



## LTC 101

### The Basics Of Long Term Care Insurance

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#### **What is Long Term Care (LTC)?**

Long Term Care includes a wide range of medical and support services for people with a degenerative condition (e.g. Parkinson's, stroke, etc.), a prolonged illness (cancer) or cognitive disorder (Alzheimer's).

Long Term Care is not necessarily medical care but rather "custodial care." Custodial care involves providing an individual assistance with activities of daily living or supervision of someone who is cognitively impaired.



To better understand Long Term Care, think of the activities that you performed when you woke up this morning. You probably:

1. Climbed out of bed
2. Walked to the bathroom
3. Used the toilet
4. Used the bath or shower
5. Got dressed
6. Ate breakfast

While we are healthy it is easy for us to take for granted the above Activities of Daily Living (ADL's). However, when you or a loved one is stricken with a degenerative condition such as a stroke or Alzheimer's, performing these ADL's becomes impossible without the assistance of another person.

This type of care is Long Term Care. It is the same type of care that a parent must provide for their new baby. This type of care is chronic (full-time) and thus becomes very expensive. Long Term Care can be provided in many settings including nursing homes, your own home, assisted living facilities and adult day care.

#### **Why is there a need for Long Term Care?**

Basically people are living longer. Due to advances in modern medicine and life-style changes, the number of people over the age of 65 is projected to double by the year 2050. Each year the U.S. elderly population continues to grow. In fact, the 80-plus segment represents the fastest growing segment of the population (they virtually never existed before).

As Americans take care of themselves through a healthy diet and exercise, they are increasing their projected longevity. Unfortunately, as people age, they are more likely to suffer from chronic illnesses such as strokes or Alzheimer's. Statistically, Americans over the age of 65 face a 40% risk of entering a nursing home for Long Term Care services.

Another reason for the recent public focus on Long Term Care is the changes impacting families. Years ago, most elderly depended upon their family to care for them as they aged. Family members lived close by or even under the same roof.

Today, many women are in the work force, children have moved away and divorce rates are approaching 50%. All of these factors contribute to the inability of families to meet the needs of their aging parents. Thus the

elderly must rely on professional assistance, which comes at a cost.

### **What Do Long Term Care Services Cost?**

"A year in a nursing home now averages more than \$40,000 and can exceed \$100,000 annually in some parts of the country." - *The Wall Street Journal* 3/31/99

Obviously Long Term Care services are very expensive. Quality nursing homes are always filled to capacity and they are consequently able to command a hefty fee for services.



Home care is also expensive. Bringing a home health aide into your home every other day for a 4 hour visit can easily cost \$1800 per month. When the home care approaches 8 hour visits every day, the costs rise to \$7200 per month. At this point, the care recipient begins to receive facility based care simply for economic reasons.

### **Who Pays for Long Term Care expenses?**

When we consider the basic definition of Long Term Care - ADL's and Custodial care – there are only 3 items that will pay the costs for the average American: 1) Cash, 2) Welfare 3) private Long Term Care insurance.

### **What is Long Term Care Insurance?**

Long Term Care Insurance has been around in one form or another since the early days of Medicare. The policies during this time bear little resemblance to today's policies. While early Long Term Care policies were similar to a basic Medicare supplement policy, today Long Term Care insurance has evolved and typically covers a broad range of services including nursing home care, assisted living facilities and adult day care.

Like any insurance product, Long Term Care insurance allows the insured to pay an affordable premium to protect an unaffordable catastrophic event.

### **What to look for in a quality Long Term Care insurance policy**



#### **Financial Strength**

A long-term care policy is for the "long-term." It is important to keep this in mind before purchasing a policy from a carrier with inferior financial strength. Many policyholders do not receive benefits from a Long Term Care policy for 10 to 20 years after issue.



#### **Adequate Daily Benefit**

Long Term Care services can be expensive. They may easily exceed \$130 per day in most parts of the country and in excess of \$200/day in metropolitan areas. It is important to be aware of the costs in your area when selecting a daily benefit.



#### **Inflation Protection**

Over time, the cost of services increase. Long Term Care services are no different. For example, a nursing home that charges \$130/day today will charge \$260/day in 14 years assuming a 5% growth rate. Inflation options need



to be selected at time of issue, and do not under-estimate the power of compound interest.



### Comprehensive Coverage

At the time the policy is issued, we do not have a crystal ball to determine where we will end up receiving Long Term Care services (nursing home , home care, adult day care...) It is comforting to know that your policy will provide benefits in a variety of settings.



### Claims

Ask your Long Term Care representative about their company's claims process. This is the most important aspect of an Long Term Care policy and yet the most ignored. Questions to ask would be as follows:

Describe the carriers claims process?

What percentage of claims that have been filed are paid?



### Stable Premiums

Long Term Care carriers have the right to raise premiums. The policies are "guaranteed renewable" which prevents a carrier from singling out individuals for rate increases, but they may raise premiums for a "class" of policyholders. Be careful of carriers that are priced substantially below the competition. Again, ask your representative if the proposed carrier has ever increased in-force premiums.

### **Who should consider Long Term Care insurance?**

Many planners refer to Long Term Care insurance as "asset protection." Individuals need to have assets worth protecting in order to justify the purchase of a policy. (Medicaid eventually pays for Long Term Care services once an individual becomes impoverished).

In other words, if you are able to pay Long Term Care insurance premiums without having to change your lifestyle – you should transfer that risk to the insurance company.

Health is another important consideration. The state of one's health is a determining factor in one's ability to secure Long Term Care protection. This sometimes poses a problem as people don't often consider Long Term Care insurance until an unfortunate event has affected their health or the health of a loved one.