Long-Term Care Insurance and a True Story

by Nancy Gold, with consultation from Rae-Carole Fischer

Long-Term Care Insurance. What is it and do you really need it? You may find yourself asking those questions when you just received an increase in your premium. Frankly, Long-Term Care insurance is not only for you. It is there to help your family manage when you become incapacitated. You do not want to be a burden on them. Long-Term Care insurance is not for the very wealthy. They can afford the expense.

Long-Term Care insurance is for the middle class that wants to protect their assets. If you have a policy now and are thinking that Long-Term care insurance is too expensive, think of long-term care as a roof over your house. How will you be able to protect your valuables and your loved ones if there is no roof?

Refresher: ***What exactly is long-term care?***
Long-Term care is a range of services and supports you may need to meet your personal care needs. Most long-term care is not medical care, but assistance with the basic personal tasks of everyday life, sometimes called Activities of Daily Living (ADLs), such as: bathing, eating, dressing, using the toilet, transferring (from bed to chair), continence, and supervision of persons with dementia.

What's important to remember is you are buying insurance for care that you will need if you become frail. **It's estimated that 70% of people age 65 and over will ultimately need long-term care.** Whether you should buy a Long-Term Care insurance policy depends on your age, health, overall retirement goals, income and assets. For instance, if your only source of income is a Social Security benefit, you probably shouldn't buy Long-Term Care insurance because you may not be able to afford the premiums.

On the other hand, if you have significant assets but don't want to use them to pay for long-term care, you may want to buy a Long-Term Care insurance policy now. Many people buy a policy because they don't want the government or their family to have to care for them or pay for their care. However, you shouldn't buy a policy if you can't afford the premium or aren't sure you can pay the premiums over many years, taking into account the increases which may occur in the future.

EXAMPLE: True story: Mary and Joe (not their real names) decided to buy Long-Term Care insurance in their 50's. Mary continued working and couldn't be Joe's caregiver, since he's much older than she. She started with one company and then got a flyer from another one. The other company had a representative come to Mary's home to compare the policies and Mary decided to change from one policy to another.

CAUTION: Before you switch to a new Long-Term Care insurance policy, make sure it's better than the one you have now. **Before you change, ask if you can upgrade the coverage you already have**. For example, you may be able to add inflation protection or eliminate the requirement that you stay in the hospital before long term care services are covered by the policy. It might cost less to improve a policy you have now than to buy a new one.

If not, you could replace your current policy with one that gives you more benefits, or **even add a second policy. Talk to the original company that sold you the policy.** It may be better for you to have two smaller policies than only one larger one. **Mary's editorial note:** Who knew, I acted too quickly and canceled my first policy. Major mistake.

Be sure to talk about any changes in your coverage with a trusted family member or friend. Also, be sure you're in good health and can qualify for another policy. If you are changing to another company, **wait until the new policy is issued before cancelling your other policy**. **Mary's editorial note:** I did this part right. Fast forward a year and a half. Mary's premium increased 64% and her husband's 50% - that's $20,000 a year in additional premiums. Mary checked with many of her friends who had Long-Term Care insurance and learned that their policies also had steep premium increases. Mary asked another TTN member, whose husband had used Long-Term Care insurance, if it was worth it. She heard a resounding YES! Mary's friend estimated that Long-Term Care insurance had saved her family $80,000 worth of expenses. Another friend who takes care of her mother and father said that if they did not have Long-Term Care insurance that her family would be bankrupt.

Mary decided to shop around and see if she, with her excellent health, could buy another Long-Term Care insurance policy from a different insurance company. She was shocked to see that other policies were even higher. Why? Because she was older now, and the insurance companies realized that costs for long-term care were going up.

Mary met with TTN member, Rae-Carole Fischer, who specializes in Medicare health insurance policies and has sold Long-Term Care policies and asked her about how agents craft Long-Term Care policies for individuals. Rae Carole advised Mary to take the many components of the policy into consideration. One item that might be customized is the elimination period. This refers to how quickly the policy takes effect. The longer the elimination period, the less expensive that component of the policy will be.

