



Association for
Long Term Care Planning

LONG TERM CARE INSURANCE

DEFINITION, COSTS,
AND POLICY DETAILS



Long term care (LTC) insurance coverage is a product that provides Americans the means to fund the long term care services that they need whether in their elder years, during an illness, or after an accident.

As many households may be aware, LTC services in the United States are sky-rocketing to unaffordable prices. So many people are struggling to meet their care demands because the expenses are simply too much to afford without outside help. In these circumstances, many are forced to rely on their value of their assets and savings, which may or may not be enough. Should they outlive their savings, older adults find themselves relying on their children for the physical care and financial support. This then creates a cycle of generations providing care and then subsequently needing care in the future.

It is a potentially devastating situation to be in, especially if not handled and prepared for correctly. As discussed in our previous post, [A Detailed Guide to Buying Long Term Care Insurance](#), securing this type of coverage requires a great deal of work from the person's end.

To help get a better understanding of LTC insurance policies, here is a one-stop-shop to what it is, how it works, and everything else in-between.

AN IN-DEPTH LOOK AT THE COSTS OF LONG TERM CARE

Perhaps, the biggest issue that many people have with LTC is the cost of its services. According to the Urban Institute and the [US Department of Health and Human Services](#), the average cost of LTC is \$138,000. The amount, however, depends on the type of services required and the duration of the actual care. For some health conditions that require years or even decades of care, such as Alzheimer's disease, these costs can reach immense amounts.



To get a better view of how much LTC services cost financially, here is a breakdown of the annual prices through the Cost of Care Survey released by Genworth last year:

COST OF CARE?

Annual Cost	USA - National Median	
	2016	5-year Annual Growth
Home Health Care		
Homemaker Services	\$45,760	2%
Homemaker Health Aide	\$46,332	1%
Based on 44 hours per week by 52 weeks.		
Adult Day Health Care		
Adult Day Health Care	\$17,680	3%
Based on 5 days per week by 52 weeks.		
Assisted Living Facility		
Private, One Bedroom	\$43,539	2%
Based on 12 months of care, private, one bedroom.		
Nursing Home Care		
Semi-Private Room	\$82,125	3%
Private Room	\$92,378	4%
Based on 365 days of care.		

Bear in mind that these figures are simply the average. In some states, these costs can go up to hundreds of thousands of dollars. Various online articles point to Alaska, Connecticut, and Massachusetts as the expensive states for long term care. The most pocket-friendly states listed online are Louisiana, Alabama, and Missouri.

Moreover, the cost of LTC is not just financial. Because of the lack of resources of older individuals to pay for these services, they end up relying on their loved ones for the care. When this situation happens, their family members and loved ones face the emotional, social, mental, and physical costs that come with providing care. They become part of what is now known as The Sandwich Generation or the group of individuals stuck between caring for aging or ill loved ones and raising their own children. They end up paying thousands of dollars for out-of-pocket costs related to LTC, which means that they barely have enough to cover their needs and prepare for their own futures.

Without long term care insurance, people facing care risk beginning this cycle that affects multiple generations in their own families.

THE BASICS:

THE 5 WS OF LONG TERM CARE INSURANCE

As mentioned earlier, LTC insurance provides the coverage that people need to face these sky-rocketing costs. Let us explore its various aspects to get a better understanding of how it works and how it can help:

WHAT IS LTC INSURANCE?

As defined on the [NIH Senior Health](#) website, LTC insurance is a policy that covers the LTC expenses accrued by an individual. Policyholders pay premiums that are based on the whether they might have illnesses or health conditions that could require LTC services but not shorten life spans.

Individuals who purchase LTC insurance policies are those who wish to protect their assets, savings, resources, and family members from the potentially devastating costs.

WHO NEEDS COVERAGE?

The majority of LTC recipients are in their twilight years, which is why these services are typically associated with those who belong to the older generations. Moreover, studies have cited that 70% of individuals turning 65 can expect to require LTC in the following years.

Although the duration often varies, the average years of care that people need are as follows:

YEARS OF CARE



Without LTC coverage, individuals would have to cover the costs by other means for a number of years.

WHEN IS THE BEST TIME TO PLAN AND PURCHASE A POLICY?

