
Basic Long Term Care Insurance Decisions

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Analysis paralysis. That phrase applies too often to the consequence of a discussion concerning long term care insurance (LTCI).

Compared to life and disability insurance, LTCI is indeed in its infancy as a financial planning tool. But, because of the confluence of the baby boomers about to cross the great divide, medical care that keeps us with us for longer than we, and our legislators, might have expected, and budgets, federal and state, which even now are constricting available health care dollars, LTCI is becoming an increasingly important future care consideration.

That is the rub . . . *future care*. Insurance is about the future, about risk transfer. Here we will consider nine basic concepts which will enable you to make sensible, personal decisions about the relevance of LTCI to your possible future circumstances.

Comprehensive long term care insurance pays for home health care, adult day care, as well as assisted living facility and skilled nursing facility care. A well structured policy can help to preserve your independence and your assets by assuring that you are in control of your care.

Securing that coverage involves a process that must be comparative and basic decisions that should be grounded in common sense and pragmatism. This article is about that process and those decisions.

Start with the basics . . . *your concerns, your health history, and your budget*. Don't let an agent fit you into a policy. Benefits and costs should be tailored to *your needs*.

Insurability

Before you consider benefits, you should address the issue of *insurability*.

Underwriting judgments, premiums, and benefits can vary significantly between companies. Pre-qualifying how insurers will treat your health history will allow your planning thereafter to focus on competitive policy benefits and costs. The anonymous inquiry is made by your advisor and should be to the underwriters of at least three long term care experienced and financially well-rated companies.

Benefit Triggers

Benefits are triggered in most policies available today by you requiring someone nearby to assist you, if needed, with two of six activities of daily living (eating, bathing, dressing, toileting, continence, or transferring), or by you being diagnosed with severe cognitive impairment, and by a health care professional's certification that your condition is likely to last 90 days or longer.

Those are the basic, standardized triggers for a claim established by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA compliant contracts are referred to as *qualified* long term care policies.

A Pool of Money

Basic benefits are paid from a *pool of money* for a *limited period of time* or for your *lifetime*. When you apply for coverage, you determine how large your pool will be and how long the pool will last. Most LTCI

companies offer limited benefit periods of 2 to 10 years.

If you, for example, select a 5 year benefit period, and a daily benefit of \$150, your pool of money will be $\$150 \times 365 \times 5$ or \$273,750. If, on claim, you access your pool at the rate of \$150 a day *continuously* for 5 years, the pool will be emptied and your policy benefits will cease at the end of 5 years. If your care requires less than \$150 a day, your pool will last longer than 5 years.

Should a policy that is otherwise appropriate for you offer the option to select a *monthly* benefit, take it. The cost of your care on a daily basis may vary. Being able to access your benefit dollars on a monthly basis reduces the possibility that you may be out-of-pocket on a day when the cost of your care exceeds, in our example, \$150.

Benefit Amount

When you apply for your policy, you select the *benefit amount* that fits your likely need. As we noted above, that is the rate at which you can draw from your pool of money. Be careful here. If another person is dependent on your income, be sure that the benefit amount you select will be reasonably sufficient to pay for the cost of your care *at least* in an assisted living facility so that your income remains available to the other person. We suggest that you consider applying for a benefit of \$4,500 a month.

Your analysis of your needs and resources may show that you have income that your partner will *not* need to maintain their lifestyle if you are ill and receiving benefits. That income could be used to *reduce* the net benefit for which you should apply, and thus reduce the cost of your policy.

Shared Care

If you are willing to consider a limited benefit period *and* are applying with a partner, you should include *shared care* in your comparison of policies and in your final policy choice.

Shared care is, in its most basic form, a provision in a limited benefit period policy whereby one insured can, should he or she exhaust their own policy's benefits, access, with the permission of their spouse/partner, the benefits of the other's policy. The individuals must apply for issuance of coverage at the same time and have identical policy benefits. Shared care may also be provided through a single policy insuring two individuals, each having access to a single pool of money.

Shared care can be a very economical and tactically useful policy structure in view of the dramatic revision by the Deficit Reduction Act of 2005 of the rule triggering a period of ineligibility created through the disposition of assets for less than fair market value.

