



Considerations Regarding Long-Term Care Insurance

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Probability of needing long-term care

Each individual has a different probability of needing long-term care and benefiting from long-term care insurance. Personal and family medical history, family support system, and financial disposition are some of the elements that would contribute to differences in probability for needing long-term care or long-term care insurance. While industry statistics often emphasize projected needs that include all incidents of any type of need, consumers must explore not only their probability of needing long-term care but of needing the types and duration of care that an affordable policy promises to provide. Both sides of the issue—probable need and insurable risk—should be explored in determining whether and to what extent LTC insurance should be purchased. Below are some statistics regarding the LTC needs of people 65 and over.

1. From *The New England Journal of Medicine*, 324, No. 9 (February 28, 1991): 595-600.

Question: Of people age 65, how many will need some nursing home care during their lifetime?

While 43% will need some nursing home care, 57% will not need any nursing home care.

While 33% will need 3 months or longer stay, 67% will need 0 to less than 3 months care.

While 25% will need 1 year or longer stay, 75% will need 0 up to less than 1 year of care.

While 9% will need 5 years or more of care, 16% will need 1–5 years of care.

2. From the American Institute for Economic Research, *Economic Education Bulletin*, February 2000.

Question: Who resides in nursing homes and how long do they reside there?

In 1995, of the total elderly population, the following percentages resided in nursing homes: 1.3% of those aged 65–74; 3.3% of men and 6.5% of women aged 75–84; 10% of men and 17% of women aged 85 and over.

After age 85, men in nursing homes accounted for 1.1% and women in nursing homes accounted for 3.5% of the population 65 and over 20 years earlier.

Among residents of nursing homes: women outnumbered men, 3 to 1; single outnumbered married, 5 to 1; and the mentally impaired (primary diagnosis) outnumbered the physically impaired, 2 to 1.

More than 50% of nursing home stays were less than 3 months, nearly 75% were less than a year, and only 11% were three years or longer.

3. From the Millbank report, “Long-term Care for the Elderly with Disabilities,” August 2000.

Question: What notable statistics appear to be emerging with regard to long-term care?

In 1995, of the 12.8 million Americans reporting long-term care needs, only 57% were elderly and only 5% of the 34 million elderly population resided in nursing homes.

The proportion of people aged 65 and older who stayed overnight in a nursing home fell by more than 8% from 1985 to 1995.

The percent of elderly reporting unmet long-term care needs fell from 5.2% in 1984 to 1.4% in 1994.

Assessment of your long-term care risk and response

The following survey is designed to provide consumers with a way of assessing their most probable long-term care insurance risk and response. No survey can provide precise answers regarding an individual’s future needs and how best to meet those needs. Each individual must make his or her own decisions based on a thoughtful consideration of the important factors involved. For a rough estimate of your probable LTC risk and response, circle the number closest to your agreement (high, low, or somewhere in the middle) with the options provided.

Family history and situation

	←Agree				Agree→	
	1	2	3	4	5	
No parent, or biologically-related aunt or uncle has needed or received any long-term care.						Both parents, and several aunts or uncles have needed and received several years of long-term care.
Several children, relatives, or friends would likely be able and willing to provide substantial at home care.						No children, relatives, or friends would likely be able or willing to provide any at home care.
My personal and family medical history indicates I am likely to need no or little institutional care.						My personal and family medical history indicates I am likely to need extensive institutional care.
My personal and family medical history indicates I am most likely to need no or very little at home care.						My personal and family medical history indicates I am most likely to need extensive at home care.
My personal and family medical history indicates I am most likely to need less than 3 months of care.						My personal and family medical history indicates I am most likely to need 5 or more years of care.

Financial disposition

	←Agree				Agree→	
	1	2	3	4	5	
I have the financial means and willingness to pay for up to a year of my own LTC needs.						I do not have the financial means or willingness to pay for up to a year of my own LTC needs.
I am unable or unwilling to pay the insurance premiums required to pay for my potential LTC needs.						I am able and willing to pay the insurance premiums required to pay for my potential LTC needs.
I am unable or unwilling to keep on paying premiums and any increases until eligible to receive benefits.						I am able and willing to keep on paying premiums and any increases until eligible to receive benefits.
I would rather save and invest my own money to cover part or all of any future needs I may have.						I would rather pay insurance premiums to cover any future long-term care needs I may have.

	←Agree			Agree→		
	1	2	3	4	5	
I have less than \$100,000 in assets beyond the value of my home and other possessions to protect.						I have more than \$500,000 in assets beyond the value of my home and other possessions to protect.
I have no spouse or a spouse able to live on \$2,100 in monthly income and \$84,000 in non-home assets if I must qualify for Medicaid.						I have a spouse that would not be able to live on \$2,100 in monthly income and \$84,000 in non-home assets if I must qualify for Medicaid.
I am willing to use the value of my estate to reimburse Medicaid for the expense of providing for my care.						I am unwilling to use the value of my estate to reimburse Medicaid for the expense of providing for my care.

