Long-Term Care Insurance Guide

pennsylvania
INSURANCE DEPARTMENT

An Introduction

We want to live healthy, active and independent lives. And while we do not like to think about the challenges that come along as we age, it is likely that many of us will need long-term living services and support at some point in the future. Without proper planning, obtaining those services could be a significant challenge to you or your family when you are most vulnerable.

Long-term care insurance is one way to plan for those needs. Policies are provided by private health insurance companies that help cover major expenses for long-term care.

Today's long-term care insurance covers both facility-based, skilled care and home care. The majority of policies available to consumers pay up to a set dollar amount per day or up to a percentage of the actual expenses for care. No policy provides blanket coverage for all expenses.

When you consider long-term care insurance, you may have questions and concerns. What is it? What does it cost? What's included? Where can I buy a long-term care insurance policy? These are the types of questions that will be answered in this brochure. And depending on what you are looking for, you have the option to download this brochure in its entirety (which is our recommendation), or you can just download the sheets you are looking for. So, let's get started!

A glance at what's inside

In addition to this brochure

The following supplements are also available to you free of charge and can be downloaded from our Web site:
Long-Term Care Glossary
Long-Term Care Worksheets
Long-Term Care Partnership Policies
Own Your Future

Do I need long-term care insurance?

Deciding to purchase long-term care insurance should be based on two major factors: health and wealth. Be sure to use our long-term care worksheets when comparing companies.

Let's face it; insurance is a product that is purchased with the hope of never having to use it. Long-term care insurance, specifically, is an insurance product that is not top priority for someone who is middle-aged and relatively healthy and independent. You might think that you don't need it, or that you already have other resources in place that you could use instead of long-term care insurance.

You might be asking yourself – just what exactly is long-term care insurance? In simple terms, long-term care refers to the kind of health-related care you could need if you have a long-term illness or long-term disability that leaves you unable to care for yourself. Long-term care insurance pays for this type of which can be provided in a residential facility or at home. Consumers looking for more inforamtion on long-term care insurance can use this resource to understand exactly what these insurance policies cover, how they work and who should consider them.

Deciding to purchase long-term care insurance should be based on two major factors: health and wealth. Consider the following:

Life expectancy: The longer you live, the more likely it is that you will need long-term care. Does your family have a tendency toward short or long life expectancy?

Gender: Are you female? Statistics suggest that the life expectancy for a woman is longer than for a man, and therefore the chances of needing long-term care are greater.

Marital Status: If you have a spouse and adult children, you are more likely to receive informal care at home. If family members are unable to provide care and you cannot stay home alone, a nursing home is often the only available option.

Health factors: Do you smoke or have other health conditions? If you are a smoker or have other health conditions that could result in serious health problems in the future, your chances for needing long-term care are higher.

Family history: Have family members been diagnosed with dementia or Alzheimer's? If so, your chances of needing long-term care may be increased.

Do I need long-term care insurance?

Financial Situation: Generally, financial planners recommend you consider long-term care insurance if you own assets of at least $75,000 (not including your home or car); have an annual retirement income of at least $25,000 - $35,000 for an individual or $35,000 - $50,000 for a couple; and you are able to pay premiums without financial difficulty, even if premiums increase over time.

After you have considered these things, you will also want to look at why you would purchase a long-term care policy and how you intend to pay for it. People buy long-term care insurance for a variety of reasons. Some reasons include:

- To avoid spending assets on long-term care services
- To decrease the chance of needing to rely on Medical Assistance
- To have more choices regarding the type of care received
- To protect family members from having to pay for or provide care

Whether you need long-term care insurance depends on your income, family situation and personal risk factors. Not everyone should buy a long-term care insurance policy, and purchasing the policy is a personal decision. For some, a long-term care insurance policy is an affordable and attractive form of insurance. For others, the coverage is too expensive, or the benefits you can afford are inadequate.

It is also important not to focus on long-term care insurance at the expense of other insurance needs that may deserve priority in your particular situation.

Myths about long-term care insurance

"It won't happen to me."
People of any age can develop serious conditions that require assistance with routine daily activities for an extended period of time and such help could be very costly.

