CALIFORNIA HEALTH ADVOCATES

Long-Term Care: An Overview of Long-Term Care Insurance

Long-Term Care (LTC) insurance only pays for long-term care. Long-term care usually means supervision or assistance with everyday tasks like bathing and dressing and does not require a licensed person to provide those services. Some of these policies only pay for care in institutional settings such as a nursing home or an assisted living facility; some only pay for home care; while other more comprehensive policies pay for care in a nursing home, assisted living facility, at home, or in community settings like adult day care. While some life insurance policies and annuities also contain benefits for long-term care, those products are not covered in this fact sheet. If you are considering one of those complicated financial planning products, you will need to see a trusted financial advisor or an elder law attorney.

If you are considering buying LTC insurance, you will need to do some research to find the best set of benefits for your particular circumstances, and the best company for those benefits. You will also need to consult your accountant or tax advisor to understand any tax issues that might affect you. Counselors from the California Health Insurance Counseling and Advocacy Program (HICAP) can help you: sort through some of these issues; understand how these benefits work; compare benefits and features of several policies; or compare policies from more than one company. To make an appointment for HICAP counseling, call 1-800-434-0222. However, only you can make the decision about which policy and package of benefits is best for you.

Individual or Group Coverage

You can buy LTC insurance as an individual the same way you buy any other insurance, or you can buy it as a member of a group or faith-based organization or as an employee or family member of an employee. For instance, some people may be eligible to buy coverage through the California Public Employees Retirement System (CALPERS), or the Federal Employees Long Term Care Program (FLTCP) because of their, or a family member's, public employment or military service. Neither of these employer-based systems pays any part of the premium, but each sponsors its own LTC insurance program. Some private employers also sponsor this type of insurance, as do some associations and faith-based groups.

If you buy an individual LTC insurance policy in California, it will meet the current requirements of state law and exceed those of most other states. However, benefits purchased through a group may not meet all of those requirements. You need to ask about that before you buy.

For more information about CALPERS, call 1-800 982-1775 or visit their website at calpers.ca.gov. For more information about FLTCP, call 1-800-582-3337 or visit their website at ltcfeds.com.

Types of LTC Insurance Policies

Policies in California are labeled according to where benefits will be paid. For instance, a **Home Care Only** policy will only pay for care in your home and must include benefits for home health, adult day health care, hospice, respite care, personal care and homemaker services. A **Nursing Home and Residential Care Facility Only** policy, however, will only pay for care in a nursing home and in a place that is licensed as a Residential Care Facility for the Elderly (RCFE) which is often called an assisted living facility. A **Comprehensive** policy will pay benefits in a nursing home, assisted living facility, and for home care and community care like adult day care.

Policies that are also labeled **"Partnership"** policies will allow you to keep more of the assets you would otherwise have to spend if you qualify for Medi-Cal later on.

The Partnership

The California Partnership for Long Term Care is a program of the California Department of Health Care Services (DHCS), and is an innovative partnership among consumers, the State of California and some private insurance companies, plus the California Public Employees Retirement System (CALPERS). These policies meet all the requirements of state law and some additional requirements of the Partnership program. Each Partnership policy is tax qualified (TQ), includes an automatic 5% compounded inflation protection and has a unique state guaranteed asset protection feature that allows you to retain a certain amount of your assets if you need to apply for Medi-Cal later on. Your protected assets will not be counted if you apply for Medi-Cal and can be left to your heirs as part of your estate.

Partnership policies can be purchased as either Comprehensive policies or as Nursing Home and Residential Care Facility Only policies, and must meet certain requirements set by the state. Only agents who have taken additional specialized training can sell you one of these policies. Premiums can be the same, or nearly the same, for Partnership or non-Partnership policies if they have exactly the same benefits.

For more information about the Partnership, call 1-800-227-3445 or visit their website at dhcs.ca.gov/services/ltc/Pages/CPTLC.aspx.

Tax Qualified (TQ) and Non-Tax Qualified (NTQ)

TQ policies allow the taxpayer to deduct some, or all, of their premiums from their federal and state income taxes as a medical expense. The amount of premium that can be deducted is based on your age combined with your medical expenses that exceed 7.5% of your adjusted gross income. Benefits paid under these policies won't be taxed as income.

