COOPERATIVE EXTENSION SERVICE • UNIVERSITY OF KENTUCKY • COLLEGE OF AGRICULTURE • LEXINGTON, KY, 40546

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Considerations Regarding Long-Term Care Insurance

The Probability of Needing Long-Term Care

Each individual has a different probability of needing long-term care and benefiting from long-term care insurance. Personal and family medical history, family support system, and financial disposition are some of the elements that would contribute to differences in probability for needing long-term care or long-term care insurance. While industry statistics often emphasize projected needs that include all incidents of any type of need, consumers must explore not only their probability of needing long-term care but of needing the types and duration of care that an affordable policy promises to provide. Both sides of the issue—probable need and insurable risk—should be explored in determining whether and to what extent LTC insurance should be purchased. Below are some statistics regarding the LTC needs of people 65 and over.

1. From *The New England Journal of Medicine*, 324, No. 9 (February 28, 1991): 595-600.

Question: Of people age 65, how many will need some nursing home care during their lifetime?

- While 43 percent will need some nursing home care, 57 percent will not need any nursing home care.
- While 33 percent will need 3 months or longer stay, 67 percent will need 0 to less than 3 months care.
- While 25 percent will need 1 year or longer stay, 75 percent will need 0 up to less than 1 year of care.
- While 9 percent will need 5 years or more of care, 16 percent will need 1–5 years of care.

2. From American Institute for Economic Research, *Economic Education Bulletin*, February 2000.

Question: Who resides in nursing homes and how long do they reside there?

- In 1995, of the total elderly population, the following percentages resided in nursing homes: 1.3 percent of those aged 65–74; 3.3 percent of men and 6.5 percent of women aged 75–84; 10 percent of men and 17 percent of women aged 85 and over.
- After age 85, men in nursing homes accounted for 1.1 percent and women in nursing homes accounted for 3.5 percent of the population 65 and over 20 years earlier.
- Among residents of nursing homes: women outnumbered men, 3 to 1; single outnumbered married, 5 to 1; and the mentally impaired (primary diagnosis) outnumbered the physically impaired, 2 to 1.

- More than 50 percent of nursing home stays were less than 3 months, nearly 75 percent were less than a year, and only 11 percent were three years or longer.

3. From the Millbank report, “Long-term Care for the Elderly with Disabilities,” August 2000.

Question: What notable statistics appear to be emerging with regard to long-term care?

- In 1995, of the 12.8 million Americans reporting long-term care needs, only 57 percent were elderly and only 5 percent of the 34 million elderly population resided in nursing homes.
- The proportion of people aged 65 and older who stayed overnight in a nursing home fell by more than 8 percent from 1985 to 1995.
- The percent of elderly reporting unmet long-term care needs fell from 5.2 percent in 1984 to 1.4 percent in 1994.

Assessment of Your Long-Term Care Risk and Response

The following survey is designed to provide consumers with a way of assessing their most probable long-term care insurance risk and response. No survey can provide precise answers regarding an individual’s future needs and how best to meet those needs. Each individual must make his or her own decisions based on a thoughtful consideration of the important factors involved. For a rough estimate of your probable LTC risk and response, circle the number closest to your agreement (high, low, or somewhere in the middle) with the options provided.

Family History And Situation

		Agree		Agree		
No parent or biologically related aunt or uncle has needed or received any long-term care.	1	2	3	4	5	Both parents and several aunts or uncles have needed and received several years of long-term care.
Several children, relatives, or friends would likely be able and willing to provide substantial at-home care.	1	2	3	4	5	No children, relatives, or friends would likely be able or willing to provide any at-home care.
My personal and family medical history indicates I am likely to need little or no institutional care.	1	2	3	4	5	My personal and family medical history indicates I am likely to need extensive institutional care.
My personal and family medical history indicates I am most likely to need very little or no at-home care.	1	2	3	4	5	My personal and family medical history indicates I am most likely to need extensive at-home care.
My personal and family medical history indicates I am most likely to need less than 3 months of care.	1	2	3	4	5	My personal and family medical history indicates I am most likely to need 5 or more years of care.