"I'm already covered."
Long-term care services generally are not covered by health insurance, disability insurance or Medicare. Medicare is not designed to cover Activities of Daily Living and is generally available for those who are disabled and for people over 65, and it only pays limited amounts for skilled nursing care following a hospital stay. Medical Assistance is the government program to help those in financial need. People who have higher assets or income may end up "spending down" their savings and assets in order to be eligible, but even then the choices available are limited in terms of physician and care facility.

"My family will take care of me."
Long-term care often requires an around-the-clock commitment of time and highly specialized skills. Family members may have good intentions, but circumstances in today's world can make this very difficult. Part of the planning process is to take a realistic look at what role your family can play in long-term care. Adequate long-term care insurance allows a person to obtain professional services without placing the emotional burden of care on family members nor draining their financial resources.

"Long-term care insurance is too expensive."
Educate yourself on long-term care and long-term care insurance. Then consult a trusted attorney or financial planner who can help you determine what coverage you need and what's best for your situation.

(Adapted from material developed by the federal Long-Term Care Insurance Program)

The latest in long-term care policies

Long- term care insurance policies are either tax-qualified or non tax-qualified. A new choice for consumers, as of 2008, is a Long-Term Care Partnership Policy.

Tax-Qualified

Federal law allows you to claim a portion of the premium of a tax-qualified long-term care policy as a medical deduction if you itemize your taxes and your medical and dental expenses exceed 7.5 percent of your adjusted gross income. In addition, benefits received from a tax-qualified long-term care policy may not be taxable.

You must meet the eligibility requirements for a tax-qualified long-term care policy to qualify for benefits under that policy. A licensed health care practitioner must certify that you are "chronically ill" and prescribe a plan of care. (An individual is considered chronically ill if the individual is unable to perform two activities of daily living - eating, toileting, transferring, bathing, dressing, continence, which are defined later in this brochure - for at least 90 days or requires substantial supervision due to severe cognitive impairment.)

Long-term care policies issued before January 1, 1997, are automatically considered tax-qualified. Any policy issued or modified after January 1, 1997, must meet federal requirements to be considered tax-qualified.

You are encouraged to consult a tax adviser to learn how tax-qualified long-term care policies could affect you.

A new choice for consumers in 2008 is a Long-Term Care Partnership policy.

Non Tax-Qualified

A non tax-qualified policy does not get the same tax treatment as a tax-qualified policy, but it does have more flexibility in what benefits are payable and it could have lower premiums. However, non tax-qualified policies do not meet the requirements of a partnership policy.

Long-Term Care Partnership Policies

A new option for consumers in 2008 is a Long-Term Care Partnership Policy. Qualified Partnership Policies are tax-qualified, long-term care policies with the added protection of Medical Assistance asset protection. In addition, if you are under age 76 when you purchase a qualified Partnership Policy, it must provide inflation protection to help protect against potential future increases in the cost of long-term care. (For older purchasers, an offer of inflation protection is required.)

For more information on Long-Term Care Partnership Policies, please refer to our Long-Term Care Partnership Policy question and answer supplement.

What determines the cost of your policy?

Several factors have an impact on the premium you pay for long-term care insurance. Insurance companies usually consider the following criteria when establishing premium rates:

Age –In general, the younger you are when you buy a policy, the lower the premium will be. Most companies will not sell policies to individuals over the age of 79.

Elimination or Deductible Periods – These periods are the number of days you must stay in a facility, or the number of home care visits you must have received, before policy benefits take effect. Usually, the longer the elimination or deductible period, the lower the premium.

Amount paid and duration of benefits – In general, the more money the policy will pay or the longer the benefit period, the more you will pay for the policy. For example, a policy that pays $100 a day for up to five years of nursing home care will cost more than a policy that pays $50 a day for three years.

Discounts for Husband / Wife – Many policies provide discounts for a policy covering both husband and wife. The discount might be stated as a percentage of the combined separate premiums or as a percentage of the premium of one spouse.

Inflation Protection Riders - Qualified Partnership Policies are required to include inflation protection riders . Policies that are not Partnership Policies are required to offer inflation protection riders as an option to policyholders for an additional premium. These riders usually increase the daily benefit each year by a specified percentage amount. Inflation protections riders also help your policy keep up with the rising cost of inflation.