The premiums for NTQ policies can't be deducted and there is no guarantee that the benefits will be tax-free. However, these policies often have more generous standards for when benefits can be paid, and people may qualify for benefits sooner than they would with a TQ policy.

Premiums are based on choices you make when you buy a policy. You choose:

1. Which type of policy you want to buy;
2. The amount of the daily benefit that will be paid;
3. The number of years you want the policy to pay benefits;
4. The number of days (if any) before the company begins paying benefits after you qualify; and
5. Whether you want inflation protection.

These five factors, combined with your age when you buy the policy, determine the premium you will pay. Some companies will insure you if you have a particular listed health condition, but they may charge you a higher premium.

In general, premiums can range from a few hundred dollars a year, if you buy at age 45 years, to several thousand dollars a year, if you buy at age 75. In addition, each company calculates their costs differently and there can be substantial differences between premiums for similar benefits from different companies. Premiums for the daily benefit are usually calculated for each $10 of the daily benefit you choose. For instance, if a company charges $95 for each $10 of daily benefit at your current age for the benefits you selected, the premium for a daily benefit of $100 will cost $950 a year.

Premiums for these policies can increase, and some have in past years. When you buy a LTC insurance policy, the agent must give you a Personal Worksheet that, among other things, will tell you if that company has had a rate increase anywhere in the country since 1990. It will also tell you how much premiums increased, and in which states. You can also look on the website for the California Department of Insurance (CDI), insurance.ca.gov, to see rate increases for every company that sells LTC insurance in California. If you have questions about the rate history, call CDI's Consumer Hotline at 1-800-927-4357.

Premium Increases

California recently passed tough new laws that will make future premium increases for policies companies sell today much more difficult. **In addition, effective in 2006, the California Department of Insurance can require a company that files for a premium increase over a certain amount to allow you to stop paying your premium and keep benefits that equal the total amount of premiums you have already paid the company.** In most cases, the total amount of premiums you paid would only finance a small amount of care, but it means that you wouldn't lose all of your benefits following a premium increase. Some companies that have been the subject of a class action lawsuit may offer this or similar options to policyholders as part of the settlement agreement.

If you receive a notice of a rate increase, you can call your local HICAP office at 1-800-434-0222 to find out more about this new protection that is in addition to your right to reduce benefits in return for a lower premium.

Medical underwriting or health screening is the process companies use to determine if they will sell you a policy. People who already need long-term care are not insurable. For everyone else it depends on how the company does its medical underwriting. Some will review the medical records of each applicant, others will do so only if someone is over a certain age when they apply for the policy, and some will do a phone interview or face-to-face interview when people are over a certain age. Still others will rely on your answers to the health questions on the application when you apply for the policy. Some companies are very strict with their medical underwriting; others are more liberal and will sell a policy to some people who have certain acceptable health conditions, but they may charge a much higher premium. Every company will ask you to sign a medical records release. Some companies will get copies of your medical records before they decide whether to issue you a policy, others may not get those records until you file a claim.

Things to Consider When Buying LTC insurance

Benefit Triggers

Before benefits will be paid, certain conditions must be met. A benefit trigger is usually met by measuring a person's ability to do one or more Activities of Daily Living (ADLs), such as bathing or dressing, or by testing their cognitive abilities. When a person can't do a specific number of ADLs, or has a cognitive impairment such as Alzheimer's Disease that requires assistance or supervision, benefits may be payable. In California, companies must pay covered benefits for nursing home care, assisted living or home care when a person can't do two of the ADLs listed in the policy, or when a person has a serious cognitive impairment like Alzheimer's. Tax Qualified policies must use a list of six ADLs: bathing, dressing, transferring, eating, toileting, and continence. Non Tax Qualified policies can use a list of seven ADLs, adding ambulating (walking) to the list and a separate more explicit set of definitions.

Assistance or Supervision

If a person needs help with an ADL, or can't do it at all, they may need someone to do it for them, or to stand by to prevent an injury (caused by a fall for example). If a person has a cognitive impairment, they may need supervision to remind them when and how to do these things. Both stand-by and hands on assistance must be described in policies sold after 1998.

