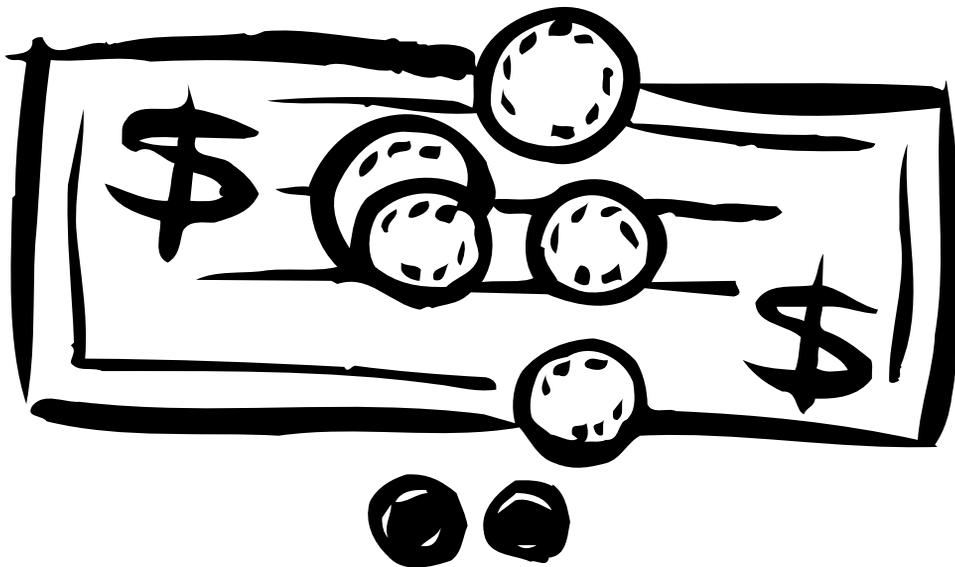


## LONG-TERM CARE INSURANCE: A MAJOR FINANCIAL CONSIDERATION



Long-term care, including nursing home and home-care services, is one of the largest out-of-pocket expenses you may have. One year in a nursing home costs more than three times the average annual income for most elderly persons. Although you are unlikely to face a great nursing home expense, the lack of a Federal or State program for this type of care makes it an important financial consideration.

### What is Long-term Care Insurance?

Long-term care insurance is different from other types of insurance in that it is designed specifically to pay for some long-term care

service. Although long-term care insurance is relatively new, more than 130 companies now offer this type of coverage. It is not a substitute for Medicare or Medigap insurance. Instead, it covers services Medicare and Medigap do not include.

Several types of policies are available. Most are “indemnity” policies, which means that the policy pays a fixed dollar amount each day you receive care. A few policies pay a percentage of the costs of services. Others will pay up to a specified dollar amount to cover the actual charges for services received. No policy is guaranteed to fully cover all expenses.



## Do I Need Long-term Care Insurance?

Before shopping for a long-term care insurance policy, you should consider several factors. The national average for a nursing home stay is slightly less than 1 year. Half of all nursing home stays last 3 months or less. Yet, statistics indicate that 25 percent of people over 65 will enter a nursing home for at least 1 year and 10 percent for 3½ years or more. Consider the following facts when deciding whether you need to purchase a policy.

- Single people are more at risk because they are not living with someone who can provide care.
- The likelihood of a stay in a nursing home increases when family members live too far away to give regular assistance.
- Women are more at risk because they tend to outlive their spouses. They have a 13 percent chance of spending 5 years or more in a nursing home while their husbands have a 4 percent chance.

## Who Pays for Long-term Care?

The average cost of nursing home care in Maryland's metropolitan areas is \$150 a day, or approximately \$55,000 a year, though costs vary throughout the State.

Approximately one-third of nursing home bills are paid by individuals and their families. Neither Medicare, Medigap insurance, or other health insurance you may have will pay much, if anything, for long-term care.