Long-term care insurance polices could be expensive, depending on your age when you buy the policy.

What determines the cost of your policy?

Non-forfeiture Benefits & Optional Return of Premium - All policies are required to offer non-forfeiture benefits as an option to policyholders. If a policyholder stops paying premiums, a non-forfeiture rider will pay long-term care coverage equal to at least 30 times the daily benefit. These benefits are generally not available until the policyholder has been covered by the policy for three years.

Some insurance companies offer a return of premium rider for an additional premium. Some return of premium riders may pay a benefit only if a policyholder dies, while other return of premium riders provide a benefit when either the policyholder dies OR stops paying premiums. In either case, the return of premium benefit returns a pre-defined portion of the total premiums paid for the policy.

Survivor Benefits - Some insurance companies offer a survivorship rider for an additional premium. When both husband and wife purchase long-term care policies (usually identical) and one spouse dies, the surviving spouse's policy becomes paid up if both policies have remained in force for the stated amount of time (usually about seven to 10 years).

It's important to point out that long-term care insurance polices could be expensive, depending on your age when you buy the policy. For example, it is generally less expensive to purchase a long-term care insurance policy at a younger age. Another example is that it will cost more to get a policy that provides benefits for your lifetime than if you only get two years of benefits.

Things included in a long-term care policy

As of July 17, 2007, all long-term care insurance policies include coverage for skilled nursing care, intermediate care, custodial care and home health care.

Prior to July 17, 2007, consumers could purchase a long-term care insurance product with one or all of the services listed below. Now, when you purchase your long-term care insurance policy, you will receive a comprehensive policy that includes all of these services:

Skilled Nursing Care - Daily nursing and rehabilitative care that can be performed only by, or under the supervision of, skilled medical personnel. The care received must be based on a doctor's orders.

Intermediate Care - Occasional nursing and rehabilitative care that must be based on a doctor's orders and can only be performed by, or under the supervision of, skilled medical personnel.

Custodial Care - Primarily for the purpose of meeting personal needs such as walking, bathing, dressing, eating or taking medicine. It is usually provided by someone without professional medical skills or training.

Home Health Care - Usually received at home as part-time skilled nursing care, speech therapy, physical or occupational therapy, part-time services from home health aides or help from homemakers or chore workers.

In addition, most long-term care insurance policies offer these basic features:

- A daily benefit usually ranging from $50 to $250 per day.
- An elimination period (period before benefits begin) typically ranging from zero to 100 days.
- A maximum benefit period (pay-out period) ranging from one year to lifetime.

For example: You might select a plan that pays $70 per day, benefits to begin after 30 days and a benefit pay-out period of three years.

While all policies are comprehensive in terms of the services received, you – as the purchaser – get to decide the amount and level of care associated with each benefit that not only suits your needs, but also fits your budget. As a rule of thumb, the greater the level of service in the policy, the higher your premium will be. Be sure to read your summary of benefits page carefully so you know exactly what is in your policy

Exclusions in a long-term care policy

Pennsylvania laws allow long-term care insurance policies to have these exclusions:

- Pre-Existing Condition- A pre-existing condition is an illness or disability for which you received medical advice or treatment during a specified period before applying for coverage. Most policies will not pay benefits for these conditions for a certain length of time, usually six months, after you become policyholder.

- Family Members - Most policies will not pay members of your family to take care of you. Some policies, however, will pay to train family members to be your care provider.

- Mental and emotional disorders or disease (other than Alzheimer's disease.)

- Alcoholism and drug addiction.

- Treatment already paid for by Medicare or by any government program except Medical Assistance.

- Attempted suicide or intentionally self-inflicted injuries.

Limits to long-term care insurance

All long-term care insurance policies contain limitations and exclusions that you should know and understand. The following limitations are especially helpful to keep in mind when considering the purchase of long-term care insurance:

Pre-Existing Condition Waiting Period – The waiting period that must pass before the policy pays for care related to a health condition you had when you applied for the policy. There could be a waiting period of up to six months before you would receive benefits for that condition.

Eligibility – Each company sets its own underwriting standards, including age limits after which time you will be unable to buy a policy. Most companies will sell a policy to individuals between the ages of 18 and 79. The renewability provision lists the circumstances under which the policy can be cancelled by the insurance company or by how much, and when, premiums can be raised. All individual policies must be renewable.

