What you need to know about long-term care insurance
Who will care for you when you can’t care for yourself?

Chances are the day will come when you won’t be able to manage on your own. In fact, almost 70 percent of those over age 65 will require some form of long-term care during their lives.¹

Long-term care includes all the assistance you would need with daily living tasks if a chronic illness or disability leaves you unable to care for yourself for an extended period of time. It could be care in your own home or in a specialized facility.

Care options that may be available to you

Many people think their private health insurance or Medicare would pay, but that’s typically not true. Health insurance really only pays for doctor and hospital bills. Medicare will cover skilled care for periods up to 100 days, but only if certain requirements are met. If you need care over an extended period of time, you’d have to spend down your assets before Medicaid would kick in, and then, you’d have less choice about the care you receive.

Others assume their loved ones would provide the care they may someday need, but that’s an imperfect plan. Many don’t recognize the significant negative impact caregiving could have on the caregiver, who often suffers emotionally and financially as a direct result of their caregiving responsibilities.² If your plan is to turn to your family, is that what’s really best for you and them?

Long-term care insurance puts you in control

Long-term care insurance helps make sure that you’ll have access to high-quality care should you ever need it. Using insurance to pay for care also means that you won’t need to choose between getting the assistance you need and spending down your life’s savings.

In short, long-term care insurance puts you in control. But are you the right age to consider it? Can you afford it? And if so, what kind of benefit features should your policy include? This guide will answer these questions and help determine if long-term care insurance is right for you.

1 2014 Medicare & You, National Medicare Handbook, Center for Medicare & Medicaid Services, September 2013
2 National Alliance for Caregiving in collaboration with AARP, 2009

The High Cost of Home Health Care and Nursing Home Care

Long-term care services may quickly deplete even the best-planned nest egg. The national median cost for a home health aide for an eight-hour day is approximately $45,188 annually. Full-time nursing home care in the U.S. has a median cost of roughly $87,600 per year.

The map at right shows sample median costs for home health care and private room nursing home care. Costs can vary considerably depending on where you live. To see what care costs in your area, visit the web address below.

To see the cost of care in your area, visit www.lifehappens.org/longtermcarecost.

Source: Genworth 2014 Cost of Care Survey, conducted by CareScout
Preserving a Secure Future

High school sweethearts Allen and Lynda Striepe were true soul mates. They married, became schoolteachers and were very active in their local Methodist church, with Allen serving as a lay minister and Lynda playing the organ.

When they were in their mid-50s, the Autauga County, Ala., pair decided to buy long-term care insurance, a benefit offered through their employer. Though they hoped they’d never need to use it, they wanted to make sure to preserve their retirement savings should one of them require care.

Their timing was fortunate. Several months after acquiring their policy, Allen started to forget things. By the next year, Allen was diagnosed with Alzheimer’s disease and couldn’t return to work. He soon needed a home health aide so Lynda could continue to teach, and it was paid for by the long-term care insurance policy. When his condition worsened, the policy covered his stays in an assisted living facility and, later, a nursing home.

Pneumonia took Allen’s life less than two years after his diagnosis. While nothing can make up for the loss of a spouse, having the policy helped preserve Lynda’s financial security because she didn’t have to pay for Allen’s care with retirement assets. Lynda was able to retire at age 60—as planned—and she’s living the way she always has. “Nothing fancy, but comfortable,” she said.

Watch the complete story online at www.lifehappens.org/striepe.

Where care is provided

Professional care can be delivered in a variety of different settings, and many long-term care insurance policies give you the option to receive care in the setting of your choosing.

**Home health care:** Services provided at home

**Assisted living facility:** Residential care setting that provides housing and support services for people wanting or needing assistance with daily living tasks

**Memory loss units:** Often located as a separate wing of an assisted living facility, these units provide 24-hour support, and locked premises to assure that no one wanders off

**Nursing home:** Full-time care in a dedicated facility

**Adult day care:** Community-based, daytime supervision providing social, recreational or health assistance off-site during working hours

There’s no place like home

Most long-term care services are provided in the home. Below are the care settings for claims paid for people with individual long-term care insurance policies.

<table>
<thead>
<tr>
<th>Care Setting</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Care</td>
<td>50%</td>
</tr>
<tr>
<td>Nursing Home</td>
<td>31%</td>
</tr>
<tr>
<td>Assisted Living</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: American Association for Long-Term Care Insurance, 2012 LTCi Sourcebook

When will a policy start to pay for care

Generally, long-term care insurance policies begin to pay benefits when one of two different criteria is met and you have met the elimination period.

You are unable to perform two of the six activities of daily living (ADLs) without assistance or supervision:

**Continence:** Control of one’s bladder and bowel movements

**Dressing:** Clothe oneself

**Toileting:** Use a toilet and perform associated personal hygiene

**Eating:** Feed oneself

**Bathing:** Bathe oneself

**Transference:** Move oneself into or out of a bed or a chair

You have severe cognitive impairment, such as Alzheimer's disease and other forms of dementia, which make it impossible for you to live independently in a safe manner.
Understanding key features and benefits

When considering a long-term care insurance policy, you should be familiar with the following:

**Daily/monthly benefit:** The maximum daily or monthly amount your policy will provide toward the cost of long-term care.

