What you need to know about long-term care insurance

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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. The good news is, people are living longer. However, that increases the chance that you will live to the age where you will need long-term care.

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 result of their caregiving responsibilities.[1] 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] Unum, Adult Caregiving, 2018

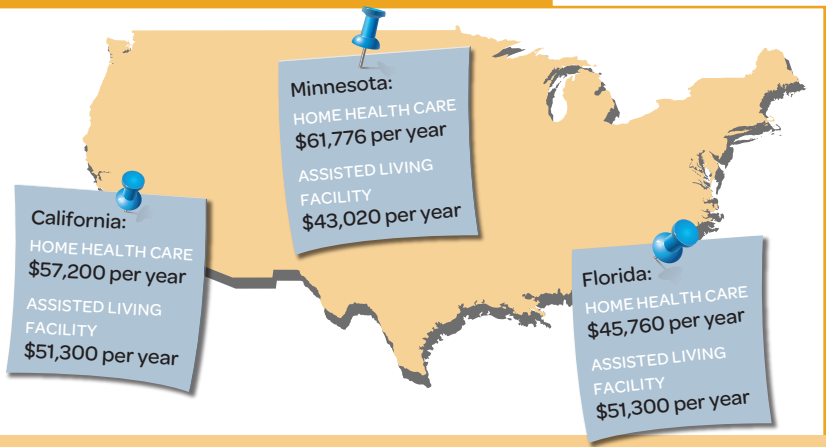
4 Reasons to Consider Long-Term Care Insurance

1. Allows you to stay at home or in a setting of your choice
2. Helps you maintain your independence and dignity
3. Can help protect your retirement assets or income
4. Helps relieve financial and caregiving pressure on your family

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 $49,000 annually. An assisted living facility in the U.S. has a median cost of roughly $45,000.

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

Source: Genworth 2017 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 church, with Allen serving as a lay minister and Lynda playing the organ.

When they were in their mid-50s, they 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**.

Lynda 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

65% say most people need long-term care insurance. But here is the disconnect: only **57% say** they **personally** need it, and only **15% say** they **own it.**

Source: 2018 Insurance Barometer Study, Life Happens and LIMRA

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

or

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.

Why We Bought Long-Term Care Insurance

Eva Ng and her husband, Robert

Eva Ng has seen the benefits of long-term care insurance firsthand. Her father had a long illness, and a policy helped provide the care he needed. While Eva, 53, and her husband Robert, 62, are healthy and active today, the couple wanted to make sure they'd be covered in the future. "We were concerned about being old and not being able to take care of each other, as we have no children," she said.

Eva is a petite 4 feet, 10 inches, 90-pound woman, while Robert is 6 feet, 2 inches, and 240 pounds. "It would be hard for me to physically handle him in our later years," she said.

To protect their assets and ensure they'd have the care they might need, the couple purchased long-term care insurance several years ago. The policies give them a sense of financial security. "If one of us has to go to a nursing home, the other will have the option to stay in the house and keep a few assets," she said. "We've known others who have lost their homes when one of them had to go to a facility."

While the couple was initially concerned about the cost, they worked with their insurance professional to find a policy with the benefits they wanted, and at a price that suited their budget. "Having a long-term care insurance policy will assure us a degree of dignity as we will eventually need others to take care of us," Eva said.

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 maximum: 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.

Care coordination benefit: A service where a professional may arrange, monitor or coordinate the necessary services.

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 increasing cost of care

Consider the options available to grow your benefits to help keep up with increasing cost of care. 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 options

- Step-rate inflation option
- Return of premium option
- 1% and 2% compound inflation
- Options that grow for a period and then level off
- 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?

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. Less than 5% of policies are issued for people age 70 or older.[3]

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.

[2] 2018 Milliman Long Term Care Insurance Survey, published by Broker World

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.

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 insurance professional 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.

JANE'S POLICY FEATURES

Pool of money	$162,000
Monthly maximum	$4,500
Elimination period	90 days
Inflation rider	3% compound
Jane's premium	$1,804/year

WHEN PURCHASED	AGE	MONTHLY BENEFIT AMOUNT	ANNUAL PREMIUM*	IF PREMIUM PAID TO AGE 85	COST OF WAITING
Today	50	$4,500	$1,804	$63,140	$0
In 5 Years	55	$5,217	$2,355	$70,658	$7,518
In 10 Years	60	$6,048	$3,175	$79,375	$16,235
In 15 Years	65	$7,010	$4,567	$91,340	$28,200

*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., August 2018

3 ways to get coverage

1 **Through an insurance professional.** Working with a professional who specializes in long-term care insurance provides you with a lot of flexibility and personal guidance. An insurance professional can help you shop around for the best policy among multiple insurance companies, and customize a plan to include the combination of features and benefits that works best for your needs and budget. If you're in good health, you may qualify for preferred pricing. That's because the policy will be individually underwritten, meaning the insurance company will base its price on your health history. **Pros: Flexibility, personal guidance. Custom solution. Good health discount may be available.**

2 **Through your employer.** This is a convenient option because you often can pay your premiums through direct billing. Buying through work can save you the time of researching many policies because your employer will have done that work for you. If you're not in perfect health, buying a policy through work may make a lot of sense since you may be asked fewer health-related questions in order to qualify for coverage. However, if you're healthy, you'll often pay the same price as everyone else in your general age range, which means you might not get rewarded for your good health, as you might with an individual policy. Also keep in mind that with employer-sponsored coverage, your choice of policy features may be limited because some offer only certain options. **Pros: Pre-selected plans from which to choose. Direct billing. No gender based pricing. Easier to enroll and qualify.**

3 **Through associations or membership groups.** Policies may be offered through alumni groups, trade groups and other organizations to which you belong. Premiums are often discounted and are based primarily on your age and health. The plans they offer could look a lot like individual plans offered through a professional, or similar to plans offered though employers. Either way, you will generally work with a specialist to help you understand your options and enroll. **Pros: Discounted pricing.**

Take Advantage of Government Incentives

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 insurance professional 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.

Hybrid Policies:
Long-Term Care Insurance Linked With Life Insurance or an Annuity

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.

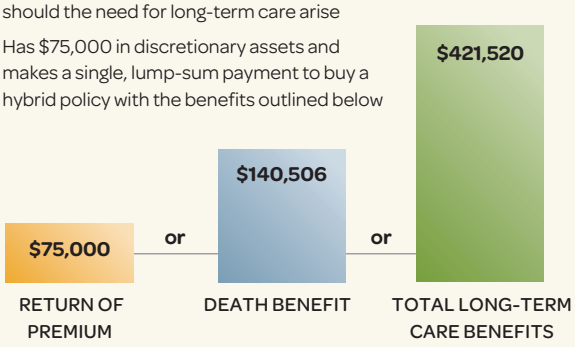
In short, you'd buy a life insurance policy or an annuity, but the policy would include long-term care coverage as a secondary benefit. If a need arises, you can access the policy's long-term care benefits to pay for long-term care services. If you never need long-term care, there is a death benefit 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 a insurance professional 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 aged 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



Source: Figures generated by averaging premium and benefits data provided in August 2018 by two leading insurance companies in the hybrid policy marketplace

A Burden Relieved

Over the course of three decades, Joe and Theresa Mollicone's insurance professional helped them 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, their insurance professional 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 of out money."

Watch the complete story at **www.lifehappens.org/mollicone**.

Theresa and Joe Mollicone

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