

# Understanding long-term care insurance

As anyone with an elderly relative or friend who is unable to provide for his or her own care can tell you, the cost of that care—whether at home or in a facility—is a major expense. The financial outlay for such care, because of advanced age or chronic illness or injury, may not be an issue for the very rich, with significant personal resources, or the very poor (who qualify for government assistance).

But, for the vast majority of people, whether to purchase a long-term care insurance (LTCI) policy is a worthy topic for discussion. Below we provide a few questions and answers that may assist in determining whether you want LTCI coverage.

## **1. How likely is it that you will need long-term care?**

According to the National Council of Insurance Commissioners, one person in three who turned 65 in 1990 will stay in a nursing home, with one in ten staying five years or more. On the other hand, according to recent statistics, over 25 million people in the U.S. between age 65 and age 84 are living independently. Other statistics suggest that those who do spend time in a nursing home usually remain there under a year.

But what about the chances that *you* will need long-term care? Perhaps one of the best steps that you can take is to evaluate your family's medical history. You are more likely to need LTCI if there have been instances of early onset of dementia, heart disease or stroke in your family. Longevity may be a factor, too. If your parents, grandparents or their siblings have lived into their 90s or later, it's not an unrealistic assumption that you will, too—thereby increasing the chances that you will need some kind of professional care or assistance.

## **2. What does LTCI cover?**

Terms differ from policy to policy. Generally, LTCI covers care in a qualified nursing home, in an assisted living facility or in your home. But, often, policies will pay less for care given in the home than in a facility.

As is the case with most insurance, coverage offers protection from catastrophic loss of your assets and income should you require assistance. Coverage varies, but the ability to

perform a certain number of “activities of daily life” (ADLs) is a common measure of when benefits will be paid. The most common ADLs are: eating, dressing, bathing, transferring in and out of bed, toileting and continence.

### **3. What kind of LTCI coverage do you need?**

LTCI policies offer a wide variety of options. The good news is that you should be able to fashion a policy that closely suits your needs. The not-so-good news is that you are going to have to spend a significant amount of time reviewing different policy options.

Some examples: Based upon your financial circumstances, you may be able to pay for home care and thus need coverage only if you enter a facility. Do you have a relative or a friend who might provide care? Then you’ll want a policy that permits payments to unlicensed caregivers. Again, based upon your resources, you may want to lengthen or shorten the waiting period before coverage begins. You might consider inflation protection, as well.

### **4. What does it cost?**

The cost of LTCI coverage depends upon a variety of factors. Your age at the time that the policy is issued will determine your annual premium. The terms of the policy as well as your health at the time that the policy is issued also will be a factor.

Another consideration is whether your premiums are locked in or may be adjusted in certain circumstances, such as for inflation. Don’t automatically reject a policy that doesn’t lock in your premium rate. It may not necessarily be a good idea: An insurer with insufficient income to meet claims may go bankrupt and, possibly, be unable to pay benefits.

### **5. Are there any tax breaks available with LTCI?**

LTCI premiums are deductible in the same manner as your regular health insurance. Your expenditures are added to your medical expenses, and you may deduct the amount that exceeds 7.5% of your adjusted gross income. The deduction is capped, based upon your age.

Benefits received from LTCI policies may be exempt from federal income tax—if the LTCI policy is “qualified” (i.e., meets government standards). Generally, qualified LTCI policies cannot exclude coverage by type of treatment, medical condition or accident. Pre-existing conditions can be excluded only for the first six months of coverage. And the

policies may not be cancelled for reason of nonpayment of premium. Most states now are offering some form of tax incentives for LTCI policyholders as well.

For tax issues involving LTCI in your personal circumstances, contact your tax advisor before taking any action.

(November 2003)

(reviewed February 2005)

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