Exclusions – Specific conditions for which long-term care insurance will not pay. For example, insurance companies may elect to not cover long-term care related to mental or nervous conditions, alcoholism or other health conditions or situations. However, disorders such as Alzheimer's must be covered.

How do I purchase a long-term care policy?

Medical underwriting is a process to review number of factors, including your health history, which helps a company decide whether to insure you.

When you are ready to purchase a long-term care insurance policy, insurance companies selling long-term care insurance will "underwrite" your risk. That means the company looks at your health and health history before they will issue a policy.

Most insurance companies who sell long-term care insurance use medical underwriting to determine if they will sell you a long-term care insurance policy. Medical underwriting is a process to review a number of factors, including your health history, which helps a company decide whether to insure you. Insurance companies are not required to sell you a long-term care insurance policy if you do not meet their underwriting standards. If you do not meet the guidelines, you may not qualify for coverage.

Some companies do what is known as "shortform" underwriting. On the application for coverage, they will ask you to answer a few questions about your health. For example, they may want to know if you have been hospitalized in the last 12 months or have been confined to a wheelchair. Some companies may ask for more information, examine your current medical records or ask for a health statement from your doctor.

No matter what kind of underwriting a company uses, it is very important to answer all health questions as truthfully and thoroughly as possible. If a company later learns you did not fully disclose your health status on the application, the company could refuse to pay your claim or cancel your policy. This generally occurs in the first two years after purchase, however fraudulent misstatements may result in cancellation at any time.

Normally, a copy of your application is attached to your policy. It's a good idea for you to review this application to be certain that you have answered all health questions truthfully and that the information you provided to the company is complete and accurate.

Companies may impose a waiting period for pre-existing conditions. This means that policy benefits will not be paid for services related to conditions which existed before you purchased the policy. If the company discovers you have not disclosed a pre-existing condition on your application, it may refuse to pay for treatment related to that condition, and perhaps terminate your coverage.

What are benefit triggers?

Benefit triggers usually are based on the policyholder's ability to perform activities of daily living.

Each insurance policy has certain conditions that "trigger" the policy to begin paying benefits. It's important to know what a policy's benefit triggers are before you buy.

When your mental or physical condition reaches a specified level of disability, you have met the benefit trigger requirements and are entitled to benefits from the policy. Some policies, such as those that are federally tax-qualified, have more restrictive benefit triggers.

In order to qualify for benefits from a federally tax-qualified policy or certificate, you must be considered a chronically ill individual. A chronically ill individual is someone who has been certified by a licensed health care practitioner within the preceding 12 months as:

- Being unable to perform (without substantial assistance from another individual) at least two activities of daily living for a period of at least 90 days due to a loss of functional capacity; or
- Requiring substantial supervision to protect the individual from threats to health and safety due to a severe cognitive impairment.

Benefit triggers usually are based on the policyholder's ability to perform activities of daily living. The activities of daily living are specified in law for federally tax-qualified plans as:

1. EATING: means of feeding oneself.

2. TOILETING: means of getting to and from the toilet, getting on and off the toilet and performing associated personal hygiene.

3. TRANSFERRING: ability to move yourself in and out of a chair, bed or wheelchair.

4. BATHING: ability to wash yourself in the tub or shower, get in and out of the shower or give yourself a sponge bath.

5. DRESSING: ability to put on and take off clothing as well as any necessary braces, fasteners or artificial limbs.

6. CONTINENCE: ability to sustain bowel control and bladder function or perform necessary hygiene associated with a catheter or colostomy bag.

Longevity research shows that bathing is usually the first activity of daily living that aging individuals cannot do. Most policies use all six activities of daily living as benefit triggers. There are policies that could use only five activities of daily living as benefit triggers, but the inability to bathe yourself must be one of the ADL's that cannot be done.

Helpful hints to keep in mind

Use trusted resources –If you need advice about long-term care insurance, it may be helpful to consult your attorney or financial planner or a friend or relative who understands your financial needs. The APPRISE Program or your Area Agency on Aging has trained individuals who can also help you understand your long-term care needs.