**Benefit cap:** The maximum benefit amount available under a policy (e.g., $360,000).

**Elimination period:** The waiting period before benefits are paid (e.g., 90 days). Opting for a longer waiting period is a good way to lower your premium cost.

**Inflation rider:** A provision that helps benefits keep pace with the increasing cost of care. See box below.

**Shared benefits rider:** A provision that allows a couple to share benefits between their policies. For example, if they each have $250,000 of benefits but one partner exhausts his or her entire benefit, that partner can begin drawing on benefits from the other partner’s policy.

**Free-look period:** A 30-day time frame after purchasing insurance, during which you may cancel for a full refund of your premium.

**Guaranteed renewability:** Your policy cannot be cancelled, and premiums cannot be increased unless all policies of that type within a particular state are increased together.

**Non-forfeiture provision:** If an insurer increases premiums beyond a specific percentage, a policyholder has the option to retain coverage at a reduced level of benefits.

**Exclusions:** Certain conditions are listed as exclusions for most policies including, but not limited as policies vary, to alcoholism, drug abuse, some mental illnesses and nervous disorders. Self-inflicted injury is also usually excluded from coverage.

Keeping up with inflation

Consider the options available to grow your benefits to help keep up with inflation. Your selection can have a significant impact on the premium you are charged. The faster your benefits are set to grow, or the more guaranteed the growth is, the higher your premium will be.

Examples of inflation options

- Inflation linked to the insurer’s investment returns
- CPI (Consumer Price Index) linked to inflation
- 3%, 4% or 5% simple inflation
- 3%, 4% or 5% compound inflation
- Guaranteed purchase option—you have a limited right to purchase more coverage, with no new underwriting
How much coverage do you need?
The kinds and amount of benefits you need will depend on your budget, your geographic region, and what kind of care you think you’d want. It also may depend on whether you have any loved ones who want to play some role in your care.

Here are some important questions to ask yourself to determine the amount of coverage that’s right for you.

- What is the average cost of care in my area or the area where I plan to retire?
- Do I want my policy to cover the entire cost of care, or can I afford to supplement the expenses from my retirement income and assets?
- Do long-term illnesses, such as dementia, run in my family?
- Has anyone in my family ever needed long-term care?
- What assets do I want to preserve and pass along to my spouse, partner or heirs?
- How much of my care, if any, will be provided for by family members?

When should you buy?
It’s true that most long-term care insurance claims are made when people reach their golden years, but there’s a misconception that you should wait until you’re approaching retirement to buy a policy. Waiting too long to purchase a policy can be very costly. Because rates are based on age and health, it’s best to start shopping for a policy when you’re young and healthy.

A good time to purchase is when you’re in your 40s or 50s. You can certainly buy a policy when you’re in your 60s or even older, but expect to pay considerably more. Plus, if you wait too long and develop a condition that may require long-term care, you could become uninsurable.

Rates are based on age and health. The younger you are, the lower your premiums generally will be.

Tips to help save on premiums

Buy young: Rates, in part, are based on your age. The younger you are, the lower your premiums generally will be. Also, the older you get, the more likely you are to have health concerns that make you uninsurable, or would make coverage more costly. Almost half of the people age 70 or older who apply will not be eligible because of their health.¹

Preferred health discounts: Most insurers offer preferred discounts to those in exceptional health. The majority of policies are issued with standard rates. If you qualify as a preferred customer, discounts of 10 percent or more may be available.

Couples/partner discounts: Many insurers offer discounts when both spouses or domestic partners apply for coverage together. Some may even offer discounts to multi-generational families or siblings who reside together.

Starter policies: Other financial priorities may make a comprehensive policy seem out of your reach, but some insurance plans can be designed to offer a smaller starter policy to give some protection now. You can sometimes add additional coverage down the road, or buy a supplemental plan to compliment your initial policy.

The Cost of Waiting – Buy Early, Save More

Jane, 50, knows long-term care insurance is most affordable to buy when you’re young and healthy. The policy she wants includes a 3% compound inflation rider, meaning that if Jane and her husband wait until they’re 55 or 60, they’ll have to buy a policy with a larger benefit amount to get the same coverage. Her agent shows her how much more she’ll pay by postponing the decision (see below). Jane and her husband decide to buy now to lock in more affordable coverage based on her age and good health.

