



## Long-Term Care Insurance

### What is Long-Term Care?

Long-term care consists of medical, social, and/or personal care services required by a person with a chronic illness or disability, over a long period of time. Leading examples of chronic conditions include cancer, Alzheimer's/dementia, diabetes, strokes, cardiac related conditions, Parkinson's disease, severe arthritis, and head injuries. Such care can take place in the home, assisted living facilities, nursing homes, adult day care centers, and other community settings.

### What are the Chances of Needing Long-Term Care?

According to The Northwestern Mutual Life Insurance Company:

- Of those people receiving long-term care, over 40% are under the age of 65.
- It is estimated that over 70% of the population over 65 will require some form of long-term care during their lifetimes. About half of this group will require 90 or more home health care visits and about half will require being in some type of health care facility.
- Nearly 20% of people over 65 will require being in a health care facility for more than a year.

The cost of receiving long-term care varies considerably depending on the amount and type of services rendered, but can be substantial. For instance, home health aids with no nursing experience cost between \$11 and \$20 an hour. A six hour shift per day would amount to \$24,090-\$43,800 a year. Requirement of round the clock services of such aids increases the annual range to \$96,360-\$175,200. Such costs skyrocket even further if a registered nurse is required as charges for their services can be \$35 or more per hour. Around the clock care by a registered nurse could result in an annual expense of \$306,600.

The cost of long-term care in assisted living facilities and nursing homes usually are a lot less than home health care charges, but the cost of these services can also be considerable depending on location and the quality of the amenities. The annual cost can range from \$20,000 to \$70,000.

### How Do You Pay for Long-Term Care?

- Personal and family assets.
- Some assistance from Medicaid. Medicaid can be used to cover nursing home care and some home and community based services. Only people with very limited financial resources qualify for Medicaid. State laws vary as to the amount of assets one can maintain and be eligible for Medicaid. Also, some states may exclude one's home and one car in determining eligibility.

- Long-term care insurance.

**What about Medicare? Doesn't that Cover Long-Term Care Costs?**

Medicare, Medicare supplement insurance, or major medical health insurance provided by employers do not cover most long-term care costs. Medicare's skilled nursing facility (SNF) may cover the cost of some skilled care in approved settings or services needed after being in the hospital for three days. Medicare supplement policies may also cover some short-term services needed after an illness, injury, or surgery. **Nevertheless, Sigma suggests that you do not depend on Medicare or Medicare supplement policies for your long-term care needs.**

Major Comparisons			
Eligibility	Medicaid	Medicare	Long-Term Care Insurance
	<ul style="list-style-type: none"> <li>• Most assets must be spent</li> <li>• In Michigan, you can keep your house and one car.</li> </ul>	<ul style="list-style-type: none"> <li>• If you have minimum of 3-day hospitalization</li> <li>• Physician orders</li> <li>• Meet Medicare guidelines based on activity level</li> </ul>	<ul style="list-style-type: none"> <li>• Must be purchased by paying premium</li> </ul>
Options of Care	<ul style="list-style-type: none"> <li>• Medicaid beds are limited; you will be admitted wherever a bed is available.</li> <li>• Once you meet Medicaid criteria, state pays a maximum of \$117/day or \$42,705/year.</li> </ul>	<ul style="list-style-type: none"> <li>• Skilled Care in-home, part time if ordered by doctor.</li> <li>• Skilled nursing facility first 20 days, day 20-100 with \$99/day co-pay; you pay 101st day and beyond.</li> </ul>	<ul style="list-style-type: none"> <li>• Depending on policy coverage               <ul style="list-style-type: none"> <li>○ Basic custodial in-home care</li> <li>○ Skilled care in home</li> <li>○ Skilled nursing</li> <li>○ Adult day care</li> <li>○ Assisted living</li> </ul> </li> <li>• Payments per day depend on premiums paid</li> <li>• Length of coverage depends on premiums paid</li> </ul>

Source: Nancy Boari; Long-Term Care Specialist.

**Who Should Consider Purchasing Long-Term Care Insurance?**

- People between the ages of 45 and 70 should consider purchasing policies while they are young enough to pay reasonable premiums and healthy enough to be eligible. It is important to understand that if you already have health problems under the insurance company's definition, you may no longer be able to purchase the coverage.. Younger people might wish to purchase policies if there are histories of chronic diseases occurring at earlier ages in their families. Also, premiums are lower at younger ages.
- Anyone without enough assets to self-insure. Anyone concerned about the ability to preserve assets for future generations after potential long term care costs.

- Anyone concerned about being able to stay independent of support from others; that is anyone who does not have enough assets to assure the coverage of possible substantial long term care costs.

### Who Should Not Buy Long-Term Care Insurance?

- Anyone who cannot afford the premium or who cannot afford a policy that offers enough benefits to make it worthwhile.
- Anyone whose only source of income is Social Security or Supplemental Security Income, because such person probably will be eligible for Medicaid.

