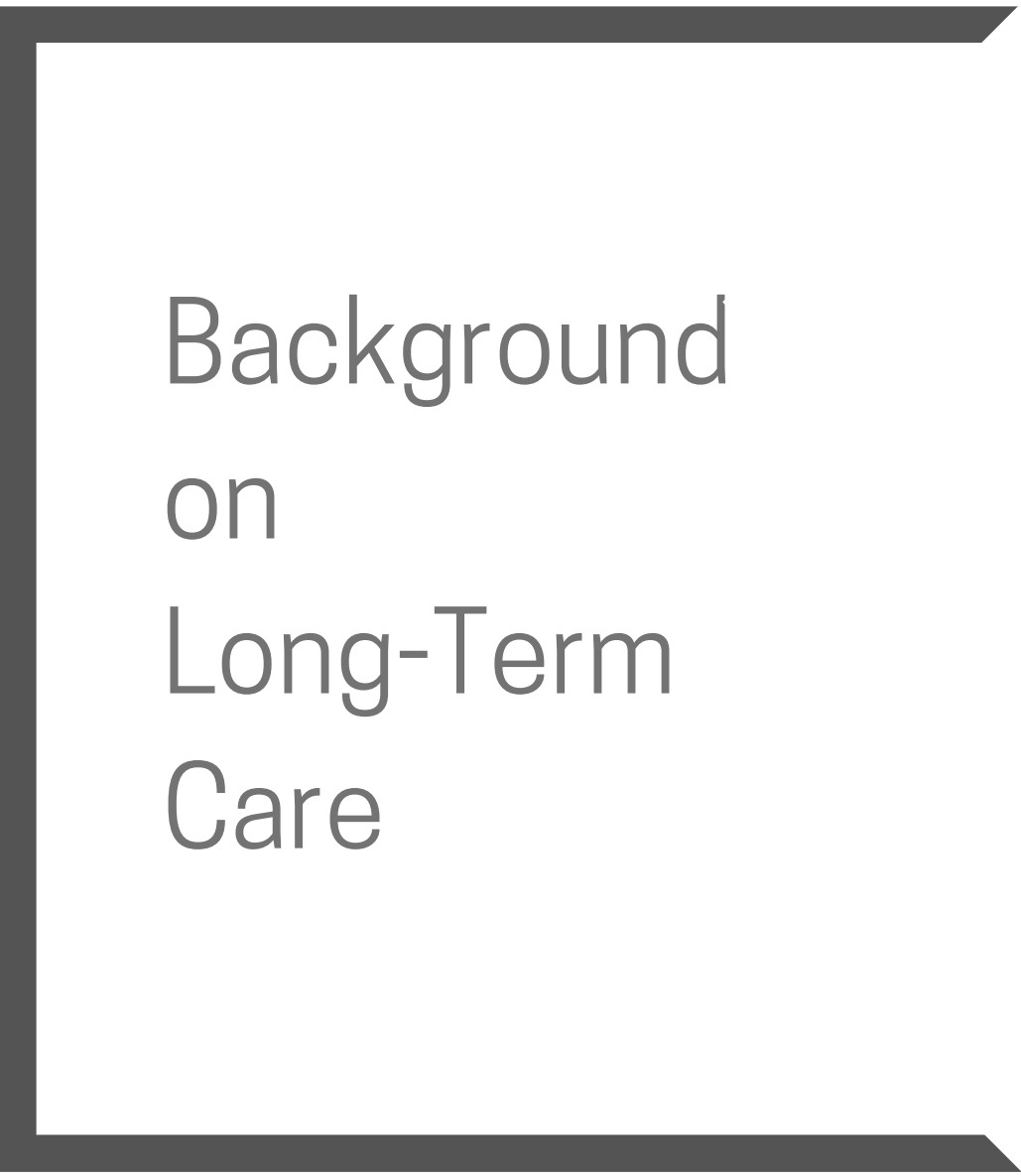


UNDERSTANDING  
**LONG TERM CARE**



**A guide to help you plan for the unexpected future**



Background  
on  
Long-Term  
Care



## What is long-term care?

Long-term care (LTC) is a variety of services and supports to meet health or personal care needs over an extended period of time. Most longterm care is non skilled personal care assistance, such as help performing everyday Activities of Daily Living (ADLs), which are:

- Bathing
- Dressing
- Using the toilet
- Transferring (to or from bed or chair)
- Caring for incontinence
- Eating

The goal of long-term care services is to help you maximize your independence and function at a time when you are unable to be fully independent.