A "Waiting Period" is also called an "Elimination Period" or "Deductible Period" and works like a deductible. It is a specific period of time before a policy will begin paying benefits, after someone is eligible to receive them. Some people choose not to have a waiting period and these policies pay from the first day they are eligible for benefits. Other people decide to pay for the first 30, 60, or 90 days of their care. Their policies won't begin paying benefits until after the waiting period has ended.

Recently some companies have sold policies with a specific dollar amount as the policy deductible. When the insured person has met the benefit trigger for care and paid that dollar amount for care covered by the policy, then benefits can begin.

Some companies count only the days you actually receive paid care against the waiting period; others count every day from the first day you were eligible for care, regardless of whether you received care. Some companies require you to meet this waiting period once in your lifetime; others require you to meet it each time you qualify for benefits. Make sure you understand how the company calculates the waiting period for the policy you are considering.

Waiting periods can be expensive. Be sure you can afford the cost of the waiting period you choose now and in the future. If you choose a 30-day waiting period and the company only counts each day you receive care toward the waiting period, the number of days before the policy actually begins paying benefits could be much longer than you expect. For instance, if you received home care for three days each week it could take 10 weeks, or 75 days before you meet a 30-day waiting period. If you needed care in a nursing home you would have to pay the first month's cost of care. The cost for nursing home care increases each year with inflation. If costs increase annually at 5% compounded, the cost of a waiting period could double in about 14 years.

90-Day Certification

TQ policies require certification by a health care professional that your expected need for long term care services will be at least 90 days. This is not a waiting period before benefits can begin, but rather verification that the need for care isn't short-term. If you didn't need care for the full 90 days, it shouldn't affect any benefits that were due to you during that same time period.

Daily Benefit Amount

This is the maximum amount the policy will pay for each day of care. Some policies pay this daily benefit amount when you are in a nursing home, but they pay a percentage of that amount, or fixed dollar amount for all other kinds of care. For instance, if the maximum daily benefit amount for nursing home care is $100, the daily benefit for assisted living in California must be 70% of that amount in policies sold after 1999, and no less than 50% for home care. Some companies will pay up to 100% of the daily benefit in each place covered by the policy, or the daily cost, whichever is less. Some also pay the home care benefit on a weekly or monthly basis so that care can be planned, scheduled, and paid for more efficiently and economically.

Duration of Benefits

Policies are typically sold to cover 12 months or more of care. You can buy a policy that only pays benefits for one year, or one that pays for 2, 3, or 5 years, OR one that pays benefits for as long as you live. The premium is usually based on the benefit package for each year of coverage you buy and other factors including your age. Two years of benefits costs more than one year, and five years of benefits costs more than three years, while benefits that last as long as you need care can be very expensive. Most people choose benefits based on the amount of premium they can afford.

Maximum Policy Benefits

This is the total dollar amount the policy will pay out once you trigger benefits, regardless of how you collect those benefits. In California, companies must use a "pool of money" method of paying benefits. For instance, if you bought a policy that paid $100 a day for three years, your maximum policy benefits would be $109,500. If you used your benefits at the full benefit amount every day, your total benefits would last three years. If however your care costs less, or you only used the home care benefit at $50 a day, your policy could last much longer than three years.

Inflation Protection

When you buy an individual LTC insurance policy in California, companies and agents have to offer you inflation protection and show you the cost of inflation over time. If you turn down this offer, you must sign a rejection notice acknowledging that you understand that your benefit will not keep up with the cost of care in the future. You should carefully weigh your ability to pay the difference between the daily benefit that you choose and the cost of care many years later. Benefits without this protection will steadily erode over time.

Companies are required to offer you no less than two ways to protect your original investment. In the first method, inflation protection is built into the policy at 5% compounded. Understandably, the premium will be higher than it would be without this protection. The second method offers you the right to add inflation protection at periodic intervals. You can't be turned down for this protection when this offer is made to you, but your premium will go up each time you choose this option. You also may find you can no longer afford to exercise this option as you get older and the premium to add inflation protection gets more expensive. If you do not take advantage of this option each time it is offered to you, you could eventually lose the right to choose it, usually when you have turned it down a total of three times.