Scoring: Note the numbers you have circled for each of the above items. Scores of 4 and 5 indicate a higher need, desire, or propensity to purchase long-term care insurance to address your perceived risk in this area. Scores of 1 and 2 indicate a lower need, desire, or propensity to make such a purchase.

Your personal long-term care profile

The following checklist is designed to help you develop your long-term care profile. Check the items that represent your present and projected situation with respect to the risk you face regarding long-term care.

Possible low-need indicators

- Male
- Married (at time of greatest risk)
- Strong, supportive family
- Strong, supportive friends
- Family history of short longevity
- Family history of sudden death
- Family history of old-age physical illness
- Family history of no or little LTC
- Expectation of zero to 1 year of LTC
- Able to pay for expected LTC

Possible high-need indicators

- Female
- Single (at time of greatest risk)
- No or non-supportive family
- No or non-supportive friends
- Family history of long longevity
- Family history of lingering death
- Family history of old-age dementia
- Family history of significant LTC
- Expectation of 3 plus years of LTC
- Unable to pay for expected LTC

Note: If you checked a majority of the items in the right-hand column, your potential need for long-term care is relatively high. The purchase of long-term care insurance is something you should definitely consider. If you checked a majority of the items in the left-hand column, your potential need for long-term care is moderate to low, but you may still want to consider purchasing long-term care insurance.

Assessment of long-term care insurance policy particulars

If money is no object then simply select the most comprehensive, nonexclusive long-term care insurance policy from the best company at the best price. If money is a consideration, then you might want to pay attention to the features listed below to get the best value for your money even when it means added cost.

Don't consider any policy lacking any of the following:

1. Guaranteed renewable for life.
2. Level premiums for life excepting increases by class.
3. No prior hospitalization required (a feature now required by state law).
4. Specific inclusion of coverage for Alzheimer's disease.
5. A.M. Best Co. insurance company rating of A++, A+, or A.

Consider these features desirable but not always available:

1. Company history of no or reasonable premium increases over time.
2. History of high loss ratio (benefits paid/premiums received) compared to other strong companies.
3. Use of indemnity (amount per day) rather than reimbursement (actual expenses) as basis for benefits.
4. Coverage for informal, non-paid care provided by family or friends if your family network is strong.
5. Pool of benefits approach making total lifetime benefit available for all combinations of care.
6. No exclusion of any mental or nervous disorder of any kind including Alzheimer's disease.
7. Benefit qualification including medical necessity—a medical condition making you too frail to take care of yourself even though you are able to perform the required activities of daily living.
8. 20% discount for married couples or 2 people living together purchasing same policy.

Consider these features essential for most people:

1. Waiver of premium soon after benefits begin.
2. Automatic inflation protection option—5% compounded annually.
3. Total lifetime benefit that increases with automatic inflation protection option.
4. Coverage for nursing home care, assisted living care, and community-based and at-home care.
5. Benefit qualification based on 2 of 6 activities of daily living or cognitive impairment.
6. Daily benefit equal or greater than average costs (\$181–\$247) in your area.
7. Length of benefit period in keeping with the risk faced by individual policyholder:
low risk, 2 years or less; moderate risk, 3–4 years; extreme risk, 5 years or more.

Note: Be wary of choosing more affordable but inadequate policies. Half a loaf can be worse than none if the half fails to provide the significant protection that you seek. Compound inflation protection is one feature that no adequate policy can do without. The cost of long-term care is likely to outpace inflation in general by 4 or 5 percent as it has done in the past. Adequate increases over 10 to 30 years are essential.

Consider these features not essential for most people:

1. Tax-qualified policy, which entails more tax breaks but more restrictions as well.
2. Nonforfeiture option paying reduced benefits based on premiums previously paid.
4. Return of premiums option paid upon death of policyholder before a certain age.
5. Bed reservation option reserving nursing home bed if you are temporarily absent.
6. Coverage for care received outside of the United States option.
7. Care advisory services option to help develop plan of care and identify providers.

Note: Options add considerably to the cost of any policy. One should consider ensuring the quality of the essential policy/features before adding desirable but nonessential options. One should also consider the fact that the additional cost of certain options must be paid for the lifetime of the policy while the value of these options may never be encountered or may dissipate or disappear over a much shorter period of time.