## A brief look at the development of LTC insurance

Long-term care (LTC) insurance, a relatively new form of coverage by insurance industry standards, emerged in the early 1970s in response to three major issues that were creating new risks for all Americans:

### *1. Our aging population*

Advances in medicine are allowing people to live longer, leading to the need for more frequent and longer periods of health care as longevity increases. As the nation's huge cohort of Baby



As the nation's huge cohort of Baby Boomers starts to move through their 60s, 70s, and 80s, the need for the kinds of long-term care associated with getting older will make assisted living and nursing home care a major growth industry for the foreseeable future.

## *2. Our changing family structure*

In previous generations, when large, extended families lived together in the same community, there was an informal care giving structure. Nearby family members shared responsibility for the long-term care needs of aging parents and loved ones. But in today's mobile society, family caregivers have become scarce.

Climbing divorce rates, dual income families, and the trend of grown children moving far away have all led to a decline in informal care giving. And even when family caregivers are available, the increased emotional and financial strain of long-term care giving has made family-based care less feasible.

## *3. Our lack of adequate protection*

Long-term care is expensive. Home health care, care in an assisted living facility, or care in a nursing home costs thousands of dollars a year... possibly hundreds of thousands over the course of an extended period of care. Yet many people are under the false assumption that they are currently covered for long-term care.

It is only when they need care that they discover their current major medical insurance will not provide any coverage for home health care, a nursing home, or an assisted living facility. Even Medicare will provide only very limited coverage for such care.

Long-term care insurance is the only insurance specifically designed to help cover the costs of long-term care services. Without it, chances are good you'll be responsible for paying most, if not all, of the costs out of your own pocket







## Doesn't the government provide any help for long-term care needs?

The only government program that provides long-term care benefits is Medicaid, a means-tested welfare program that requires a spend-down of assets to a minimal level before its benefit payments begin. In other words, to obtain Medicaid benefits for one spouse, a couple would have to pay LTC expenses out of their own pocket until they have used up most of their savings — virtually impoverishing the other spouse and leaving no financial cushion for future family needs.

In addition to the asset spend-down requirement, Medicaid often limits freedom of choice for long-term care. Many of the most desirable LTC facilities will not accept Medicaid patients because of the reduced fees the government pays. Medicaid facilities may not be available in the most convenient location for family members, and there may be some sacrifice in the overall quality of care in such facilities. These factors make Medicaid a less desirable choice for many families.

# A Risk Management Perspective

*While the need for long-term care is a relatively new issue for today's generation, it should still be treated like other potential financial and health problems. The risks must be identified, assessed and a treatment plan put in place.*

## Risk Identification

The risks associated with long-term care can be both emotional and financial.

### Emotional

The need for long-term care represents a loss of independence a very emotional risk for both the person needing care and that person's family.

An accident or a sudden illness (mental or physical) can prevent you from performing some or all of the normal activities of daily living for yourself, including getting out of bed, bathing, dressing, eating, and going to the bathroom. When that happens, most people would prefer to have care that allows them to remain in their own home rather than move into a care facility.

If, however, the need for care is greater than family members or professional caregivers can provide in the home, a residential facility such as an assisted living or nursing home may become a necessity.

### Financial

Financial risk comes from the fact that the high cost of long-term care isn't covered by typical health insurance not even Medicare. Even with informal family based care at home, there can be substantial out-of-pocket expenses. Those expenses increase even more when professional home caregivers are used, and skyrocket dramatically for care in any type of residential facility.

What makes this situation even worse is that your choice of assisted care facilities or nursing homes can potentially be affected by your ability to pay privately.

## Risk Assessment

Once the risks of long-term care have been identified, an assessment can be made of the probability of their occurrence and the potential severity of the loss they might generate.

### High Likelihood

About 70% of individuals over age 65 will

require some type of long-term care services during their lifetime.\* That's a much higher risk than being in an auto accident or having your house burglarized. And your personal risk factors can increase dramatically, depending on your age, health, gender and family history.

## Cost

It's difficult to measure the emotional cost of long-term care in absolute terms. But the financial burden can be measured in dollars. The average annual cost can range from \$16,000 for a modest level of personal care in the home...to \$32,292 for care in an assisted living facility...to well over \$60,000 for a semi-private room in a nursing home.\* That's almost \$200 a day, and the costs in many states are much higher than the average.