Example: A $100 daily benefit with 5% compounded inflation protection will double to $200 a day in 14 years. Without this inflation protection that same benefit will only be worth half of its original value in 14 years, and you will have to pay the difference between that benefit and the cost of your care.

Assisted Living benefits must be paid in any facility licensed as a Residential Care Facility for the Elderly (RCFE). This includes small neighborhood homes, often called Board and Care facilities, as well as retirement homes, and specialized community facilities for Alzheimer's patients. In addition, in policies sold in California after 1999, the daily benefit must be equal to at least 70% of the policy benefit for nursing home care, and the benefit trigger can be no greater than 2 ADLs or cognitive impairment.

Nursing Home benefits must include the cost of all long-term care services you receive, not just the charge for room and board, up to the maximum daily benefit amount of the policy. The benefit trigger can be no greater than 2 ADLs or cognitive impairment.

Home Care benefits must include services for skilled care, personal care and homemaker services, adult day care, respite care, and hospice care, and the benefit trigger can be no greater than 2 ADLs or cognitive impairment.

Benefit Changes

Companies must allow you to reduce your benefits in return for a lower premium, increase your benefits at your current age with new underwriting, or buy new benefits at your current age with new underwriting when the company develops new products or new benefits.

Agent Requirements

Agents are required to give consumers certain information about long-term care. They must give you a buyer's guide entitled *Taking Care of Tomorrow*, a completed Personal Worksheet, specific information about the local HICAP office, and a replacement notice if you are replacing an existing LTC insurance policy. They must also give you an Outline of Coverage that summarizes the benefits and conditions of the policy.

The **Personal Worksheet** is a document that, in addition to revealing any past rate increases by the company, asks questions about your planning for long term care. Some of the questions ask for income and asset information so the company can be certain that you are an appropriate purchaser of this type of insurance.

If you are not comfortable providing that information to an agent, you can refuse to fill out that part of the worksheet. The company will contact you later to make sure that it was your choice to refuse this information. The agent should leave you one copy of the worksheet, send one copy to the company, and retain one copy in their office files as proof that you were given the documents required by state law.

Dealing with Agents

Most agents are professional, well-trained people who will not pressure you to make a decision before you are ready. However, you should have some idea of what you want and a realistic idea of what you can afford before you buy this type of insurance. There are many agents selling LTC insurance and it's important that you deal with someone you can trust. If you are not comfortable with a particular agent, you should find someone else. You will need to contact your agent later if you want to change any of your benefits or if you have a claim. Your agent should be able to answer questions you have about your policy years later if needed, and be someone you trust and can easily reach. Look for an agent who has up-to-date training on LTC insurance, is in an established business, and who will take the time to answer all your questions.

Ask your agent to go over each of the provisions of the policy and make sure that you understand each one. Remember, you have a 30-day free look to examine your new policy from the date it is delivered to you. Take advantage of this time to get any help you need to understand how the policy works. If you decide not to keep the policy within this period any deposit must be refunded to you. This type of insurance is an investment that you should plan on paying for over the rest of your lifetime and it should be purchased from a solid company with experience insuring this kind of care.

More information can be found in *Taking Care of Tomorrow*, which an agent must give you when you talk to an agent about LTC insurance. You can also download this guide from the California Department of Aging's website at aging.ca.gov/publications/hicap/hicap_TCOT_main.asp. The California Department of Insurance's website at insurance.ca.gov also has a guide on LTC insurance or you can call the Consumer Hotline (1-800-927-4357) to get a copy. Insurance agents are required to inform you about HICAP's services to provide unbiased information and counseling about LTC insurance.

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The fact sheet contains general information and should not be relied upon to make individual decisions. If you would like to discuss your specific situation, call the Health Insurance Counseling and Advocacy Program (HICAP). HICAP provides free and objective information and counseling on Medicare and can help you understand your specific rights and health care options. You can call **1-800-434-0222** to make an appointment at the HICAP office nearest you.