<table>
<thead>
<tr>
<th>WHEN PURCHASED</th>
<th>AGE</th>
<th>MONTHLY BENEFIT AMOUNT</th>
<th>ANNUAL PREMIUM*</th>
<th>IF PREMIUM PAID TO AGE 85</th>
<th>COST OF WAITING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Today</td>
<td>50</td>
<td>$ 4,500</td>
<td>$1,195</td>
<td>$41,818</td>
<td>$0</td>
</tr>
<tr>
<td>In 5 Years</td>
<td>55</td>
<td>$ 5,217</td>
<td>$1,573</td>
<td>$47,193</td>
<td>$5,374</td>
</tr>
<tr>
<td>In 10 Years</td>
<td>60</td>
<td>$ 6,048</td>
<td>$2,298</td>
<td>$57,461</td>
<td>$15,643</td>
</tr>
<tr>
<td>In 15 Years</td>
<td>65</td>
<td>$ 6,988</td>
<td>$3,731</td>
<td>$74,619</td>
<td>$32,800</td>
</tr>
</tbody>
</table>

*Assumes level premiums over the period illustrated, which is not guaranteed. Assumes “standard” rates. Source: Benefit and premium figures provided by one of the leading long-term care insurance companies in the U.S., May 2014

¹ American Association for Long-Term Care Insurance, 2010 LTCi Sourcebook
To encourage more Americans to take responsibility for their future care needs, the government has developed a variety of incentives to reward those who buy long-term care insurance. Here are some you should know about.

**Partnership programs**: Long-term care insurance partnership programs are designed to encourage consumers to buy private long-term care insurance, which will help you avoid spending down most of your assets to qualify for Medicaid-sponsored long-term care. Over the long haul, these partnerships between states and private insurance companies save money for both consumers and the government. Programs vary by state, so talk to your agent about how this could apply to you.

**Federal tax incentives**: If you buy a federally qualified policy (and most policies are), your insurance premiums may be deductible as part of your medical expenses on federal tax returns and benefits are received tax-free.

**State tax incentives**: A majority of states have a state tax incentive for residents who purchase long-term care insurance.

**Incentives for business owners**: There are also tax advantages for businesses that buy long-term care insurance. Premiums for tax-qualified policies paid for employees, their dependents, spouses and retirees may be tax deductible as a business expense.

Make sure to consult with your tax advisor to fully understand which tax benefits may apply to your particular situation.
For people who are concerned about their future long-term care needs but not convinced that traditional policies are the solution for them, there’s a newer kind of insurance option that is growing in popularity. They’re alternatively called hybrid, combo or linked-benefit products, and they typically incorporate long-term care benefits with a life insurance policy or an annuity.

Life insurance may be a very high priority for your family right now. But over time, your need for life insurance will likely diminish and the need to pay for long-term care may become a higher priority. These policies allow you to serve both needs with one policy.

In short, you’d buy a life insurance policy or an annuity, but the policy would include long-term care coverage as a secondary benefit. If a need arises, you can access the policy’s long-term care benefits to pay for long-term care services. If you never need long-term care, there is a death benefit for your heirs and/or an annuity from which you could take regular payments. These policies can be structured as a lump sum or an annual stream of premiums. Speak to an agent about the possibilities offered by these newer policies.

### Is a Hybrid Policy Right for You?

**MOLLY’S SITUATION**

- Healthy 55-year-old woman
- Married with 2 college-age sons
- Doesn’t want to be a burden on her family should the need for long-term care arise
- Has $75,000 in discretionary assets and makes a single, lump-sum payment to buy a hybrid policy with the benefits outlined below

<table>
<thead>
<tr>
<th>RETURN OF PREMIUM</th>
<th>DEATH BENEFIT</th>
<th>TOTAL LONG-TERM CARE BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75,000</td>
<td>$168,263</td>
<td>$463,398</td>
</tr>
</tbody>
</table>

Source: Figures generated by averaging premium and benefits data provided in June 2014 by two leading insurance companies in the hybrid policy marketplace

### A Burden Relieved

Early in their three decade relationship, financial advisor James Daoust, Jr. had helped his clients, Joe and Theresa Mollicone, with retirement plans as well as life, disability and health insurance, all of which they had to address on their own because each was self employed. Joe owned an excavation business, and Theresa ran a clothing boutique.

As Joe approached his 65th birthday and his disability insurance was about to expire, James suggested long-term care insurance. The Mollicones were initially hesitant, but neither wanted to be a burden to the other or to their two adult children, so they purchased policies.

Less than six months later, Joe suffered a massive stroke that left him paralyzed on the right side and unable to speak. Three months after the stroke, the long-term care insurance policy started paying the maximum daily benefit of $150, which increases by 5 percent each year and has been just enough to cover Joe’s home-care needs. Four years later Joe reached his payout limit, but continues to receive benefits because of his policy’s shared-care rider, which allows him to tap into the benefits from Theresa’s policy. To date, the insurance company has paid out more than $400,000 in benefits.

“If we didn’t have this insurance, caring for Joe would have depleted all the savings we had,” Theresa says. “Now I’m not afraid of running out of money.”

Watch the complete story online at [www.lifehappens.org/mollicone](http://www.lifehappens.org/mollicone).