Medicare pays for about 8 percent of all nursing home costs, but only by providing coverage for skilled nursing care following hospitalization. It pays for the first 20 days of approved skilled care coverage in a Medicare-certified facility. Skilled care is defined as "Issued in furtherance of daily 24 hour supervision by a registered nurse who works under the direction of a doctor." After the first 20 days, Medicare pays a portion of the costs for days 21 to 100 and nothing after 100 days.

Strict rules for Medicare coverage apply to home health care as well. The patient must be homebound and require skilled services. There is no reimbursement by Medicare for intermediate or custodial care. It is important to note that custodial care is the primary need of most nursing home residents.

Medigap insurance, which is a supplement to Medicare, pays for very limited long-term care needs. Coverage may pay part or all of the nursing home Medicare copayments from day 21 to 100 during the 100 days of Medicare coverage for skilled care.

Medicaid, a government-funded program, pays for more than half of all nursing home costs. To qualify, you must meet the State poverty guidelines, or once in a nursing home, "spend down" your assets to become eligible. Asset exceptions are your home, car and personal belongings, which you are allowed to keep. The spousal impoverishment provision in the Medicaid law permits the at-home spouse to retain a specified level of assets and income.

## Is Long-term Care Insurance Expensive?

Long-term care insurance premiums are expensive. Generally, the better the coverage, and the older you are when you make the purchase, the more your policy will cost. You can expect to pay annual premiums of between \$500 to \$2,000 a year prior to the age of 65, \$1,500 to \$3,500 a year up to age 75, and \$2,500 to \$6,000 a year over the age of 75.

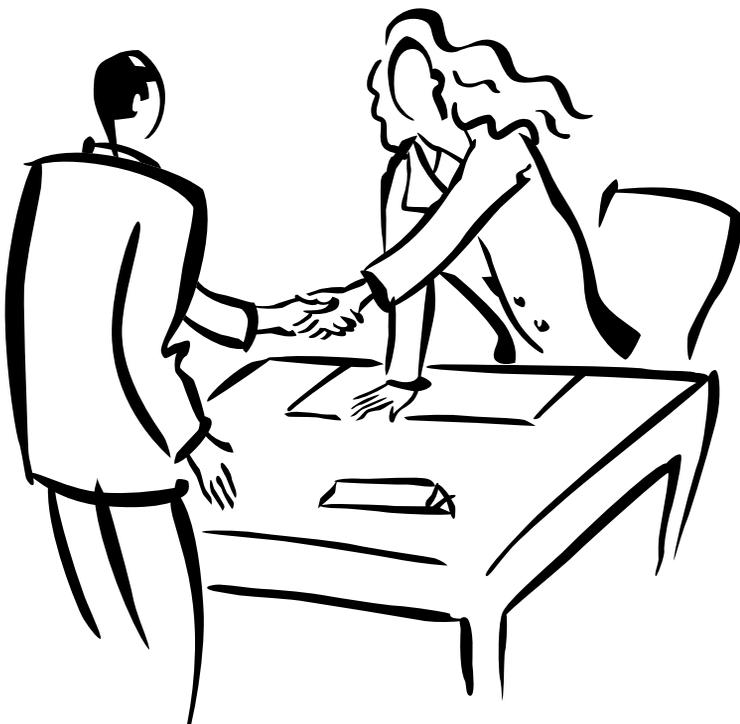
Annual premiums will depend on the length of the waiting period before benefits start, the length of time over which benefits are paid, the dollar amount of daily benefits, home care coverage limits, inflation protection, waiver of premium, and nonforfeiture policy options.

It is now possible to deduct your long-term care insurance premium from taxes along with your other medical expenses. But, there are age-based limitations ranging from \$200 a year for a person under 40 to \$2,500 a year for an individual over 70.

Consumer groups representing senior citizens provide the following criteria for persons who might be able to afford and benefit from buying this insurance.

Consider a long-term care policy only if you:

- have assets of \$100,000 to \$500,000, excluding your home;
- have an annual retirement income over \$30,000 per person in the household;
- can afford the premium without making a lifestyle change; and
- have the ability to afford a 20 to 30 percent increase in premiums in future years.



