

Long-Term Care Insurance: *Understand your options before you buy*

Topical Education for Today's Investor

HEALTH CARE COVERAGE

The aging of America is one of the biggest factors contributing to the growing interest in long-term care (LTC) insurance. According to U.S. Census Bureau data, the median age in America has been rising and the last of the 76 million Baby Boomers will reach age 65 by 2030 — doubling the elderly population in America.



The U.S. Department of Health and Human Services estimates that about 40% of people aged 65 or older have at least a 50% lifetime risk of entering a nursing home. For its part, the Health Insurance Association of America estimates that by 2020, 12 million people may require long-term care.

At a time when the average cost of a private room at a nursing home tops \$74,000 a year, long-term care insurance can be a solid investment for individuals who have assets they want to protect or who want to avoid becoming a financial burden to their family. But unlike other types of insurance, in which policies are standardized or fairly straightforward, long-term care policies are complex and vary widely. Virtually every company's policy differs on such matters as who qualifies for coverage, when the policyholder can begin receiving benefits, the amount of coverage, the term of the policy, and premium costs.

Before you begin comparing policies on a feature-by-feature basis, it is important to understand some of the basics.

What Long-Term Care Insurance Is — And Is Not

Long-term care insurance is not life insurance, disability insurance, or health insurance. Instead, LTC includes a range of nursing, social, and rehabilitative services for people who need ongoing assistance due to a chronic illness or disability. LTC insurance can be used by anyone at any age who suffers an accident or debilitating illness, but it's most frequently used by older adults who need assistance with essential physical needs, such as bathing, dressing, or eating.

For the most part, those who need long-term care are left to foot the bill on their own. Neither Medicare, nor Medicare supplemental coverage, also known as Medigap insurance, nor standard health insurance policies fully cover long-term care. That leaves most of us with two options when faced with such expenses: pay out-of-pocket or rely on private long-term care insurance.

Most LTC policies are "expense-incurred" or indemnity policies, which pay a fixed-dollar amount toward the cost of daily care. Policies tend to cover a variety of care settings, including nursing homes, home health care, assisted living facilities, and adult

day care. Since premium costs increase depending on your age at the time of enrollment, the younger you are when you purchase a policy, the lower the premium you'll pay during the life of the plan.

Once you purchase a policy, premiums generally remain the same each year, so experts recommend that individuals start thinking about long-term care long before they need it.

Shopping for Long-Term Care Insurance: Consumer Guidelines

When shopping for long-term care insurance make sure you take your time and compare the features of several policies. State insurance regulators and the American Council of Life Insurance, and the American Health Care Association recommend that you pay special attention to the following features.

- **Company Reputation and Legitimacy.** Make sure the insurance companies under consideration are licensed in your state and that they carry favorable financial ratings from well-known ratings agencies such as A.M. Best Company, Duff & Phelps, Inc., Standard & Poor's Insurance Rating Services, and Moody's Investor Services, Inc.
- **Coverage Parameters.** Policies will differ in the types of services they support. Some cover nursing home care, others cover custodial or personal care in a variety of settings such as assisted living, adult day care, and home health care. Some include a combination of services. Be sure to choose a policy that you believe will best meet your particular needs.
- **Benefits Payout.** How much does the policy pay per day for care in a particular setting (e.g., nursing home, assisted living)? How does the policy pay out services (e.g., a fixed daily amount, as reimbursement for the cost of care up to a daily

maximum)? Does the policy have a maximum lifetime limit? If so, what is it for nursing home care? Home health care?

- **Waiting Period.** How long must the insured wait before he or she can begin receiving benefits? Most policies range from zero to 180 days. Typically the longer the period, the lower the cost of the policy.
- **Eligibility.** Does the policy use certain benefit triggers to determine when you will be eligible to receive benefits? Such triggers could include activities of daily living that the insured needs help with, such as bathing, eating, and dressing; cognitive impairment, such as Alzheimer's disease; or a prerequisite hospital stay for nursing home benefits.
- **Benefits Protection.** The policy should include an inflation adjustment feature to ensure that benefits stay in line with rising care costs. Determine what the rate of increase is, how often it is applied, and for how long. Additional protections include a "guaranteed renewable" clause, which states that the policy cannot be canceled when you get older or if you suffer physical or mental deterioration, and a nonforfeiture benefit, which ensures that some portion of your benefits are still available to you if you cancel your policy or unintentionally let it lapse.
- **Tax Implications.** Most long-term care policies sold today are federally tax-qualified, which means premiums paid, as well as out-of-pocket expenses for long-term care, can be applied toward the 7.5% medical expense deductions contained in the federal tax code. Additionally, long-term care benefits received are not taxed as income up to certain limits. Consult with a tax advisor to learn more about the tax implications of long-term care insurance.

Due to the many variables involved in determining whether long-term care coverage is right for you, it is important to do your research. Luckily there is a wealth of information available to consumers on long-term care and related health care issues. A good starting point is the American Health Care Association at www.ahca.org.

For more information, please contact your financial advisor.

Points to Remember

1. The aging of America and the increasing health care expenses that will follow are the biggest factors contributing to the growing interest in long-term care insurance.
2. Demographers predict that more than a third of all people who reach age 65 will need to enter a nursing home at some point in time.
3. Today the average cost of private nursing home care in America tops \$74,000 a year, making private long-term care insurance a potentially smart investment for individuals who want to protect assets and avoid burdening their family.
4. In general, long-term care insurance covers a range of nursing home and community-based personal care services for individuals who need ongoing assistance due to illness or disability.
5. Neither Medicare, Medicare supplemental coverage, nor standard health insurance cover long-term care expenses.
6. Premium costs increase as you age, so the younger you are when you purchase a policy, the lower the premiums you'll pay during the life of the policy.

Important Additional Notes

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