CALIFORNIA HEALTH ADVOCATES

Long-Term Care: Frequently Asked Questions About Long-Term Care Insurance

Long-Term Care (LTC) insurance only pays for long-term care. Long-term care is primarily supervision or assistance with everyday tasks like bathing and dressing and does not require a licensed health care professional to provide those services. This kind of care is often needed because of an illness, an injury or as result of aging and the inability to take care of one's self. This product used to be sold almost exclusively to seniors, but today LTC insurance is sold to people as young as 30-years-old. The federal government allows taxpayers to deduct some, or all, of the premium for a **tax-qualified (TQ) policy** as a medical expense based on the age of the purchaser and the amount of premium paid. California allows a similar deduction on state income tax returns. TQ policies meet certain minimum federal requirements in addition to those required by state law.

This fact sheet answers some common questions about LTC insurance. For general information about long-term care, see our fact sheet "Options for Financing Long-Term Care." For more detailed information about this type of insurance, see our fact sheet "An Overview of Long-Term Care Insurance" at cahealthadvocates.org.

1. Who sells LTC insurance?

Individuals can purchase LTC insurance from a large number of companies through insurance agents or a variety of groups or employers. Some private employers sponsor this type of insurance, and public employers like the California Public Employees Retirement System (CALPERS) or the Federal Employees Long Term Care Program (FLTCP), sponsor their own long term care programs. Some associations, like the American Association of Retired Persons (AARP), and fraternal and faith-based organizations also sponsor LTC insurance programs. Employers and other groups rarely pay any part of the premium. They simply make the insurance available to their employees or members, and sometimes to other family members as well. Health screening or medical underwriting is still required, although active employees may be exempt from this requirement or be subject to only minimal screening for employer-sponsored coverage.

2. Should I buy LTC insurance?

This answer depends on your individual needs and circumstances. Buying LTC insurance is part of a planning process for life and retirement. You need to have enough income to pay the premiums for the rest of your life, regardless of premium increases or life changes, such as the death of your spouse. You need to consider how long the benefits should last in relation to the premium you will pay. Most people with modest resources may be better able to pay for a policy with one, two, or four years of coverage rather than one with benefits that last as long as they need care. Also, if you have few, if any assets, it may not make sense for you to buy this type of insurance. Other options for paying for long-term care include investments, savings, home equity conversion or a reverse mortgage, and Medi-Cal.

3. What is the best LTC insurance policy?

What is best for one person may not be good for another. The benefits and amount of coverage an individual or couple needs depend on their own unique circumstances. A single or widowed woman may need very different benefits than a married man, particularly if their economic circumstances are different. Women are more likely to live longer than men and also more likely to live alone at the end of their life. Without family members willing to provide some home care and support services, women are more likely to get their long term care in a nursing home or in an assisted living facility.

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4. What is the best company to buy from?

Many companies sell LTC insurance in California, although recently some companies have stopped selling this type of insurance. Some companies that remain in the market have decades of experience, while others are relatively new to this product. Some are large companies with many other products and subsidiaries; others are smaller and specialize in LTC insurance. Rating services like AM Best or Standard and Poors provide information to help you evaluate the financial strength of these companies. The California Department of Insurance (CDI) publishes comparative information about products sold in California and a complaint ratio for all insurance companies. CDI also publishes data showing which companies have raised their premiums during the last ten years on this type of insurance, the amount of the increase, and which states were affected. Contact CDI at 1-800-927-4357 or visit their website insurance.ca.gov.

If you buy your coverage through a group, you will need to check to see if that policy is approved in California or in another state. It may not meet the same high standards or include all of the consumer protections that are required by our state law.

While the California Health Insurance Counseling and Advocacy Program (HICAP) cannot endorse products, companies, or agents, specially trained HICAP counselors can help you sort through some of the long term care issues in buying LTC insurance and help you understand the various parts of a LTC insurance policy. To make an appointment with a HICAP counselor, call 1-800-434-0222.

5. If I buy a LTC insurance policy and then move to another state will it still pay benefits?

Yes. California has the strongest standards and consumer protections of any state in the nation. However, the definitions in your policy may not match those in another state of the places and people that provide long term care services. For instance, the definition in your policy that describes an assisted living facility is unique to California, and may not accurately describe assisted living facilities in other states. If you move, you will need to contact the company to make sure that any place you might want to get care will be covered.

6. What is a Partnership policy?

The California Partnership for Long Term Care is a program of the California Department of Health Care Services (DHCS). It is an innovative partnership among the State of California, consumers and some private insurance companies, plus CALPERS. These companies sell LTC insurance policies that are labeled Partnership policies and must meet certain requirements in addition to those set by state law.

