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Long-Term-Care Insurance: Costs & Benefits

What is covered, what is not. Everything you always wanted to know about LTC, but were afraid to ask.

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Recent statistics of long-term care can be quite sobering.

According to MetLife's 2009 market survey, the national average cost of long-term care for one year in various settings:

<i>Long-term-care setting</i>	<i>Cost</i>	<i>Increase from 2008</i>
Nursing home: private room	\$79,935	3.3%
Nursing home: semi-private room	\$72,270	3.7%
Assisted living facility	\$37,572	3.3%
Home healthcare aide	\$21/hour	5 %
Adult day care	\$67/day	4.7%

These costs are only for one year of care, but according to the Center for Retirement Research, in most cases long-term care is needed for three years, while some people will need it for a considerably longer period of time.

In 30 years, long-term care is projected to cost over \$250,000 per year, that's \$750,000 to \$1.25 million for a three-year to five-year care period.

Unless your clients have sufficient personal funds or don't mind being a financial or physical burden on their loved ones, long-term insurance might be something to seriously consider — and the younger your clients are when they start looking at their options, the better for their own financial future.

A long-term-care insurance policy provides your clients with resources to help cover the cost of long-term care. Long-term-care insurance allows people to minimize their financial exposure and take responsibility for protecting their assets, in addition to avoiding being a burden on loved ones, while at the same time enhancing their choices and independence.

What Is Normally Covered by Long-Term-Care Insurance?

Long-term-care insurance helps pay for care services when your clients need help with normal daily activities, such as eating, bathing and moving around — activities that many of us take for granted. Long-term-care insurance also covers supervision due to a cognitive impairment such as Alzheimer's disease. People at a younger age may also need long-term care as a result of an accident or illness.

The insurance industry has specific definitions that it uses to define certain activities and functions. These are referred to as Activities of Daily Living (ADLs):

- Dressing
- Bathing
- Transferring (moving in or out of a bed or chair)
- Toileting
- Eating
- Continence

A long-term-care insurance policy provides for different types of care in a variety of settings:

- Skilled care includes nursing care and physical, occupational, respiratory and speech therapy from licensed professionals that may or may not be received on a daily basis.
- Custodial care is the most widely used type of care and includes help with day-to-day activities such as eating and dressing.

Does Medicare or Private Health Insurance Cover Long-Term-Care Expenses?

Long-term care is generally not covered by health insurance policies or disability insurance. Like most other health insurance, Medicare does not cover ongoing long-term-care services. It only pays for limited amounts of “skilled care” in a nursing facility or at home, when that care meets strict guidelines established by Medicare.

Medicare does not pay for custodial care. Medicare only pays for services that are considered “medically necessary” according to Medicare guidelines. This might include a skilled nursing facility and home health care for a period of time as part of treatment for an injury or acute illness, but not on an ongoing basis.

Medicare Supplemental Insurance (also known as Medigap) includes 12 standard plans which are defined by Medicare, but offered through private insurers. They are intended to cover some of the ‘gaps’ in Medicare, such as co-insurance, co-payments and deductibles. But like Medicare, Medigap does not cover ongoing long-term-care services.

Purchasing Long-Term-Care Insurance

Once you have determined the need to purchase long-term-care insurance, there are, of course, numerous options and various considerations involved in purchasing the right policy for you. Policies can provide benefits for a range of services including home care, community based services (like adult day services centers), assisted living communities and nursing homes, so think about which services are most important to you.

In deciding how much coverage you will need, it is important to keep the following in mind:

- **Level of assets** you want to protect. Long-term-care insurance should be a factor in your overall retirement planning.
- **Current cost of care** of where you live or plan to retire, the cost of care varies by state and by region. Where you end up is an important factor in determining the amount of coverage you will need.
- **Length of time** you’d like to be covered. Studies have found that people need assistance for an average of three years. But you will want to take into consideration your health and any family history of illness (i.e. a prolonged illness or Alzheimer’s disease) that may require you to need care for a shorter or longer period of time.
- **Inflation protection** that will help your benefits keep pace with the rising cost of care.

On What Is the Cost of a Long-Term-Care Insurance Policy Based?

The cost of long-term-care insurance is based such factors as:

- **Your client’s age** when they first purchase the coverage. Those who buy in their 40s and 50s can have the advantage of selecting rich plan designs for a fraction of the price they would pay if they waited to buy later. Individuals also have the advantage, generally, of better health at a younger age. If your clients develop a serious medical condition, they may be unable to obtain coverage.
- **The type of policy** purchased (a “basic” policy may cost less compared to another from the same company that offers more features).
- **The amount** of the daily/monthly benefit your clients have purchased.
- **The “extras”** such as riders or options your clients may choose to purchase within a particular benefit level.

- **The total amount** of coverage your clients have available.
- **The type of inflation** protection your clients select.
- **The “elimination period”** or “waiting period,” which are the days your clients must pay for their care before the plan begins providing benefits.

Every insurer offers different long-term-care insurance policies, but don’t shop by price alone. The lowest cost policy might not be the best choice for your client or their family.

How Does Your Client Become Eligible to Receive Benefits?

Typically, your clients become eligible when they are unable to perform two out of the six ADLs. Also, the period of time when they are unable to perform the ADLs should be anticipated to last for at least 90 days. Your clients will also need to have satisfied the elimination period.

Are There Different Types of Policies and Options?

There are two distinct types of long-term-care policies available:

- **A reimbursement policy.** Also known as an “expense-incurred policy,” it is the most common type of policy currently purchased. To prove benefit eligibility your clients are required to meet the need for assistance with ADLs or severe cognitive impairment criteria as indicated in their policy. Your client will receive benefits only when eligible services are received; benefits are paid directly to them or to the provider. This type of coverage pays for the expense incurred or up to your client’s policy’s monetary limit, whichever is less.
- **An indemnity policy.** Unlike the reimbursement policy, here benefits paid are a set dollar amount. Benefit eligibility is generally the same as for a reimbursement policy. When eligibility is established and your client is receiving covered long-term-care services, the insurance company will pay the pre-determined daily benefit amount indicated in their policy on days they receive a covered service.

Further Considerations

There are numerous considerations concerning the tax benefits and issues associated with LTC premiums and payments:

- When are the premiums tax-deductible?
- Are the benefits tax-free?
- Are there estate tax benefits?

These will be addressed in an upcoming article, which will also provide a detailed comparison of options, innovative designs of various combination policies, return of premiums and more.

Rate this article 5 (excellent) to 1 (poor). Send your responses [here](#).

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