

LONG-TERM CARE INSURANCE: UNDERSTANDING THE FINE PRINT

The issue of long-term care may seem a long way off, but it's closer than you think—and more common. Approximately 23 percent of Americans age 75 or older are in nursing homes. And it's estimated that an additional 7 million seniors will need some type of long-term care this year alone.

THE BASICS

Generally, long-term care insurance helps pay for the care of an individual who can no longer independently perform the basic activities of daily living, such as bathing, dressing, eating and using the bathroom.

Cost and coverage vary with each plan and depend on many factors, including the age and health of the individual. Here are some hints for keeping long-term care costs under control:

Think Ahead and Buy While You're Young. Before age 60, if possible.

Choose A Shorter Benefit Period. In other words, limit the number of years your policy pays benefits. Go With a Longer Elimination Period. The higher the number of days you must receive long-term care services before the policy kicks in, the cheaper the premium.

Accept a Limited Benefit Amount. Basically, you'll pay higher out-of-pocket costs to keep premiums low. Let Uncle Sam Share the Cost. Part of the insurance premium may be tax deductible as a medical expense, so be sure to check.

Buy Group Coverage. Some employers offer this less expensive coverage.

Ask About Spousal Discounts. Some insurers discount prices if both you and your spouse buy coverage.

Match the Age with the Need for Inflation Protection. You can purchase an inflation rider to ensure your coverage keeps pace with rising costs.

Additionally, asking the following questions will help you evaluate the terms of a policy and select the one that's best for you.

WHAT CONDITIONS MUST I MEET TO BE ELIGIBLE FOR BENEFITS?

These days, nearly all long-term care policies base benefits on a person's ability to perform so-called activities of daily living. These activities include eat-

ing, using the toilet, bathing, dressing, and moving about. Most policies provide coverage upon certification by a doctor that you are unable to perform two or three activities associated with daily living.

WHAT SPECIFIC SERVICES ARE COVERED UNDER THE POLICY?

Generally, the more comprehensive and flexible the coverage, the better it is. The best policies cover a continuum of care including home health care, personal care, community-based adult day care, assisted living facilities, and skilled care in a nursing home.

WHAT DAILY BENEFIT AMOUNT SHOULD I SELECT?

You should base your daily benefit amount on the going rate in your area for nursing home care. If you prefer, you can lower your premium by purchasing a benefit amount slightly lower than the daily cost of nursing home care and paying the difference out of pocket. For example, if the going rate in your area is \$150 a day, you might consider insuring yourself for up to \$125 a day and paying the rest on your own.

WHAT IS THE ELIMINATION PERIOD?

The elimination period refers to the length of time between when your long-term care needs begin and when your long-term care benefits become payable. The elimination period can be anywhere from 0 days to a year. The longer you wait and pay for care out-of-pocket, the lower the premium. Some policies apply the elimination period to each admission; with others you need to satisfy it once.

DO I HAVE TO BE HOSPITALIZED BEFORE BENEFITS BEGIN?

In some cases, yes. However, it's best to avoid policies that require prior hospitalization to receive benefits.

HOW LONG WILL BENEFITS BE PAID?

Here's the catch. It's important that you calculate your health care and dependent care needs very carefully because IRS regulations require that you forfeit any amounts you place in the plan that aren't spent by the end of the year.

DOES THE POLICY INCLUDE AN INITIATION CLAUSE?

Given the rising cost of health care, a benefit amount that seems reasonable today could quickly become inadequate. An inflation protection provision is the only way to ensure that the benefits payable under the policy will rise each year to keep pace with inflation.

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DOES THE POLICY HAVE A WAIVER OF PREMIUM PROVISIONS?

This provision means that you do not have to continue to pay the premiums once you begin collecting benefits. Some policies waive premiums starting on the first day benefits become payable; others require that benefits be paid for a certain number of days before premiums are waived.

CAN THE COMPANY CANCEL THIS POLICY?

Look for a policy that is guaranteed renewable. This means the company cannot cancel your policy as you get older and/or your health deteriorates. However, your premiums can go up. While you cannot be singled out for a rate increase, subject to approval from the State Insurance Department, insurance companies can, and do, raise premiums for a class of policyholders.

HOW LONG HAS THE COMPANY BEEN SELLING LONG-TERM CARE INSURANCE?

Be sure to examine the financial strength and stability of the insurer. After all, you want the company to be around if you need coverage 15-20 years from now. A quick trip to the library or a search on the Internet can provide you with the company's rating by agencies such as Standard & Poor's or A.M. Best.

MAY I HAVE A SAMPLE COPY OF THE EXACT POLICY I WOULD BE PURCHASING FROM YOUR COMPANY?

Before you sign up for long-term care insurance, get copies of contracts from several insurance companies and read the fine print in advance of selecting the policy that best fits your needs.

Under current law, a portion of the premium on your long-term care policy may be deductible as a medical expense on your tax return. A CPA can help you select a policy that qualifies for the deduction.

NOTE: Be very careful. Nationwide very few people actually collect on these policies. A large number of policies are cancelled or allowed to lapse before any benefits are received due, in part, to the increase in premiums. Check with your insurance carrier for their benefit payout rate. 📌

