a very low net worth and believe you may qualify for Medicaid, consider buying only what you can afford.

Care provided by family members or friends may be free, but it takes an emotional, financial, and physical toll on them. It can also diminish their earning power in the future.

If you need to pay for care, the cost depends on three factors:

- the general level of charges in your area of the country,
- the specific expense rate for the services you need based on where care takes place and who provides it, and
- how long you need the care.

There are several ways you can obtain long-term care insurance:

- You can purchase an individual policy.
- You can purchase a group policy if your employer offers it as part of its benefits package. You may be able to get a lower premium and be automatically enrolled without worrying about pre-existing conditions.
- Many associations let insurance companies and agents offer long-term care insurance to their members. According to the National Association of Insurance Commissioners (NAIC), members usually get to keep their coverage after leaving the association. But be careful about joining an association just to buy insurance.
- Many states, including Oklahoma, now offer Long-Term Care Partnership Plans. These will be described later.

Oklahoma Cooperative Extension Fact Sheets are also available on our website at:
http://osufacts.okstate.edu

Policy Features

Before purchasing insurance, you want to understand who will write your plan of care. You would like to choose that person, such as your own doctor or a licensed health care practitioner. However, it may be a person provided by the insurance company. Ask the insurance company the following questions:

- Am I required to use this person?
- What is the business relationship between this person and the insurance company?

What features should you look for in a long-term care insurance policy? First of all, make sure you understand what care the policy covers.

- Does it cover just nursing home care, or also care at an assisted living facility, adult day care center, and at home?
- Does in-home care include homemaker services?
- Are family caregivers paid? If so, how?

You also need to make sure you understand under what conditions the policy begins paying benefits, such as:

- Need substantial assistance with 2 out of 6 specific Activities of Daily Living for 90 days or longer.
- Need substantial supervision due to cognitive impairment (dementia, Alzheimer's disease, etc.) for 90 days or longer.
- Policy should not require a hospital stay before paying benefits.

The following is a list of basic insurance policy features:

- *Amount of Benefits*: Expressed in daily or monthly amounts with a lifetime maximum limit.
- *Elimination Period*: Options may range from 0 to 365 days. No benefits are paid until after this period passes. If you recover during the elimination period, then no benefits are paid. If your elimination period is 60 days, you will pay for 60 days of long-term care services out-of-pocket. Your policy would begin to pay benefits after that. The longer your elimination period, the lower your insurance premium will be. Make sure you are financially prepared to cover your long-term care costs during the elimination period. Also, do you only have to meet this requirement once? Are the days counted consecutive or cumulative?
- *Benefit Period:* You need to choose how long you want your benefits to last. This period may range from 2 years

to your lifetime. The longer the benefit period, the more expensive the insurance premium will be. Selecting a shorter time period can help reduce your insurance premium. The length of the benefit period is used in calculating the maximum lifetime benefit.

- *Indemnity, Reimbursement, or Going Rate*: Most policies pay on a reimbursement basis, up to policy limits. Suppose your policy will pay a benefit up to $150 per day for long-term care in your home, but you only spend $130. You will be reimbursed for $130 only. The remaining $20 goes into a "pool of money" that will extend your benefit period. If your policy pays the "going rate" for a particular service, make sure you understand how it is calculated. The amount may be less than your actual expense. If your policy pays on an indemnity basis, you would be paid the $150 per day, no matter what you actually paid.
- *Inflation Protection*: This is an extremely important feature, especially for those who buy long-term care insurance at a young age. As health care costs rise, you want to make sure your benefits also rise over time. A common inflation rate is 5 percent per year. Inflation protection alternatives include simple inflation, compound inflation, or additional benefit purchases (most expensive option).
- *Guaranteed Renewable*: The policy must be renewed by the insurance company as long as you pay your premium.
- *Waiver of Premium*: This means that once you start receiving benefits, no further premiums are due.
- *Third-Party Notification*: If you forget to pay a premium, a person you designate will be notified.
- *Non-Forfeiture of Benefits*: If you stop paying your premiums, the policy will pay a reduced benefit for your care. This provision can add at least 10% to your premium.
- *Restoration of Benefits*: Maximum benefits are put back in place if you receive benefits for a time, and then recover for a certain period of time (typically six months) without receiving benefits.

What is not covered? For pre-existing conditions not included on the application, a waiting period applies, usually six months. There are specific exclusions such as some mental and nervous disorders, alcoholism and drug abuse, and self-inflicted injuries. Virtually all policies now cover Alzheimer's disease.

Making Long-Term Care Insurance Affordable

The NAIC suggests that your insurance premium be no more than 5 percent of your income. So if you earn $4000 per month, then you should not pay more than $200 per month for long-term care insurance. Your premium may be raised if the insurance company finds that rates for your overall risk group need to be raised.