### What Factors Should Be Considered When Looking at a Long-Term Care Insurance Provider?

- Financial stability of the company and product.
- Company licensed in your state.
- Easy access to claims as indicated by the company's history of claims paying for the LTC and other products.
- Flexibility of products to adjust to changing conditions; for instance, numerous LTC products offered many years ago covered nursing home care but are not transferable to care received at assisted living or any other long-term care facilities.
- If you wish to remain in your home for your lifetime, you need to understand that insurance policies may cover long-term care provided by licensed health care practitioners, but **may not cover care administered by unlicensed home health care aids or family members.**
- Married couples, two partners, or two or more related adults may wish to know if the company offers "pooled benefits" policies. These policies usually have a total benefit that applies to all parties. Each party uses benefits as they need them until the total is depleted.
- Knowledge as to whether the product is "tax-qualified" or "non-tax-qualified". If you have a tax-qualified policy, premiums may be tax deductible. More importantly, benefits paid by a qualified long-term care insurance product generally are guaranteed to not be taxable as income, while those from a non-tax-qualified plan may be taxable as income.
- **A contract must have a very specific definition of the phrase "substantial assistance". "Substantial assistance" should mean the policy owner must require assistance in two out of six Activities of Daily Living (ADLs) before the policy is triggered to pay benefits. ADLs, in turn, typically are defined as eating, bathing, toileting, transferring, walking, and dressing. Benefit payments of policies without these specific definitions will be considered non-tax qualified and therefore may be taxed. Bathing is particularly essential as an ADL, because that is the activity that one is likely to need assistance with first.**
- A contract **must avoid vague definitions** of the words "substantial assistance" as a poorly defined phrase may limit when benefits begin or toward which benefits may be applied. A vague term to avoid includes "hands-on." Instead, phrases like "directional" assistance (which means the patient needs to be told

- what to do) or "stand-by" assistance (which means that a human being is nearby to monitor, observe, and help if needed) are preferred.
- Many long-term care policies also pay benefits for cognitive impairment or mental incapacity.
  - A policy should be guaranteed renewable so that as long as you pay your premiums, the insurance company cannot drop you if you reach a certain age or become ill.

### **What is Not Covered by Long-Term Care Insurance?**

- Addiction to alcohol or drugs
- War-related injury or illness
- Self-inflicted injury including suicide attempt
- Treatment paid for by the government or provided in a government facility
- Mental illness other than dementia or Alzheimer's disease

### **What Kinds of Policies Are Available?**

There are no standard long-term policies and there are hundreds of combinations of benefits and coverage available. It is important to customize your policy to fit your own circumstances, preferably with the help of an independent long-term care insurance specialist. You can buy an individual policy from an agent or through the mail. Or, your employer or an association to which you belong may offer a group long-term care plan.

### **What Decisions Must Be Made When Purchasing LTC Insurance?**

When purchasing LTC insurance, you must make several decisions:

- **Elimination Period** - the number of days you will be responsible for paying long-term care expenses before your insurance begins to pay. Most plans have a variety of options like 0 days, 30 days, or 100 days. It is important to determine if this elimination period is once in a lifetime or if it repeats itself with every occurrence. For example, if the elimination period repeats, and your elimination period is 100 days and every time you have a chronic condition you are ill for a lesser period, you may never be eligible for insurance payments. As you would expect, the shorter the elimination period, the higher the premiums.
- **Daily Benefit** - the amount of money you will receive on a daily basis. Generally, you can select between \$50 and \$250 per day. By checking the current cost of likely care and determining if you want to self-insure a portion of your likely costs, you can decide what is appropriate for you. Obviously, the more coverage, the more the premiums will cost.
- **Inflation Protection** - This allows your benefits to rise in step with inflation. Inflation protection increases the premium. **However, the younger you are, the more important it is to have this type of protection.** Also, the inflation adjustment should be compounded rather than simple. The latter implies the benefit increases by the same dollar amount each year, which would be less than if the benefit is compounded.

- **Benefit Period** - the length of time you will receive payments from the insurance company once you need care. This can be for only a short period such as three years or can be for your lifetime. The longer the benefit period, the higher the premium.
- **Non-forfeitures** - this option provides some benefit if the policy should lapse, also requiring higher premiums.
- **Cost/Benefit Analysis** - *This can be very tricky.* Some people may opt for lower premium policies because they seem more affordable. However, the benefits may not be nearly adequate as a percentage of long-term care costs. The total cost of a more expensive product over time may double the cost of the less expensive product; however, the benefits may be four or five times greater than the benefits under the less expensive policy. Be sure when you consider a policy that there is sufficient coverage when you most likely will need it. For instance, if you are buying a policy in your 40s, you most likely will not need the benefits until your 80's.

The following table demonstrates why the policy with the lower premiums may not always turn out to be the least expensive policy and why it may not even come close to covering long-term care costs when they are actually needed.

<b>Hypothetical Example</b>		
	<b>Less Expensive Policy</b>	<b>More Expensive Policy</b>
Age	55	55
Elimination Period (Beginning Date)	91st Day	91st Day
Daily Benefit	\$160/day	\$160/day
Inflation Protection of Daily Benefit	No	5% compounded annually
Tax-Qualified Plan	Yes	Yes
Non-forfeiture	No	No
Spousal Discount	No	No
Estimated Annual Premium	\$1,379	\$4,741
Benefits Begin	Age 80	Age 80
Benefits Paid	Lifetime	Lifetime
Total Premiums Paid from Age 55-79	\$34,480	\$118,520
Projected Annual Health Care Cost 5% Compounded at age 80	\$196,735	\$196,735
1st Year's Annual Coverage	\$160 x 365 = \$60,000	\$160 x 5% compounded x 365=\$196,735

## **How Much Does Long-Term Care Insurance Cost?**

Premiums can be as low as \$700 annually to as high as \$5,500. Many factors determine the annual premium including age, amount of potential benefit coverage desired, degree of inflation protection, and the length of the elimination and benefit periods.

By now, you may be wondering how you could ever decide whether or how much long-term care insurance is appropriate for you. Helping to guide you through this process is one of the many services we offer our clients at Sigma. We can put you in contact with reputable companies or agents offering long-term care insurance policies. We can assist you in comparing policies, determining your coverage needs, assessing coverage limitations, and developing a cost/benefit analysis of each policy. If you wish to investigate this potentially very important financial planning, please give us a call.

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