A Deductible

Benefits are payable after a *deductible* (an "elimination period"). You are responsible for your expenses during that period. It is typically 30, 60 or 90 days, depending on the choice you make when you apply for your policy.

Residents in nursing homes	1,628,300
Residents over 65	90%
Female residents	72%
Days average length of stay since admission	892
Days average length of stay of discharged resident	272

The shorter the elimination period, the greater will be the policy premium. You should, however, “do the math” when selecting your deductible period. Consider the time value of the premium saved with a 90 day deductible compared to the cost of a 30 day deductible over, say, 20 years against the out-of-pocket cost you may incur paying for care during the 31st to the 90th day. Remember to also inflate that cost by a 20 year factor with an annual health care inflation rate of 7% or more. You may well conclude that the premium savings isn't worth the out-of-pocket expense risk.

Be sure to find out whether your deductible is satisfied by *calendar* or *service* days, and whether you can add a provision waiving the elimination period for certain types of care, or whether the policy has a built in waiver.

Premiums

A word on cost. Premiums are not guaranteed. An insurer can, with the permission of the state insurance department, raise rates on a class of in-force policies. An insurer cannot, however, single out an individual insured for a rate increase. With no historical basis for the suggestion, we do suggest that you consider the possibility that the premiums for your policy may increase in the future by at least 50%.

At www.futurecareassociates.com you will find a *Shared Care Cost/Benefit Matrix* and an update of the *Basic Cost/Benefit Matrix* we have published since 1999. The costs shown are the average of qualified comprehensive policies currently offered by six major, well-rated companies for specific benefit structures. Your actual cost for the same benefits will be less because the matrices are averages. They, however, will be useful in giving you a ballpark idea of premiums for various issue ages and benefit periods.

Inflation

Once you have the basics covered in terms of your needs and budget, you should consider including an *automatic annual inflation provision* at an additional cost. This is an important choice because you may not need the coverage for many years to come.

The inflation benefits offered by LTC insurers today don't guarantee that your benefits will keep up with the growth in health care costs. But, without at least some inflation protection, you *are* guaranteed that your policy benefit will be inadequate.

Please note that there are planning techniques which may utilize LTCI for a limited period of time (e.g., five years) in which case there may be no need for an inflation provision.

There are a number of other optional benefits offered by most insurers at additional costs. Some may have value in terms of your concerns. We, however, urge you to be certain that you can afford the cost of the basic benefits you need before considering supplemental provisions.

Tax Benefits

A word on the *tax benefits* of HIPAA qualified policies. Benefits are free of federal income tax up to a per diem limit (\$250 a day in 2006). Benefits in excess of the per diem limitation will also be free of such tax so long as you actually incurred qualified expenses at least equal to the benefit received. IRC Secs. 7702B(a)(2), 104(a)(3), and (105(b)).

You may also receive an individual federal income tax deduction for some or all of your premium. The deduction depends on

whether the *eligible* portion of your premiums paid in the current tax year, together with your other un-reimbursed medical and dental expenses, exceed 7 1/2% of your adjusted gross income. The HIPAA eligible premiums are age graded, adjusted yearly for inflation, and can be found at IRC Sec. 213(d)(10)(A) or on the website noted earlier.

Qualified policy premiums *paid by an employer* also receive favorable tax treatment. Unlike employer-paid disability insurance premiums, benefits from employer-paid qualified LTCI policies are received federal income tax free by the insured.

The tax deductibility of employer-paid premiums varies depending on whether the employer is a C-Corporation or other business entity (Self-employed individual, Sole Proprietor, Partnership, Sub-S Corporation, LLC). In the case of a Partnership, Sub-S Corporation, or LLC, the premium deduction is limited to the age graded eligible premiums noted above if the insured is a 2% or greater owner.

None of us want to consider the personal and possible financial impact on ourselves and on our families should we need long term care. The reality, however, is that, should such a need develop, our choices are to pay out-of-pocket or to seek Medical Assistance (Medicaid). Long term care insurance is a planning tool which should be considered as an alternative to those options if you are insurable. Coverage that works for you, your needs and your financial circumstances, should be an integral part of your estate plan.

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