Here are several ways to save money when buying long-term care insurance:

- Don't procrastinate! The younger you are, the less likely you will be declined for the policy and the lower your insurance premiums.
- A longer elimination period reduces the premium, but be sure to compare your potential savings to the inflated costs you will have to cover during that period.
- Consider buying a policy that will pay most, but not all, of the average nursing home costs in your area. The more you are willing to pay out-of-pocket, the lower your insurance premium. Again, compare your potential savings to future inflated costs.
- Some life insurance companies are starting to offer long-term care benefits as a rider on existing life insurance policies for an additional premium. Check with your life insurance company to see if it offers this. These life insurance policies generally do not offer the same level of coverage.
- If you are married and your spouse also wants long-term care insurance, consider buying a "shared" policy. The policy will pay when either one of you needs care and can pay for both, if necessary, up to its benefit limits.
- Shop around! You may not collect benefits for decades to come. Look for companies that have been around for a while and are financially stable. A.M.Best, Standard & Poor's and Moody's Investor Service all rate insurance companies. Look for companies with A++ and A+ ratings (considered superior). Make sure the insurance company gives you an outline of coverage. This will allow you to compare costs and benefits with other companies.

State Partnership Plans

Remember, long-term care is only covered by Medicare under limited conditions and not at all by private health insurance. Medicaid is a joint federal and state insurance program. As the demand for nursing home care rises, states are developing programs to help control Medicaid costs.

The Long-Term Care Partnership Program is a public-private partnership between states and private insurance companies designed to reduce Medicaid expenditures by delaying or eliminating the need for some people to rely on Medicaid to pay for long-term care services. Oklahoma has long-term care partnership policies available to our residents.

The foundation of these policies is a provision called asset protection, which allows you to keep some of your assets, but still qualify for Medicaid to cover your long-term care costs. You must still meet the income and asset limitation requirement for SoonerCare. Here is how this works for the Oklahoma Partnership for Long-Term Care:

> If you have $100,000 in assets, and purchase a $100,000 Oklahoma Long-Term Care (OLTC) Partnership policy, you may be eligible for SoonerCare (Oklahoma Medicaid), while exempting $100,000 in assets from the asset limit. The more insurance you purchase, the more assets are disregarded when determining your Medicaid eligibility. SoonerCare would step in after you have used up all of your insurance policy benefits. These are tax-qualified plans. This means that your benefits are not taxed and that your insurance premiums are tax-deductible up to a limit.

According to the Oklahoma Health Care Authority in 2013, SoonerCare covered 67.3 percent of the cost of nursing home care in Oklahoma. It is in the state's best interests to do all it can to help lower Medicaid expenditures.

Insurance agents who sell OLTC Partnership policies have to complete a one-time, 8-hour long-term care insurance (LTCI) course. They also have to complete 4 hours of LTCI continuing education every two years.

If you already have a long-term care insurance policy, you may be able to exchange it for an OLTC Partnership policy as long as the policy meets the core requirements for an OLTC Partnership policy. It is the decision of the insurer to offer the exchange.

For more information about the Oklahoma Long-Term Care Partnership Plan, call them at (405) 522-7904 or visit their website at http://www.okltcpartnership.org. For questions regarding specific long-term care insurance policies, call the Oklahoma Insurance Department at 1-800-522-0071 (in-state only) or (405) 521-2828, or visit their website at http://www.ok.gov/oid. If you would like to speak with someone regarding SoonerCare or have general questions about Medicaid, contact the Oklahoma Health Care Authority at (405) 522-7300 or visit their website at http://www.okhca.org.

Summary

No matter how hard you try, you cannot avoid getting older. There are lifestyle changes you can make now to keep yourself healthy and reduce the need for long-term care. But it is important that you have a financial plan in place to pay for long-term care. High medical costs at the end of your life will certainly affect both you and your family, especially if they are your primary caregivers. Considering long-term care insurance may give you and your family peace of mind about the future.

Helpful Websites

1. American Association of Retired Persons: http://www.aarp.org
2. Insurance Information Institute: http://www.iii.org
3. National Association of Insurance Commissioners: http://www.naic.org
4. Oklahoma Health Care Authority: http://www.okhca.org
5. Oklahoma Insurance Department: http://www.ok.gov/oid
6. Oklahoma Long-Term Partnership Plan: http://www.okltcpartnership.org
7. U.S. Department of Health and Human Services National Clearinghouse for Long-Term Care Information: http://www.longtermcare.gov

The Oklahoma Cooperative Extension Service
Bringing the University to You!

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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