An illustrative comparison of two hypothetical long-term care policies

	<i>Policy 1—less ideal</i>	<i>Policy 2—more ideal</i>
Covered care:	Both policies cover nursing home care, assisted living facility care, residential home care, adult day care, and home health care.	
Daily benefit:	\$200 for nursing home care, 75% for assisted living care and residential home care, 50% home and adult day care.	\$200 for all covered care (or perhaps with 60–80% for home and adult day care but no lesser percent for other types).
Benefit period:	3 years	3 years
Benefit basis:	Reimbursement/actual expenses	Indemnity/full daily amount
Lifetime maximum:	3 x 365 x 200 = \$219,000 for nursing home care; but only 50%–75% for other types of care as limited by daily maximum and days in benefit period.	\$219,000 for any combination of care according to the pooling of benefits approach. Days in benefit period expand to accept any unspent funds in lifetime maximum.
Home health care includes:	Physical and respiratory therapy, skilled nursing, home health aides.	Any long-term care service, including homemaker and personal care services.
Facilities requirement:	Only facilities licensed for the type of care provided. Residential care homes must have 10 beds or more.	Any facility legally operating and providing the type of care needed by the insured and covered by the policy.
Elimination period:	90 days—must be satisfied with each new claim.	90 days—needs only to be satisfied once during the lifetime of the insured.
Benefit qualification:	2 of 5 activities of daily living (not including bathing), severe cognitive impairment.	2 of 6 activities of daily living (including bathing), cognitive impairment, and medical necessity.
Inflation protection:	Periodic benefit increases bought later at prevailing rates.	Automatic 5% compounded annually at cost established at policy initiation.
Waiver of premium:	Premiums are waived after 90 continuous days of covered care and benefits received	Premiums are waived after the elimination period is completed and benefits for any type of covered care begin.
Alzheimer's disease:	This policy does not cover mental or nervous disorders unless due to organic disease such as Alzheimer's disease.	This policy does not exclude mental or nervous disorders of any kind, thus Alzheimer's disease is covered.
Exclusions:	Care provided by an unpaid family member is not covered.	Informal care provided by relatives and other unpaid caregivers is covered.

An illustrative comparison of policy costs associated with various features

The purchase of long-term care insurance is a lifetime commitment, and it will certainly include premium increases along the way. Those who purchase it should be committed to paying premiums for the long haul and have a reasonable certainty of having the resources to be able to do so. Purchases should be made by age 65 but no sooner than is required by one's circumstances and risk of insurability. Payment of premiums between ages 60 to 65 or sooner are cheaper per month but add considerably to the amount prepaid in today's dollars in advance of the most probable time when benefits might be used—ages 80–90.

Premiums associated with different daily benefits and benefit periods

Below are illustrative premiums for a policy that includes: all major types of LTC care; 5% compounded inflation protection; a 90 day elimination period; benefits based on reimbursement of expenses up to daily limit; pooling of benefits; and a gradation of benefits based on daily maximum benefit and specific type of care (i.e., nursing home care, 100%; assisted living and residential home care, 75%; community-based and home care, 50%). The figures below are presented to provide a frame of reference for exploring the costs that might be charged for other similar policies or policies with different features and costs.

Age	\$100 per day/3 years	\$150 per day/3 years	\$200 per day/3 years
60	\$ 92/month \$ 1,104/year	\$ 135/month \$ 1,620/year	\$ 178/month \$ 2,136/year
65	\$ 111/month \$ 1,332/year	\$ 164/month \$ 1,968/year	\$ 217/month \$ 2,604/year

Note: Nursing home costs increased by 9.7 % per year from 1985 to 1995. Hawaii's average is \$181/day.

Additional cost of "return of premiums" and "nonforfeiture" options

Total premiums paid from ages 60 to 64	\$ 5,520	\$ 8,100	\$10,680
Additional cost of the "return of premiums" option to return amount above upon death at 65	\$ 299	\$ 441	\$ 583
Additional cost of the "nonforfeiture" option to return above amount in benefits at age 65	\$ 518	\$ 763	\$ 1,009
Additional cost of the two options to insure return on premiums paid if policy discontinued	\$ 817	\$ 1,204	\$ 1,592

Note: The added cost of the two options amounts to 15% of all premiums paid *for the life of the policy* despite the fact that the benefits to be derived diminish over time and serve only to insure some return on the premiums paid. This amount might be better saved for other needs or used to improve basic coverage.