Example: If your policy has a 30-day elimination period, maybe you want to go to 90 days. **Further explanation of elimination period (which is like a deductible)**: With many policies, benefits won't start the first day you go to a nursing home or start using home care. How many days you have to wait will depend on the elimination period you pick when you buy your policy. During this time your policy won't pay any costs of long-term care services. Elimination periods for nursing home and home health care may be different. **Insurance companies determine benefit start dates differently. Benefits could begin the date the person is certified to receive long-term care benefits or the date that long-term care services commence.** For example, if you only received home care services three days a week, it will take longer for the benefits to start than if you received those five days a week. So, you would have more out-of-pocket expenses before your benefits begin but that will lessen the premium cost.

Example: If a nursing home in your area costs $300 a day and your policy has a 30-day elimination period, you would pay $9,000 before your policy starts to pay benefits. If you had a policy with a 60-day elimination period, you would pay $18,000 of your own money. With a 90-day elimination period, you would pay out $27,000 before the policy would start to pay benefits.

You need to look at all the components, including the kind of compounding (inflation protection), since this is something you're going to use down the road when costs of care are higher. **Example:** If you have 5% now maybe you want to go down to 3%. That will also lower your premium, but remember that inflation protection can be one of the most important features of a Long-Term care policy. Inflation protection increases the premium usually by 25% to 40%. However, unless your benefits increase over time, years from now you may find you haven't kept up with increasing long-term care costs. The cost of a nursing home has gone up 7% a year for the past several years. **If inflation is 5% a year, a nursing home that cost $400 a day in 2015 will cost more than double per day in 20 years.** The average daily rate in New York City is $395 and Long Island is $415.

Mary and her friends were concerned about how much more their policies were costing them. Rae-Carole mentioned that many companies that offer Long-Term Care insurance policies have increased premiums. These premium increases affect everyone who owns a particular policy in a particular state. These increases are not capricious; they must be approved by the insurance department of the state where the policy holder lives. Americans are living longer.

Long-Term Care is one of the most pressing issues, and is likely to be a significant retirement expense facing Americans today. It is never too soon to consider your Long-Term Care plan. The premiums for Long-Term Care insurance are based on age and health at the time you apply for the policy, and will only get more expensive the longer you wait. Also, due to medical underwriting practices, it is important to purchase coverage while you're still in good health. Long-Term Care companies look at your current and past health before they decide to issue a policy. Companies ask more questions, require copies of your current medical records, and ask your doctor for a statement about your health.

You should also avail yourself of the resources available.

- This includes the website for the National Clearinghouse for Long–Term Care Information: http://www.Longtermcare.gov features a number of resources to help you start the planning process. Including interactive tools such as a savings calculator, contact information for a range of programs and services, a shopper's guide, and real-life examples of how individuals have planned successfully for long–term care.
- You should also check your state insurance department. The New York link is: http://www.dfs.ny.gov/consumer/ltc/ltc_index.htm for agencies on aging, and state health insurance assistance programs for insurance information. **Mary's editorial note:** Go to someone you trust. Do not go it alone.
- And don't forget to consult TTN-NYC's **Talent Pool** available on our website.

Long-Term Care encompasses everything from long-term medical services, supports and finances, to where you will live and how you will navigate the myriad of legal, family, and social dynamics along the way. It may be helpful to enlist the help of an advisor. **Mary's editorial note:** You MUST seek the help of a professional. There are too many moving parts and you need guidance on this expensive but necessary insurance. This may be a financial professional who will bring structure to your planning to make sure you are thinking about tomorrow as well as today.

Important note: If you have Long-Term Care insurance, talk to your tax advisor. It is tax deductible under certain circumstances.

And, last but not least, some important facts we need to know:

- ✓ Insurers did not anticipate low interest rates that would stunt their own investment returns, which they depend on to pay future claims. Due to the government keeping interest rates low, there has been an unintended consequence of lack of usual income.
- ✓ Because the average long-term care claim is just less than 3 years, most people buy policies with a 3-4 year benefit period, 3% compounded inflation protection and a 90 day waiting portion before benefits kick in.

Outcome of the story: Mary realized that her husband's policy was really expensive and that she would probably end up taking care of him initially, so she and her husband decided to extend the elimination period from 30 days to 90 days and to decrease the inflation protection from 5% to 3%, thus lowering his premium a bit. Mary, since she is younger and odds are would end up being taken care of by her daughter, opted to pay the 64% increase.