Each Partnership policy is tax qualified (TQ) and includes a built-in 5% compounded inflation protection. These policies have a unique state guaranteed asset protection feature that allows you to retain a certain amount of your assets in case you later need to apply for Medi-Cal (California's Medicaid program). Only agents who have taken additional specialized training can sell one of these policies. For more information about the Partnership, contact HICAP (1-800-434-0222) or the California Department of Health Services at 1-800-227-3445 or visit their website, dhs.ca.gov/cpltc.

7. What is a "Tax Qualified" (TQ) policy?

These policies meet minimum standards set by the federal government, OR are ones that were approved for sale in California as a LTC insurance policy prior to the 1996 change in federal law. Some, or all, of the premiums **may** be tax deductible as a medical expense, depending on the amount of premium you pay and your current age. The premiums for a non-tax-qualified policy (NTQ) are not tax deductible. The benefits paid by a TQ policy are NOT taxable as income. No public decision has yet been made by the Internal Revenue Service (IRS) about the tax treatment of NTQ policies.

In general, a TQ policy is more restrictive than a NTQ policy. The soonest a TQ policy can pay benefits is when someone is unable to perform two Activities of Daily Living (ADLs) out of a list of six ADLs, or when a person is cognitively impaired. The six ADLs are bathing, dressing, eating, transferring (e.g. from bed to chair), toileting and continence.

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NTQ policies can pay benefits using a more generous threshold for paying benefits, or include additional ways to trigger benefits. NTQ policies have a seventh ADL—walking—to make it easier to qualify for benefits. Until recently, when the law expired in California, companies were required to offer you a NTQ policy along with a TQ policy. Some companies still sell these, but if you want one, you may have to ask for it.

8. If I buy a policy before my next birthday, will I pay a lower premium?

Not necessarily. Companies do base their premiums on age, and the older you are the more you will pay. However, the difference in premium for one year of age may not be significant. If the only reason you are buying a particular policy is to lock in a lower premium, you may not know enough about the policy to justify that decision. In addition, a well-trained, professional agent won't pressure you to make a decision before you fully understand the product you are buying just to save a few dollars. They understand that this is a product you will be keeping for the rest of your life and it's important that you understand how it works and are comfortable with the decision you are making. It is always a good idea to have a friend, relative, or other advisor with you when having an agent visit for the purpose of selling you a long-term care insurance policy.

9. I am planning to buy a policy from a particular company and agent, but the cost of inflation protection adds hundreds of dollars to the premium. Do I really need it?

In general, yes. Inflation protection should be included in every LTC insurance policy because these policies pay a fixed dollar amount for each day of care. Most people are buying these policies years before they will need care. A fixed daily benefit loses buying power each year. In fourteen years it will only pay for half the care that it pays for today while the cost of care continues to inflate each year. The difference between the LTC insurance benefit and the cost of care will have to come out of your own pocket. Inflation protection will help your benefits keep up with inflation. As greater numbers of people begin to need care, the competition for caregivers and places of care will fuel increases in the cost of care. Also, inflation protection is important even at age 80 because some people live longer, maybe another 20 years or more.

10. Will I be able to stay out of a nursing home if I buy a LTC insurance policy?

Not necessarily. Having a LTC insurance policy may not keep you out of a nursing home if that is the only place that can provide appropriate care. Around the clock care at home is generally more expensive than nursing home care and may require more than one caregiver for each 8-hour shift. Since the reason you may need care, and the amount of care you may need is so unpredictable, a LTC insurance policy should provide you with protection in any of the settings where you are likely to need care, including care at home, in assisted living facilities and nursing homes. While most people want to be cared for at home, and many can be for at least short periods of time, others may have no choice if their condition becomes so severe that getting care at home is not feasible.

11. If I buy a two-year LTC insurance policy, will the company only let me keep it for two years?

No. It means that when you begin collecting benefits, your benefits may only last for two years if you use them up at the maximum amount each day. Newer policies provide a pool of money that can last for the stated number of days or much longer if your daily expenses are less than the maximum daily benefit in your policy. Remember that you will have to pay premiums for as long as you want the protection you bought, unless your policy has a paid-up provision.

12. My insurance agent says his policy is different and has a pool of money I can use to pay for long-term care. What does that mean?

California law requires all LTC insurance policies to define the maximum benefit the policy will pay by a single dollar amount, not years. This is commonly called a pool of money or a total dollar amount that is available to pay for your care in all of the places covered by the policy. For example: If you bought a policy that pays a maximum daily benefit of $100 a day in a nursing home for two years, but pays only $50 a day for home care,

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your maximum policy benefits may last longer than two years. You would have $73,000 in total benefits ($100 x 730 days) available to you. After you used home care benefits every day for one year ($50 x 365), you would still have $54,750 in benefits left; equal to one and a half years of nursing home care, or three years of home care, or any combination that equals $54,750. If you bought inflation protection, the amount of your maximum daily benefit and maximum policy benefit would be greater than $100 or $50 a day, depending on how many years you had the policy before you began using it.