Industry experts have always been adamant that the best time to purchase a policy is when the person is young and healthy. This is because insurance providers value these two traits in their potential policyholders. Individuals who fit the bill can get various discounts such as good health discount which some companies offer up to 10%.

Moreover, buying young and healthy means lower premiums. A person who purchases an LTC insurance policy at 40 or 50 will pay lower premiums than those who buy in their late sixties. As people often drop their LTC insurance policies because of the high premiums, this strategy could help individuals in keeping their coverage.

WHERE CAN I GET A POLICY?

Finding a reliable provider for investments as big as LTC insurance is absolutely vital. Individuals must take the time to do research on insurance carriers to determine their stability and dependability.

Purchase LTC insurance policies from reputable companies and providers. Consult different insurer rating agencies, like Moody's, AM Best, and Fitch Ratings, to determine how insurers are doing in the industry.

Individuals can [buy long term care insurance online](#) by requesting quotes found on the websites of LTC insurance companies.

WHY IS LONG TERM CARE INSURANCE A GOOD OPTION?

This type of insurance is specifically engineered to address the growing problem that Americans have with LTC. It provides the comprehensive coverage that Americans need to accommodate the costs of care in the country.



RISK FACTORS AND CONSIDERATIONS

Admittedly, LTC insurance policies are not for everyone. Many find the costs too expensive, which is why they choose to rely on other programs that may help. To help individuals decide whether this type of insurance is the better option, here are risk factors and consideration to take note of:

PERSONAL RISK FACTORS

Life Expectancy – longevity is a big issue among individuals seeking LTC because the longer a person lives, the higher the chances of needing LTC gets. Look into lifestyle and family history to get a better picture.

Gender – As indicated above, women tend to need LTC services longer than men. Moreover, women often end up facing the high costs without a partner after years of providing care to a spouse. This is why having an LTC policy is vital for women today.

Family Health History – Families may have a number of health conditions and illnesses that require LTC. Researching on family health history may help individuals determine the chances of needing LTC in the future.

FINANCIAL CONSIDERATIONS

Assets – One of the main reasons people get insured for LTC is because they want to protect their assets from the costs. Individuals ought to examine how much they have, and how much they are willing to sacrifice to pay for the costs of care.

Affordability of the Policy – Examine the stability of income. Can the current income sustain years of paying for premiums? Will other assets and savings be used to pay for this coverage? Bear in mind, as well, that these costs can go up in a few years.

Retirement – Can these costs be sustained even during retirement? Bear in mind that the years after retirement may mean limited income. Of course, this depends on the person's lifestyle. After all, other people choose to continue working after turning 65 while others find other income-generating ventures.



UNDERSTANDING INSURANCE POLICIES

Listed below are key features that can change a policy's coverage:



LTC INSURANCE RIDERS

LTC policy riders help individuals customize their plans to fit their needs and budget. However, these features may mean paying for more dollars. This is why people are advised to choose the ones they will most likely need. After all, overloading a policy may look comprehensive, but it can be too costly to maintain. Indicated below are three LTC insurance riders that many consider most beneficial:

INFLATION PROTECTION

Many individuals view this rider as an absolute must when purchasing a policy, despite the chances of it increasing premiums. The three types are as follows:

Future Purchase/Guarantee Purchase Option – This allows policyholders to increase their daily benefit amount every two to three years without having to meet additional underwriting. However, this may be expensive because each new offer is based on the policyholder's current age. Insurers may also stop offering this option after two to three tries.