Financial Disposition

		Agree		Agree		
I have the financial means and the willingness to pay for up to a year of my own LTC needs.	1	2	3	4	5	I do not have the financial means or the willingness to pay for up to a year of my own LTC needs.

I am unable or unwilling to pay the insurance premiums required to pay for my potential LTC needs.	1	2	3	4	5	I am able and willing to pay the insurance premiums required to pay for my potential LTC needs.
I am unable or unwilling to keep on paying premiums and any increases until eligible to receive benefits.	1	2	3	4	5	I am able and willing to keep on paying premiums and any increases until eligible to receive benefits.
I would rather save and invest my own money to cover part or all of any future needs I may have.	1	2	3	4	5	I would rather pay insurance premiums to cover any future long-term care needs I may have.
I have less than $100,000 in assets beyond the value of my home and other possessions to protect.	1	2	3	4	5	I have more than $500,000 in assets beyond the value of my home and other possessions to protect.
I have no spouse or a spouse able to live on $2,100 in monthly income and $100,000 in non-home assets if I must qualify for Medicaid.	1	2	3	4	5	I have a spouse who would not be able to live on $2,100 in monthly income and $100,000 in non-home assets if I must qualify for Medicaid.
I am willing to use the value of my estate to reimburse Medicaid for the expense of providing my care.	1	2	3	4	5	I am unwilling to use the value of my estate to reimburse Medicaid for the expense of providing for my care.

Scoring: Note the numbers you have circled for each of the items above. Scores of 4 and 5 indicate a higher need, desire, or propensity to purchase long-term care insurance to address your perceived risk in this area. Scores of 1 and 2 indicate a lower need, desire, or propensity to make such a purchase.

Your Personal Long-Term Care Profile

The following checklist is designed to help you develop your long-term care profile. Check the items that represent your present and projected situation with respect to the risk you face regarding long-term care.

Possible Low-Need Indicators	***Possible High Need Indicators***
____ Male	____ Female
____ Married (at time of greatest risk)	____ Single (at time of greatest risk)
____ Strong, supportive family	____ No or non-supportive family
____ Strong, supportive friends	____ No or non-supportive friends
____ Family history of short longevity	____ Family history of long longevity
____ Family history of sudden death	____ Family history of lingering death
____ Family history of old-age physical ills	____ Family history of old-age dementia
____ Family history of little or no LTC	____ Family history of significant LTC
____ Expectation of zero to 1 year of LTC	____ Expectation of 3-plus years of LTC
____ Able to pay for expected LTC	____Unable to pay for expected LTC

Note: If you checked a majority of the items in the right-hand column, your potential need for long-term care is relatively high. The purchase of long-term care insurance is something you should definitely consider. If you checked a majority of the items in the left-hand column, your potential need for long-term care is moderate to low, but you may still want to consider purchasing long-term care insurance.

Assessment of Long-Term Care Insurance Policy Particulars

If money is no object, then simply select the most comprehensive, nonexclusive long-term care insurance policy from the best company at the best price. If money is a consideration, then you might want to pay attention to the features listed below to get the best value for your money, even when it means added cost.

Don't consider any policy lacking any of the following:

1. Guaranteed renewable for life.
2. Level premiums for life, excepting increases by class.
3. No prior hospitalization required (a feature now required by state law).
4. Specific inclusion of coverage for Alzheimer's disease.
5. A.M. Best Co. insurance company rating of A++, A+, or A.

Consider these features desirable but not always available:

1. Company history of no or reasonable premium increases over time.
2. History of high loss ratio (benefits paid/premiums received), compared to other strong companies.

3. Use of indemnity (amount per day), rather than reimbursement (actual expenses) as basis for benefits.
4. Coverage for informal, non-paid care provided by family or friends if your family network is strong.
5. Pool of benefits approach making total lifetime benefit available for all combinations of care.
6. No exclusion of any mental or nervous disorder of any kind, including Alzheimer's disease.
7. Benefit qualification including medical necessity—a medical condition making you too frail to take care of yourself even though you are able to perform the required activities of daily living.
8. Twenty percent discount for married couples or 2 people living together purchasing same policy.