Notes and tips regarding long-term care and long-term care insurance

1. For the average consumer, it is very difficult, if not impossible, to find the perfect LTC policy at an affordable price. Compromises are needed. Thus, consumers should begin with these considerations:
 - a. What is the likely probability that I will need institutional care lasting longer than three months?
 - b. Will I likely need one to three years of institutional care? Three to five years? Five years or more?
 - c. What is the probability that I will need or use community-based or at-home care that I cannot afford or my family will not be able to provide?
 - d. What is it that I want to protect regarding payment for long-term care? My ability to get the care I may need? My spouse's lifestyle and economic wellbeing? My children's or beneficiaries' estate?
 - e. What competing financial needs, risks, and wants will I have during my retirement or old-age years?
 - f. How much will I be able to afford to protect myself against the potential costs of long-term care now and throughout my retirement or old-age years?
 - g. What financial strategies can I employ to maintain the lifestyle and economic wellbeing of my spouse if I should die, fall seriously ill, or become incapacitated and in need of long-term care?
 - h. What legal strategies can I employ to protect my estate for the benefit of my beneficiaries in advance of my becoming impoverished or bankrupt due to some catastrophic illness, event, or condition?
2. If it becomes obvious that long-term care insurance provides the protection that a consumer wants, needs, and can afford, then what policy features and options would best serve these wants and needs?
 - a. Certain essentials are part of any acceptable policy: guaranteed renewable for life, daily benefit equal to or exceeding average local costs, automatic compound inflation protection, nursing home care and assisted living or residential home care in facilities that are not unduly restricted.
 - b. Other features and options can be used to tailor a policy for the individual: period of benefits in keeping with personal risk assessment, extent of at-home or community-based care coverage in keeping with individual circumstances, elimination period in keeping with risk and affordability.
3. If it becomes obvious that long-term care insurance is needed and wanted but is not easily affordable, then what cost-saving measures can be taken? Don't cut back on daily benefit or compound inflation protection, but consider cutting back on features and options that are not essential for you.
4. If it becomes obvious that long-term care insurance is individually assessed to be not needed, wanted, or affordable, then what other measures should or could be entertained?
 - a. Certain economic measures can be undertaken to increase the resources available to preserve and protect one's income, lifestyle and assets: purchase of annuities in own and/or spouse's name to ensure guaranteed income, use of first-to-die life insurance to provide estate for surviving spouse, use of second-to-die life insurance to provide estate for beneficiaries.
 - b. Certain legal measures can be used to preserve one's estate from dissolution: use of irrevocable living trust to preserve estate for beneficiaries, use of gifts well before period of greatest risk to distribute excess wealth to beneficiaries, use of ownership transfers to preserve property for the benefit of beneficiaries.
 - c. Certain financial strategies can be utilized to provide flexible source of funds to pay a variety of foreseen or unforeseen expenses. Roth IRAs can be used to invest relatively small amounts of excess retirement funds in growth-oriented investments for long-term appreciation, small portions of qualified retirement plans or pensions can be rolled over and invested for long-term growth, earnings from income producing investments can be used to purchase desired LTC insurance or supplement the income diverted to purchase such insurance.

Checklist of important points and considerations

- _____ 1. Make an assessment of your potential risk for needing paid long-term care of any kind.
- _____ 2. Make an assessment of your potential risk for needing paid long-term care that would last for longer than 90 days but less than a year.
- _____ 3. Make an assessment of your potential risk for needing paid long-term care that would last for up to 3 years.
- _____ 4. Make an assessment of your potential risk for needing paid long-term care that would last for up to 5 years or even longer.
- _____ 5. Make an assessment of your willingness and ability to pay for your own long-term care up to 100 days if it is not covered by Medicare and/or Medicare Supplement Insurance.
- _____ 6. Investigate the cost of a long-term care insurance policy that would pay for the long-term care that your assessments reveal you are most likely to need. Be sure to include the features that you would consider essential for you after reviewing page 4 of this article.
- _____ 7. Determine whether or not you would be able and willing to pay for such a policy, including expected premium increases, throughout your retirement years.
- _____ 8. Determine any cost-saving and/or premium-reducing measures you would find acceptable in order to maintain a worthwhile but affordable LTC policy throughout your retirement years.
- _____ 9. Determine what alternative strategies you could employ to accumulate funds to pay for your retirement and old-age needs and to protect your assets for your spouse and/or beneficiaries.
- _____ 10. Determine what actions you should take prior to or during your retirement to decrease your chances of needing LTC and to adapt your surroundings to supporting your eventual needs.

Additional reminders

If you should need paid long-term care lasting more than a year, the most cost-effective way to provide for that need short of Medicaid is through the purchase of a good long-term care policy.

If you purchase any long-term care insurance policy, you should be sure to buy one that provides an adequate, inflation-protected daily benefit for all types of care provided in all types of facilities.

There is little need to purchase or increase the coverage for at-home care if there is little likelihood that you will have the personal help needed to manage your care or sustain yourself independently.

If you purchase a long-term care policy, you should understand that the premiums will probably be increased at least every 5-years, if not more frequently, over the life of the policy.

If you purchase a long-term care policy, you should do so with the intention of holding onto it and paying the necessary premiums, including any premium increases, for the rest of your life.

Purchasing an LTC policy well before age 65 is not necessarily cost-effective or recommended.