13. What is the right age to buy LTC insurance?

This is a very individualized decision, based on many factors. Most people think about this type of insurance when they are close to retiring. Others buy it through an employer much earlier. Premiums are much lower for people in their 40's or 50's than at 65 years of age. In addition, as people age they are more likely to develop a health condition that would make them uninsurable. After 60 years of age, premiums for this type of insurance begin to rise steeply and you may be unable to afford the same amounts of coverage you could when you were younger. However, long-term care services and places where people get care are changing and may not be the same services or places described in a LTC insurance policy purchased forty years earlier.

14. Several people in my husband's family have Alzheimer's disease and I think my husband may be showing signs of it. How can I get a policy for him?

All LTC insurance policies require some health screening, called medical underwriting. Insurance companies won't insure people who are likely to need long-term care. Some companies review the medical records of each applicant, others will do so only when someone is over a certain age at the time they apply, and some will do a phone interview or face-to-face interview for everyone over 70 years old to assess their functional and cognitive abilities. Still others will rely on your answers to health questions on the application when you apply for coverage. Some companies use strict medical underwriting; others are less strict and will sell a policy to people who have certain acceptable health conditions, but may charge a higher premium. However, it is unlikely a company would issue a LTC insurance policy to someone who already shows signs of cognitive deterioration. It's important that an application be completed accurately and truthfully. Otherwise it could result in the company canceling the coverage later.

15. I have a LTC insurance policy that I bought in 1986 for $600 a year. It only pays $50 a day for nursing home care after a 100 day waiting period. It doesn't have inflation protection and I want home care benefits. What should I do?

You have several choices **if you are still insurable** and can afford to pay an additional premium. You could keep the policy you already have and add the benefits missing from your existing policy by buying a second policy from the same or different company. (The policy you have is probably already a TQ policy if it was sold under state law prior to December 31, 1996. Federal law granted those previously sold policies the same tax status as the new TQ policies.) Or, your current company might issue you one of their newer policies and give you a premium credit for your old policy towards a premium fpr a new policy if you can pass their health screening. Your agent can help you add benefits to your existing policy, or replace it. If you decide to replace the policy your agent must give you a written comparison of the difference between the two policies and identify how the replacement will benefit you.

If you are NOT still insurable, your policy will still pay the benefits you bought, but it will not provide the newer benefits you want. You will need to weigh the continuing cost of your older policy against the benefits it provides to determine if it is in your best interest to keep the policy. Generally, older policies are less expensive than newer policies and it may be worthwhile to keep it for the benefits you originally bought. If you decide not to keep it, the company will retain the premiums you have paid without incurring any future risk of a claim.

16. Should I cancel my LTC insurance policy if I can't afford to pay the premium?

Consider another option first. Any consumer in California can request a reduction in their policy's benefits so they can continue to afford their premiums. You don't have to wait for a premium increase to exercise this right. You can reduce the daily benefit amount, the number of years the policy will pay, or make other changes that will reduce the premium to an amount you can afford. When you have paid for this type of insurance for years, you probably will not want to cancel your policy and waste those premium payments. Instead you can reduce your benefits and still keep some of the coverage for which you have been paying.

17. Why did my premium go up by 40 percent and my neighbor's policy only went up 15 percent?

Premium increases are based in part on the benefits that were purchased. Someone who has a comprehensive policy that will pay benefits for five years will usually have a greater premium increase than someone with a policy that pays benefits for just one year.

18. Premiums for LTC insurance cannot be increased, right?

It is true that companies cannot single you out for a rate increase based on your age or your health. However, every company reserves the right to increase premiums, usually for a group of people in the same state who all bought similar policies issued during a particular period of time, often referred to as a "class." That right is stated on the first page of your policy.

In some cases companies underestimated what these policies would cost over time because they thought more people would drop their policies before using the benefits. Some companies underestimated the cost of the claims that would be made against these policies. Insurance companies also invest in the stock market and their investment income may have been less than they estimated when they designed the premiums for a certain group of policies. A change in any one of these factors can affect the premium a company needs to charge to have enough money in reserve to pay claims over the life of the policies they sold. Some companies were better than others at predicting these factors and haven't needed to increase premiums. Others had worse experiences and needed significant 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.** If you receive a notice of a rate increase, you can call the California Department of Insurance at 1-800-927-HELP (4357) to find out more about this new protection that is in addition to your right to reduce benefits in return for a lower premium.

18. Can a company sell my policy to another company?

Yes, companies can sell all their long-term care business, or only selected groups of policies. It is also not unusual for an entire insurance company to be bought by another company. However, your policy and the benefits it provides will not change, although your premium might if the new company uses different assumptions for pricing than your previous company did.

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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.

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