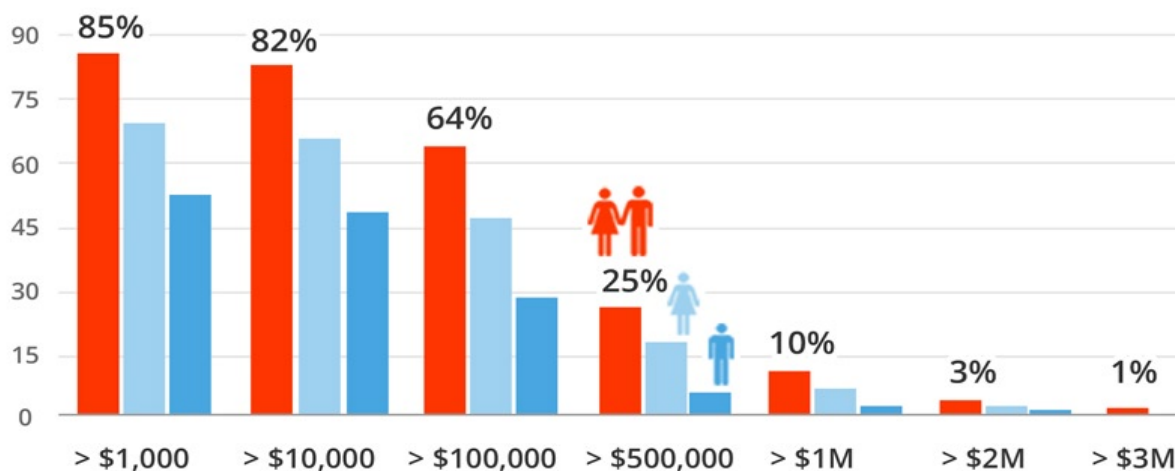
Simple Inflation – This increases the daily benefit by 5% every year. By the 19th year and a half, a policyholder's daily benefits will have doubled. However, as this type is typically included in the premium prices, the costs will increase by 40% to 60%.

Compound Inflation – This type increases the daily benefit by 3% to 5%, compounded annually. Experts have cited that this is more beneficial to younger and healthier individuals.

CASH BENEFIT

This rider is advantageous to people who wish to receive care at home. This is because this feature allows them to receive their cash benefit on a daily basis, regardless of whether they received care that day or not. It also entails that the coverage starts once one hour of care is used.

APPROXIMATELY 25% OF COUPLES AGE 65 CAN EXPECT TO SPEND \$500,000 ON LONG TERM CARE SERVICES DURING THEIR LIFETIME.



Source: UBS as of Sept. 1, 2016

Moreover, people receiving care from loved ones can benefit from this because they do not need to provide the bills after eligibility is established. This means that care recipients can use the money to pay for services provided by family caregivers.

SHARED CARE

Couples typically require two expensive plans to ensure that both individuals are covered. Naturally, this is worrisome, especially with the way the costs have been increasing over the years. In fact, studies show that approximately 25% of couples age 65 can expect to spend half a million on LTC services.

The shared care feature in LTC insurance policies allows couples—married or not—access to coverage that is enough for two individuals. This means that through this rider, couples get to combine their benefits into a pool which they can both have access to. So, for example, if both individuals have three years worth of coverage, they have six years between the two of them.

REIMBURSEMENT VS. INDEMNITY

LTC insurance policies may pay the services through two methods. On the one hand, reimbursement policies pay benefits based on the services and expenses used. This means that policyholders typically pay for the services first, and then the policy, as the name implies, will reimburse the amount later on. On the other hand, indemnity policies pay a set amount, regardless of the actual expenses accrued.

POLICY EXCLUSIONS

As cited by the Texas Department of Insurance Website, LTC insurance coverage may be withheld if the person needs the services because conditions that result from the following:

- Alcoholism or drug addiction
- Attempted suicide or self-inflicted injuries
- Participation in a riot, felony, or insurrection
- War or an act of war, declared or undeclared
- Service in the Armed Forces
- Aviation activities, if the person was not a fare-paying passenger



ALTERNATIVES TO LONG TERM CARE INSURANCE

Other options are available to those who choose not to purchase an LTC policy. However, people considering these options must be aware of what they exactly do before deciding.

MEDICAID AND MEDICARE

Many turn to government-funded programs, like Medicare and Medicaid, for the care services that they need. However, Medicare does not cover most LTC services. Instead, it pays for some part-time services for individuals who are homebound as well as for those who require short-term skilled care. It may also cover the first 100 days at a nursing home facility.

Medicare pays for LTC services. However, as this program is catered to people with limited income, it enforces certain financial and health requirements that individuals must meet to qualify. Some have had to spend down their assets in order to be eligible for coverage.

ANNUITIES

Insurance companies may also offer annuities to help pay for LTC services. Individuals pay a company, whether in one go or through a series of payments. The company then provides a single payment or a series of payments over a specific and defined period.

SELF-INSURANCE

This type of coverage is when individuals use their own savings and assets to fund any care services they might use in the future. The most appealing aspect of this strategy is that people who choose to self-insure do not have premiums to pay. However, planning to pay out-of-pocket is a big risk to take, and any miscalculations can lead to losing a great deal of money.