(Check the average cost of care for your area in the chart on the inside back cover of this guide).

Overall, the average duration for long-term care services is 3 years. However, this does vary by gender. Women need care longer (on average 3.7 years) than do men (on average 2.2 years).\* The cost of an average stay in a long-term care facility costs hundreds of thousands of dollars.

It's easy to see that the costs of LTC can mount up quickly enough to drain the average family's assets in a very short period of time.

## Future Costs

The most critical part of assessing LTC risk is to consider future costs.

### **The Government is estimating that costs may double every 15 years.**

\*Source: National Clearinghouse for Long Term Care Information, U.S. Dept. of Health and Human Services

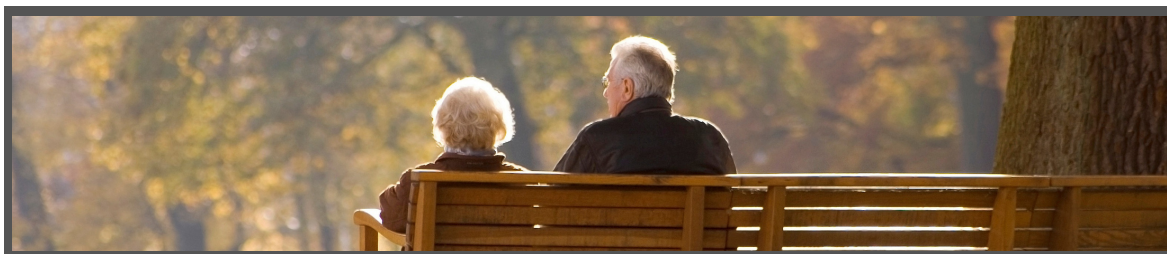
## Risk Assessment

Armed with an assessment of your long-term care risks, you can now decide how you are going to handle those risks. Here's a list of the choices you can make and some information to help you value the suitability of each for your own situation:

### **Risk Avoidance**

There are some of life's risks that you can simply choose to avoid. You can eliminate your risk of wrecking your car by choosing not to drive. You can eliminate your risk of losing money in the stock market by choosing not to invest. Unfortunately, this is not a viable option when it comes to long-term care.

You can't eliminate the risks that come with growing older: getting sick, developing a disease, or suffering a debilitating injury. In fact, all of these risks increase as you get older. You have to look elsewhere for an effective way to deal with your long-term care risks.







# Transferring Risk - Key Elements to Designing a LTC Plan

# What to look for when you decide to transfer your LTC risk to an insurance company

Once you've determined that the cost of a LTC insurance policy makes sense for your family's protection, you will face another set of choices about the benefits and features you want your plan to include. Most LTC insurance companies offer a number of choices that let you tailor a policy to suit your own personal needs and preferences.

There are five key elements to designing a Long-Term Care Policy.

# 1.

## **What insurance carrier?**

When investigating which insurance company to transfer the risk to, you want to be sure you select a top-rated financially secure carrier that is experienced in offering LTC insurance (10 years minimum).

After all, the odds are that it will be 20 years or more before you need to access benefits.

# 2.

## **Daily and monthly benefit?**

Policies come with a choice of the maximum benefit amount that will be paid for each day or month LTC is needed. Policies allow you to buy a range of daily or monthly benefits. You should look for a benefit close to the actual average cost of LTC in your area. Co-insuring a portion of this cost can lower your premiums

# 3.

## **How long do I want coverage to last?**

Policies come with a choice of benefit duration. Duration are typically purchased in year periods and range from 2 years up to unlimited or lifetime. The longer the policy pays, the more expensive it will be, so keep the national average LTC stay three years in mind.

# 4.

## **When do I want benefit payments to start?**

You can also keep your cost of coverage more affordable with a waiting period — similar to a deductible — before benefits start. A typical range of waiting periods is 20 to 100 days.

# 5.

## **Do I want inflation protection?**

The cost of everything goes up, and benefits selected today may not be adequate if you need them five or ten years from now. Inflation protection will increase the amount of your selected benefits at regularly scheduled intervals in order to make up for the effects of rising costs.

Keep in mind that the higher the benefits that a policy pays, the more expensive it will be. To keep your annual premium affordable, select reasonable benefit levels. The maximum benefit levels available may be higher than your actual coverage needs, depending upon such factors as your age, health, and the area in which you live.

