



Long Term Care Insurance

Consumer Guide



Welcome

Thanks in large part to advances in medical science, most Americans enjoy a long life span. Although a long term care need can occur at any age, the longer we live, the more likely we will become sick and need extended care before we die. The majority of Americans require long term care in their later years. This care can be very expensive, and is a great threat to financial security in retirement.

Long term care (LTC) is extended care that consists of help with activities of daily living (such as dressing and bathing), and/or care needed due to severe cognitive impairment (such as Alzheimer's). This care can be received in a home, assisted living facility or other type of facility such as a nursing home.

Many Americans believe that they have a slim chance of needing long term care because of their family history, their health and their lifestyle. Or they feel that if they do need it, a spouse, family member or friend will be able to take care of them (see page 3). You cannot predict if or when you might need long term care, but most of us will need it at some point. The longer you live, the greater your risk. So, a healthy 55-year-old may have as high a risk of needing long term care as an unhealthy 55-year-old, because the healthy person has the longer life expectancy.

Disclaimer

The information within this booklet is provided for informational purposes only and should not be construed as insurance advice. Please consult your licensed insurance professional for advice regarding your specific circumstances.



Long term care insurance is designed to pay the cost of extended caregiving. Most long term care is non-medical (custodial) care. Some have described LTC as “high-touch,” as opposed to modern medical care, which they refer to as high-tech. High-touch LTC includes assistance with activities such as taking a bath or moving from the bed to a chair. Caring for someone with severe cognitive impairment may be different. Her nonmedical LTC may involve supervision to avoid injury or accident; her care may also involve hands-on assistance and/or reminding her of activities (time to eat, dress, etc.).

Basic Policy Design Terms

Daily Benefit – the maximum daily (or monthly) amount the insurer will pay once you have qualified for benefits.

Elimination Period – like a deductible, the number of days that must pass between benefit eligibility and the start of benefits. Can be defined by service day (a day in which you pay for covered services), or calendar day (no requirement of paid services).

Inflation Provisions – Built-in inflation coverage is an optional benefit (rider) either selected or not when purchasing coverage. It increases your policy’s benefit automatically at regular intervals, with no action on your part and no health questions.

Benefit Period – the number of years that the policy will pay for covered services, if the full daily benefit is used each day. Policyholders who use less than their full daily benefit may find that their policy’s benefit period is effectively extended.

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What Does Long Term Care Cost?

True cost is more than dollars and cents

Long term care is expensive, even in some cases when no payments are involved. How can this be so? Much LTC is unpaid (called “informal”) care given by relatives and friends. However, this cost is not free. Although loved ones may be willing and happy to help, the burden of being a caregiver can be great. The care can be demanding physically, especially for an untrained caregiver. Emotional costs can be tremendous. Time with one’s own family may be severely restricted, which in effect extends the burden to the caregiver’s spouse and child(ren). There may also be a heavy toll in economic terms, since many caregivers choose to scale back their own careers, compromising their own current and future financial security.

The question is not whether your loved ones will take care of you if you need LTC; the question is instead, would you want them to have to do it?

Professional Care Costs¹

The national median cost in 2011 for a home health aide was \$19/hour (\$18 for homemaker services). The national median for assisted living facilities was \$39,135/year, with a private nursing home room costing \$77,745. The cost for home care remained flat from the prior year, while the cost for a private nursing home room rose 3.4%, and 2.4% for an assisted living facility. It is important to keep in mind that costs can vary dramatically depending on location. The person who gave you this booklet can show you exact up-to-date costs in your area.

¹ “Genworth’s 2011 Cost of Care Survey,” Genworth Financial, May 10, 2011.
<http://www.genworth.com/>



How Do People Pay for Professional LTC?

Most LTC is paid by one of the following: personal funds, government programs, or LTC insurance. Personal funds may involve drawing down retirement savings or other assets, using retirement income, or even funds provided by adult children. Health insurance does not cover LTC.

Medicare Won't Pay


Medicare health coverage is designed primarily to cover medically-necessary care, skilled care, and some preventative screenings. The Medicare website itself states: *Generally, Medicare doesn't pay for long-term care. Medicare pays only for medically necessary skilled nursing facility or home health care. However, you must meet certain conditions for Medicare to pay for these types of care. Most long-term care is to assist people with support services such as activities of daily living like dressing, bathing, and using the bathroom. **Medicare doesn't pay for this type of care called "custodial care."***²

Medicaid Is a Payer of Last Resort

Medicaid is a means-tested program. It is designed to provide health care and long term care for the poor. Medicaid has an institutional bias, meaning that, while nursing homes are filled with people whose bills are paid by Medicaid, the same can't be said of assisted living facilities and home care.