## What Should I Know Before I Buy a Policy?

### Flexibility/Eligibility Features

If you are 50 to 84 years of age you should be eligible to purchase long-term care insurance. Be sure your policy covers cognitive as well as physical disability and pays benefits if you meet **either** criteria. Your policy also should cover skilled, intermediate, and custodial care in state-licensed nursing homes, and skilled and nonskilled home-care services provided by either state-licensed or Medicare-certified home health agencies, or both.

The policy should not require a certain period of nursing home care before covering home health care services. In addition, it may be desirable for your policy to cover adult day-care and other care in the community, alternate care, and respite care for the caregiver.

### Benefits

Carefully choose the amount allowed for daily nursing home costs or home-care coverage. Your nursing home options may be from \$50 to \$250 per day. Home-care benefits are usually one-half of the nursing care benefit. Find out how much these costs are in your area to choose a realistic benefit amount.

You also need to choose a benefit period. Benefit periods may run for 1, 2, 4, 6, or 10 years. Some policies will run for the rest of your life. Most nursing home stays are short, but some stays can last for several years. Generally, a policy covering 2 or 3 years is most cost-effective.

All policies have a maximum limit to the benefits. Some policies state nursing home limits by number of days, months or years and home-care coverage by a certain number of visits or hours of care. Other policies state their limit by dollar amount. Purchasers should buy the maximum length of benefits they can afford. Most policies will not provide the full amount of the actual charges for care and the policyholder will be responsible to pay the difference.



### Inflation Protection

Benefits lose value over time due to inflation and the rising costs of health care. Consequently, without inflation protection, the value of the policy will decrease. The best protection is a built-in inflation guard of 5 percent compounded annually. Some policies pay a percentage of the total cost of the services, adjusting to inflationary costs.

### Waiting Period or Elimination Period

The waiting or elimination period is frequently referred to as a deductible. This is the period of time in which you must pay

for services before the insurance company will pay. The longer you are willing to wait, the lower your premium. However, a long waiting period can be costly. For example, a 90-day waiting period in a nursing home, at \$100 a day will cost \$9,000 before the policy starts to pay.

Avoid a policy in which there is another elimination period if you have a repeat stay in a nursing home or require additional home health care. Look for a policy in which the second stay is considered part of the first one as long as you are released and readmitted within a certain period of time.

### Optional Policy Benefits

The following optional benefits may add a substantial cost to your policy.

#### Waiver of Premium

The waiver of premium provision allows you to stop paying premiums during the time you are receiving benefits. Some companies waive the premium as soon as they make the first benefit payment, others wait 60 to 90 days.

#### Nonforfeiture Benefits

Companies experience about a 60 percent lapse in long-term care policies within 10 years of purchase. If your policy offers a nonforfeiture benefit and you let your policy lapse or cancel your coverage, the insurance company will offer a "return of premium" benefit or give you a reduced paid-up policy. Your policy should state the portion of the benefits you will receive and under what conditions.



To avoid a policy lapse, look for one that allows you to designate someone to be notified if your policy is about to lapse because of nonpayment. Also, look for a policy that requires your insurer to reinstate your coverage if your lapse of payment was due to a mental or physical impairment.

## Death Benefits

The death benefit refund pays a refund to your estate of the premiums you paid, minus benefits the company paid on your behalf. If you purchase this option, check the policy limitations.

## Benefits Not Covered

### Preexisting Conditions

If you have a preexisting condition the company will generally require that a period of time pass, such as six months, before the policy will pay for that condition.

Some applicants who recently have had a serious illness or been confined to a hospital or nursing home are likely to either be denied coverage or charged higher premiums.

## Policy Exclusions

Benefits are excluded for persons with certain mental and nervous disorders such as clinical depression. Alcoholism or drug addiction are usually not covered, as well as illnesses caused by an act of war or an attempted suicide.

## Can My Policy Be Canceled?

All long-term policies sold to individuals are guaranteed renewable. They cannot be canceled as long as you pay the premiums and have told the truth about your medical history. However, premiums can be raised if they are increased for the entire group of policyholders.