## Is Transferring the risk an option? (Can you qualify for coverage?)

Unfortunately, LTC insurance is not something you can simply purchase when you need it. Like all insurance products, you must secure protection before the need arrives. (You must be under age 8 to apply for coverage.)

Good health can save you money with a preferred health rating. Poor health can prevent you from obtaining coverage. Below is a list of uninsurable conditions

- Currently in a care facility or receiving home health care.
- Pending surgery (you may be able to apply after recovery)
- Parkinson' Disease
- Multiple Sclerosis
- Alzheimer's Disease (or Dementia)
- Muscular Dystrophy
- Organ transplants (except Cataracts)
- Active Cancer
- On Oxygen
- Use of a quad cane
- Diabetes with Neuropathy
- Recent Stroke or Multiple TIA's





# Long-Term Care Insurance Advantages & Disadvantages

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## Consider Life With LTC Insurance

Purchasing LTC insurance will cost you money and there is a chance that you may pay for coverage you never need. However, investing in a policy will provide you with:

- Peace of mind knowing that you have a resource if care is needed.
- Plans that will provide reimbursement (or cash up front if you selected that option) to cover the enormous expenses associated with home health care or care in a facility.
- Access to quality care and private pay facilities that will be more secure rather than potentially having to depend on providers that accept Welfare reimbursement.
- Financial resources that will reduce the burden and emotional wear on family members.
- Preservation of assets to support the surviving spouse or to leave to heirs, a favorite church or charity.
- Policy options that will refund your premium should you never need care, are now available. (Subject to state availability.)

In the words of nationally known personal finance columnist Terry Savage, “You insure your home against fire and your car against an accident and never complain if that money is wasted. Why not insure against one of the most expensive realities of life, long-term care? As our lives lengthen and new treatments are developed, you or your parents are more likely to require some type of senior care.”\* \*Source: moneycentral.msn.com (2008)





## Consider Life Without LTC Insurance

Not purchasing LTC insurance may save you money. In fact, you may save \$200 per month (based on the cost of an average LTC plan purchased at 60) If you are fortunate enough not to need care, this money can accumulate for your heirs or you can spend it.

- You will depend on your own resources to arrange for care. A spouse or adult children or a friend will need to contact government agencies or use the “Yellow Pages” to coordinate and find the quality of care you desire.
- You will need to write personal checks for home health care in a facility. The money you saved not buying LTC insurance could quickly be spent on the expenses of home health care in a facility.
- If the need for care lasts for an extended period, your life savings could be depleted leaving one spouse impoverished or nothing to leave your heirs, church or favorite charity.
- If your life savings is spent caring for one spouse, the surviving spouse would need to depend on Medicaid (Welfare) for care.

In fifteen years, a 2-year nursing home stay is projected to cost over \$230,000 How would these costs affect you? Would a policy help you stay at home longer?

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# How Much Does LTC Insurance Cost?

With all the complexities we face in life, many people just want to get to the bottom line. When it comes to LTC insurance they want two basic questions answered:

1. How much does this insurance cost?
2. What am I getting for my money?

“Just send me a quote” is a common request we receive. The challenge we face in fulfilling a generic quote request is that it is almost impossible to generate without more information on the person seeking the quote. An analogy would be fulfilling a request for a quote on the cost of a house in the United States. It depends on numerous variables such as where the home is, how many bedrooms, how many bathrooms etc.

However, once some basic information is gathered, we can provide you with detailed quotes and plan comparisons. With over 12 years of experience, we have helped tens of thousands of members design and obtain long-term care coverage.

In section III, we look at some of the key elements of designing a LTC plan which included:

- Choice of Insurance Carrier
- Daily/Monthly Maximum
- Length of Benefits/Pool of Money
- Elimination Period (expressed in days, it’s similar to a deductible)
- Inflation Protection
- Health (Underwriting Class)

All of these factors affect whether you will qualify for coverage and how much your premiums will be. In addition to these factors, the other major components that impact premiums are:

Age at Application - Your premiums are based on your age when you apply for coverage. Premiums are lower for younger applicants.

Marital/Partner Status - Significant discounts are provided for couples who apply together up to 30%. The discounts are not only offered to married couples and domestic partners, but some carriers also offer discounts for siblings who live together in the same household.

**DON'T FEAR**

**THE UNKNOWN**

**MAKE A PLAN FOR IT**