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² <http://www.medicare.gov/longtermcare/static/home.asp>



In the vast majority of states, in order to qualify for Medicaid, an individual is only allowed to have \$2,000 of (countable) assets to her name. Countable assets generally include all investments and assets, with the exception of business property and most primary residences. Legislative reform has made it virtually impossible for an individual (i.e. unmarried, widow or widower) to do the kind of last-minute Medicaid planning which was once commonplace.

Unlike Medicare and Social Security, Medicaid is not a program that we pay into through payroll taxes. Medicaid is funded jointly by general tax receipts of both the federal government and the government of the state in which the applicant resides.

Most people are concerned about the long-term sustainability of government programs, including Medicaid. Speculation abounds that, if current trends continue, it will become even tougher to qualify for Medicaid.



Smart Buying Tip: Work With Someone Who Represents Multiple Companies

As Abraham Maslow said, "If your only tool is a hammer, everything looks like a nail." You want to work with an agent who doesn't recommend the same insurer to everyone. Not only do available plans vary among insurance companies, but premiums for the same type of coverage can vary dramatically. An agent who represents multiple companies can choose the plan best suited for your situation.

Tax Deductions and Other Incentives

For many years, the federal government and individual state governments have encouraged people to do long term care planning and purchase long term care insurance. There are two primary types of incentives: tax deductions/credits and Partnership Programs. These are explained on a state-by-state basis in the booklet: "Guide to Tax Breaks and Incentives for Long Term Care Insurance." Ask the person who gave you this booklet for a copy.



Smart Buying Tip: New Products Offer Exciting Options

Major insurers are currently offering exciting new products.
These include:

- policies that offer a cash benefit alternative, meaning that, instead of having to submit reimbursement for covered charges, claimants are instead sent money to spend however they choose;
- combination products that couple LTC insurance with life insurance products, including annuities;
- 80/20 LTC insurance, which, like traditional health insurance, covers 80% of charges with no daily maximum, until the plan's maximum benefit is reached (i.e. \$200,000 or \$1,000,000).

If you have an annuity or life insurance policy, it may be possible to buy LTC insurance with no out-of-pocket expense. The tax-favored mechanism to make this happen is called a 1035 exchange.

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Who Buys Long Term Care Insurance, and Exactly What Do They Buy?

It's difficult to discuss typical buyers and their policies, since policies vary so much. The information below³ may be helpful as you consider LTC insurance. However, it's wise to keep in mind that your best course of action may bear little resemblance to the purchasing behavior of others.

The average purchaser is age 57, with most (64.4%) purchasers between the ages of 55 and 69. However, many younger people are buying coverage: today, almost twenty-nine percent (28.9%) of purchasers are between the ages of 18 and 54. Only 6.7% of LTC buyers are age 70+.

The most popular benefit period purchased is 3 years (26.9% of buyers). Only 13.2% of purchasers have bought a lifetime benefit period. Almost 13% (12.7%) have bought a benefit period of 2 years or less.



Smart Buying Tip: Shared Care Can Save Premiums

Spouses or other cohabitants can purchase policies that are "linked," allowing the benefits to be used by either person. These policies can bring flexibility to planning, and can also be more cost-effective than individual policies. On a related note, many insurers offer significant discounts to couples who apply together.

³ "2011 Individual Long Term Care Insurance Survey," Broker World Magazine, July, 2011.
<http://www.brokerworldmag.com/> Figures reported pertain to policies sold in 2010.



Next Step

What none of us know for sure is whether we will need long term care, and, if we do need care, how long the need for care will last.

What we can agree on is this: it's smart to have a plan that helps pay for long term care.



Smart Buying Tip: Set Yourself a Deadline

Time is your enemy when it comes to purchasing LTC insurance. The older the age at which you buy a particular policy with a particular policy design, the higher the premium. But, more importantly, you must be relatively healthy to purchase LTC insurance, and health can change at any time. By completing an application now and putting down a 100% refundable deposit, you lock in today's health and age. Smart buyers know that their deposit is totally refundable if they change their mind, for up to 30 days after a policy is delivered.⁴

Set yourself a decision deadline, to take the pressure of being uninsured off your shoulders and transfer it to the insurance company. Keep in mind that if your birthday happens before your deadline, any quotes are no longer accurate.

Taking action now can help ensure that we have the resources to pay for the kind of care we desire. In addition, having a plan in place allows us to substantially lift the burden of caregiving off our loved ones. Contact the person who gave you this booklet to learn more about long term care insurance.

⁴ At least 30 day 'free look period' – can vary state-to-state.



In a recent survey of Americans ages 30-65, 77% agreed with the statement "I should know more about long term care insurance than I currently do."

By reading this booklet and talking with the person who gave it to you, you are taking important steps to preserve your quality of life and your financial future, regardless of what the future may hold.