## Is it Wise to Switch Policies?

New long-term care policies usually have more favorable provisions than older ones. They generally do not have requirements for prior hospital stays or prior levels of care. But, before buying an upgraded policy, make sure it is better than the policy you own. You may find it is less expensive to add benefits to your current policy rather than switch to a different policy. Never drop an old policy until your new policy is in force.



## Shopping Tips

- Check with several companies and agents.
- Ask for a summary of each company's benefits or an outline of coverage.
- Take time to compare policies.
- Do not be misled by advertising or celebrity endorsements.
- Do not rely on marketing materials or verbal explanations.
- Do not buy from an agent who sells door-to-door.
- Do not buy multiple policies; one good policy is all you need.
- Do not be misled by agents who say your medical history is unimportant.
- Never pay an agent in cash.
- Be sure to get the name, address, and telephone number of the agent and the company.
- Read and understand the policies.

- Take advantage of the 30-day "free look" rule.
- Return the policy for a full refund if you are not happy.
- Evaluate the financial strength of the insurance company before you buy a policy.

If you need additional information on making a decision regarding long-term care insurance, contact your community Senior Health Insurance Counseling and Advocacy Program counselor. Your area Agency on Aging staff can also be of assistance. In addition, insurance counseling is available from the United Seniors Health Cooperative located in Washington, DC. They charge a fee.

The insurance industry is State-regulated. If you have questions or problems, write to: The Maryland Insurance Commissioner, Stanbalt Building, 501 St. Paul Place, 7th Floor, Baltimore, MD 21202. Or, call (800) 492-6116.

**Long-Term Care Insurance:  
A Major Financial Consideration**

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Issued in furtherance of Cooperative Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, University of Maryland, College Park, and local governments. Thomas A. Fretz, Director of Maryland Cooperative Extension, University of Maryland.

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## COMPARISON WORKSHEET

### Long-Term Care Policies

	POLICY 1	POLICY 2	POLICY 3
1. Name of Policy			
2. Services Covered			
Nursing Home Care			
Home Health Care			
Adult Daycare			
Respite Care			
Other			
3. Level of Nursing Home Care			
Personal/Custodial			
Intermediate			
Skilled			
4. Facility Licensing			
Any Licensed Facility			
Medicare Licensed			
5. Home-Care Benefits			
Skilled Care			
Home Health Aides			
Homemaker			
6. Alzheimer's/Cognitive Impairment Diseases			
7. Eligibility Requirements (Assessments)			
Activities of Daily Living (Which ones?)			
Cognitive Impairment			
Doctor's Certification of Need			
Prior Hospital Stay for Nursing Home Care			
Prior Hospital Stay for Home Health Care			
Prior Nursing Home Stay for Home Health Care			
Other			
8. Policy Payments Per Day			
Nursing Home Care			
Home Health Care			
Adult Daycare			
Respite Care			
Other			
9. Inflation Protection			
Rate of Increase			

	POLICY 1	POLICY 2	POLICY 3
Time of Adjustment—Yearly, Other			
Inflation Adjustment Limit (Years)			
Inflation Adjustment Limit (\$)			
Added Cost to Purchase			
Daily Benefit in 10 Years— Nursing Home			
Daily Benefit in 10 Years— Home Health Care			
10. Length of Benefits (Years)			
Nursing Home Care			
Home Health Care			
Other			
11. Maximum Lifetime Benefit (\$)			
Nursing Home Care			
Home Health Care			
12. Maximum Length of Coverage for Each Period of Confinement (Days/Visits)			
Nursing Home Care			
Home Health Care			
13. Waiting Period for Preexisting Conditions			
14. Waiting Period Before Benefits Begin			
Nursing Home Care			
Home Health Care			
15. Waiver of Premium Provision			
Nursing Home Care			
Home Health Care			
16. Waiver of Premium Start			
17. Nonforfeiture Benefit Provisions			
18. Policy Guaranteed Renewable			
19. Age Range for Enrollment			
20. Discount for Couples			
Discount When Spouse Dies			
21. Company Rating (Best & Co., etc.)			
22. Yearly Cost of Policy (Including Discounts)			
With Inflation Factor			
Without Inflation Factor			
Other Riders			