REVERSE MORTGAGE

This strategy allows older individuals to convert part of the ownership of their house into cash. They get to remain in their own homes, and they do not need to repay the loan until they sell the house, no longer use it as the main residence, or pass on.

HYBRID LIFE INSURANCE POLICIES

Life insurance policies offer riders that pay out for disabilities, LTC, critical illnesses, and chronic health conditions. However, the premiums for these plans may be unaffordable because these are typically paid over shorter periods than LTC insurance policies.

REMEMBER: SHOP AROUND FIRST

According to *Women's Health Care Tab in Retirement: \$79,000 More Than Men's*, a post by Time.com, 75% of older individuals point to the expensive costs of care as one of their top fears in retirement.



This is why finding coverage is a must, but diving headfirst might be counterintuitive to the goal of finding good coverage for LTC. People are often advised to shop first to see the available options in the market. The best way to do so is to request [long term care quotes](#) that are often offered online. Compare the prices offered as well as the coverage details indicated.

Moreover, individuals looking into purchasing an LTC insurance policy must be sure to discuss the details with insurance policy specialists. This way, the veterans in the business can answer any questions and clarify any confusion.



FREQUENTLY ASKED QUESTIONS

Situations vary for different people, and these affect the policy that they get and how it works in their favor. Let us address some of the questions a number of policyholders may be asking:

HOW MANY YEARS OF COVERAGE WILL I NEED?

Insurance companies may offer one year, three years, five years, or even lifetime coverage. However, other individuals typically get the three-year coverage because this is the average number of years that many receive care.

Keep in mind that a longer benefit period means higher rates. Lifetime coverage for LTC may seem appealing at first, but they can increase premiums to substantially higher rates. So before deciding, make sure to consult family members, insurance specialists, and even financial advisors.

WHO SHOULD GET COVERAGE? ME OR MY SPOUSE?

Ideally, both individuals should get proper coverage. However, this is often not the case as spouses may only be able to accommodate the costs of one policy.

Considering statistics, wives would often benefit more with a policy. As briefly highlighted in Who needs coverage?, women typically need longer care than men. Moreover, they live longer lives than their counterparts. This entails that women end up being their partner's caregiver as the latter faces health conditions common during the twilight years. In these situations, their savings may end up going to the husband's care expenses, which leaves the wife with depleted resources to pay for her own.

In effect, having a policy would ensure that wives have the means to fund their LTC requirements after they have provided the care that their husbands and other family members need.

WHAT HEALTH ISSUES TRIGGER POLICY COVERAGE?

LTC insurance provides coverage to individuals who cannot perform at least two of the Activities of Daily Living, which include bathing, dressing, eating, toileting, transferring, and continence. Moreover, the typical chronic illnesses in home care may also trigger coverage. Among these conditions are Alzheimer's disease, dementia, Parkinson's disease, and diabetes.

WHAT WILL HAPPEN TO MY POLICY IF THE COMPANY FOLDS?

Policyholders will not be left high and dry by insurance carriers, but there are conditions. Another insurance company typically buys out or absorbs the company that is going under. When this happens, the new company honors existing policies.

Moreover, each state has an existing insurance guaranty association, and they guarantee that policies are protected after the company goes under. However, these associations can only pay out claims to a certain limit. The usual range is between \$100,000 and \$500,000, but most states often offer \$300,000.

ARE GROUP POLICIES BETTER?

This depends on the circumstances and preferences of the person interested in coverage.

Group LTC insurance policies are offered by employers, organizations, and associations. Getting coverage through this strategy has a number of benefits: lower premiums, easier approval process compared to individual policies, and possible coverage offered to family members. Moreover, individuals covered through group policies can still get coverage even after they leave the group.

However, policies are often tailored for the group, so individuals who may not need extensive care may be paying the same amount for premiums as the ones who need more care.

IS THE POLICY TAX-QUALIFIED?

LTC insurance premiums may be deducted from a person's federal income tax but with certain limitations and if he or she has medical expenses—including LTC insurance premiums—which exceed 10% of the adjusted gross income. For individuals age 65 and older, it is at 7.5%.