Shop aound, ask questions & compare prices – Rates and benefits vary widely. Be certain you are comparing the same coverage. A policy may cost less, but provide fewer benefits.

Check policy details – Policies generally only pay for expenses in facilities that are licensed by the commonwealth and participate in Medical Assistance/Medicare, or meet the policy's definition of skilled, intermediate or custodial care. Check the facilities in your area to make sure they meet policy definitions.

Know the policy's coverage & limitations – Ask your insurance producer (agent) to explain all coverages and any provisions that would limit or restrict the benefits contained in the policy. The producer must provide you with a "Long-Term Care Insurance Outline of Coverage." This document will provide you with the terms, conditions, benefits, limitations and exclusions of the recommended policy. It is the producer's responsibility to explain anything that may be confusing to you. If a producer refuses to explain the policy and provide an outline of coverage, <u>do not buy from that producer</u>. You can also contact your Area Agency on Aging, the APPRISE program or the Insurance Department with questions.

Review information about the company's financial strength – It is very important to select a company that is financially sound as you want to be confident that they will be there to pay should you need your long term care benefits in 10, 20 or even 50 years. This information, prepared by various rating services, may be available in your public library. Ratings are subjective so it is advisable to consult more than one rating agency. A.M. Best specializes in rating insurance companies; however other firms include Standard & Poor's, Duff & Phelps and Moody's.

Helpful hints to keep in mind

Guaranty Fund Protection - If your insurance company were to go insolvent and unable to pay your claim, your long-term care insurance policy is protected up to $300,000.

Accelerated Benefits - Many insurance companies offer accelerated benefit riders that can be added to life insurance policies and annuities. These benefit riders are not long-term care insurance.

Home Service Contracts - Home service contracts that provide for services such as cooking, lawn care and laundry are not long-term care insurance. These contracts are not insurance and are not regulated by the Insurance Department.

Never pay in case – write a check and make it payable to the insurance company; not the insurance producer (agent).

Keep a list of contact information – Make sure you have accurate contact information for the insurance company and producer (agent) that sold you the policy.

Read & understand what you are signing – When answering questions on an application, your answers should be accurate, truthful and recorded as you stated them. You are responsible for information that bears your signature. Your policy could be declared void if information is misrepresented. Errors and omissions can lead to higher premiums or coverage terminations.

Don't make assumption – Do not assume that the policy premium quoted will be the actual premium of the policy, or that the policy will even be approved for coverage. Premium quotations are based on the information provided at the time. If the insurance company finds any of the information provided to be incorrect or develops some additional information, the original premium quoted may change or the company may even refuse to issue a policy.

Helpful hints to keep in mind

Don't be pressured – Take advantage of Pennsylvania's mandated 30-day free look provision for long-term care policies. Once you receive a policy, you have 30 days to review and return it (we suggest registered mail) if you change your mind. If the policy is purchased through a direct response solicitation, you will have the right to return it within 30 days of its delivery. For your protection, producers are prohibited from engaging in "high pressure" sales tactics to induce or force you to purchase a long-term care insurance policy.

Be careful to never let emotion influence your purchase – Don't feel pressured into making a decision on the spot. Any insurance policy available today will still be available tomorrow.

Be sure you are dealing with someone who can help you – Ask questions about the insurance producer's (agent) qualifications, experience and education in insurance. You can also check on our Web site to verify if the producer is licensed with us.

Make sure your coverage is in place – If you decide to cancel an existing policy for a new one, do not cancel your existing insurance policy until you are assured of the price and that you have been accepted by the new insurance company.

If you are buying long-term care insurance for the first time, one good policy should be sufficient. If, however, you already have an older policy but have discovered the benefits are inadequate you may want to consider an additional policy rather than a replacement policy.

If you have determined you want to replace your old policy, make sure the new policy is better for your particular situation. For example, if your current policy requires a hospital stay before benefits are paid, you may opt for a policy which does not require this condition. Also keep in mind possible disadvantages of a new policy such as new pre-existing condition restrictions, a new two-year exposure to cancellation for possible misstatements in the application and increased premiums base on your current age.

Long-Term Care Insurance Guide

Brought to you by the Pennsylvania Insurance Department

For more information and additional resources,
log onto www.insurance.state.pa.us,
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