CAN I GET A POLICY EVEN WITH PRE-EXISTING CONDITIONS?

It depends on the severity and the case, but it is not unusual for LTC insurance companies to deny coverage to individuals with health conditions. This is one of the main reasons why people are encouraged to secure a policy early while they are still in good health. The best option is to consult with an insurance agent as soon as possible.

WHAT DO YOU DO IF YOU ARE DENIED AN LTC POLICY?

If one insurance company denies coverage, try applying to other LTC carriers. If the other insurance providers still deny coverage because of health reasons, then try again in a few years when you are healthier. During the time in-between, take proactive measures to get your health up again. Also, consider allocating the money originally intended for yearly long term care contributions to retirement accounts or other investments.



ADDITIONAL SHOPPING TIPS

- Consult family members and a handful of loved ones before making a decision. Be careful not to ask too many individuals because conflicting opinions may be overwhelming. Talk to them about their own LTC plans and see if you can pick up a few tips and suggestions. They also have recommendations when it comes to LTC insurance providers and agents.
- Keep an organized record of all transactions, quotations, and inquiries. This way, backtracking will be easier. Moreover, keep track of other financial decisions like investments and even grocery shopping. This way, you get a better overview of expenses, which will give you a better idea of how much you can pay for premiums.
- The more you understand the policy and its aspects, the easier it will be to find ways to contain the costs. This is where the importance of health literacy comes in. Individuals seeking LTC insurance must be aware of what it entails. Research before you speak with insurance agents. Yes, they will be more than willing to explain everything, but it will be better to have an understanding of the matter beforehand. Moreover, do not be afraid to ask questions if anything seems unclear or confusing.
- Everyone is likely to qualify for LTC insurance discounts, so ask your insurance agents about this. These may include spousal, health, and group discounts.



GLOSSARY OF LTC INSURANCE TERMS

Activities of Daily Living (ADLs) – These are everyday activities that include eating, bathing, dressing, transferring, toileting, and continence. Individuals can usually perform these tasks without any assistance.

Adult Day Care – Care services received during the day at a community-based center. These cater to the functional and cognitive needs of their customers as well as strive to provide social and support services through various programs. Through these services, family caregivers may be free to attend to other responsibilities and complete other tasks during the day.

Aging in Place – The ability of older adults to remain at home and live independently and comfortably as they face the challenges of aging.

Assisted Living Facility – This may also be referred to as custodial care facility. These are residential facilities that provide individualized personal care and other health services to people who cannot remain safely at home but do not need the level of care provided in nursing homes.

Benefit Amount – The maximum amount an insurance policy will pay for care services in a day or a month.

Benefit Period – The length of time the insurance policy pays for care expenses incurred. If the policyholder uses less than the set benefit amount, then the policy may extend coverage.

Continuing Care Retirement Community (CCRC) – A residential retirement complex where residents can have access to a wide range of services. Residents who require minimal care may live in their own housing units while individuals who require more specialized care may move to the on-site assisted living facilities or affiliated nursing homes.

Custodial Care – This may also be referred to as personal care. This pertains to the non-skilled services that individuals require to attend to everyday needs such as bathing, dressing, and eating.

Elimination Period – The time an individual must pay for his or her own care before the policy begins covering care costs.

Home Health Care – Care services received in one's home. These may be medical or non-medical and professional or personal care services. The services may be occupational, physical, respiratory, or speech therapy. These may also include custodial or nursing care.

Informal Care – Care services provided by family members and loved ones at home.

Long Term Care Insurance Premiums – The money paid to an insurance company for long term care coverage.

Long Term Care Insurance Rider – Additional features that allow individuals to customize their policies to fit their needs. These come at an extra cost.

Medicaid – A joint federal-state program that provides coverage to individuals who meet the poverty guidelines.

Medicare – The federal program that provides hospital and medical coverage for people age 65 and older as well as individuals with certain illnesses and disabilities.

Respite Care – Care services provided by a caregiver who acts as a reliever. This type of care may last for a few hours or a few days, and its main goal is to provide the primary caregiver a break from the care responsibilities.

Restoration of Benefits – Insurance companies may return benefit dollars to a policyholder's lifetime maximum benefit after recovering from a long term care need.

Underwriting – The process of reviewing a person's health status to determine eligibility for coverage

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