Consider these features essential for most people:
1. Waiver of premium soon after benefits begin.
2. Automatic inflation protection option—5 percent compounded annually.
3. Total lifetime benefit that increases with automatic inflation-protection option.
4. Coverage for nursing-home care, assisted-living care, and community-based and at-home care.
5. Benefit qualification based on 2 of 6 activities of daily living or cognitive impairment.
6. Daily benefit equal to or greater than average costs ($130–$180) in your area.
7. Length of benefit period in keeping with the risk faced by individual policyholder: low risk, 2 years or less; moderate risk, 3–4 years; extreme risk, 5 years or more.

Note: Be wary of choosing more affordable, but inadequate policies. Half a loaf can be worse than none if the half fails to provide the significant protection that you seek. Compound-inflation protection is one feature that no adequate policy can do without. The cost of long-term care is likely to outpace inflation in general by 4 or 5 percent as it has done in the past. Adequate increases over 10 to 30 years are essential.

Consider these features not essential for most people:
1. Tax-qualified policy, which entails more tax breaks, but more restrictions, as well.
2. Nonforfeiture option paying reduced benefits based on premiums previously paid.
4. Return-of-premiums option paid upon death of policyholder before a certain age.
5. Bed reservation option reserving nursing home bed if you are temporarily absent.
6. Option of coverage for care received outside of the United States.
7. Care advisory services option to help develop plan of care and identify providers.

Note: Options add considerably to the cost of any policy. One should consider ensuring the quality of the essential policy/features before adding desirable, but nonessential options. One should also consider the fact that the additional cost of certain options must be paid for the lifetime of the policy, while the value of these options may never be encountered or might dissipate or disappear over a much shorter period of time.

An Illustrative Comparison of Two Hypothetical Long-Term Care Policies

	Policy 1—Less ideal	***Policy 2—More ideal***
Covered care:	Both policies cover nursing home care, assisted living facility care, residential home care, adult day care, and home health care.	
Daily benefit:	$200 for nursing home care, 75 percent for assisted living care and residential home care, 50 percent home and adult day care.	$200 for all covered care (or perhaps with 60-80 percent for home and adult day care, but no lesser percentage for other types.
Benefit period:	3 years	3 years
Benefit basis:	Reimbursement / actual expenses	Indemnity / full daily amount
Lifetime maximum:	3 x 365 x 200 = $219,000 for nursing home care; but only 50 percent – 75 percent for other types of care as limited by daily maximum and days in benefit period.	$219,000 for any combination of care according to the pooling-of-benefits approach. Days in benefit period expand to accept any unspent funds in lifetime maximum.
Home health care includes:	Physical and respiratory therapy, Skilled nursing, home health aides.	Any long-term care service, including homemaker and personal care services.
Facilities requirement:	Only facilities licensed for the type of care provided. Residential care homes must have 10 beds or more.	Any facility legally operating and providing the type of care needed by the insured and covered by the policy.
Elimination period:	90 days—must be satisfied with each new claim.	90 days—needs only to be satisfied once during the lifetime of the insured.
Benefit qualification:	2 of 5 activities of daily living (not including bathing), severe cognitive impairment.	2 of 6 activities of daily living (including bathing), cognitive impairment, and medical necessity.
Inflation protection:	Periodic benefit increases bought later at prevailing rates.	Automatic 5 percent compounded annually at cost established at policy initiation.
Waiver of premium:	Premiums are waived after 90 continuous days of covered care and benefits received.	Premiums are waived after the elimination period is completed and benefits for any type of covered care begin.
Alzheimer's Disease:	This policy does not cover mental or nervous disorders unless due to organic disease such as Alzheimer's disease.	This policy does not exclude mental or nervous disorders of any kind; thus Alzheimer's disease is covered.
Exclusions:	Care provided by an unpaid family member is not covered.	Informal care provided by relatives and other unpaid caregivers is covered.

The Need to Understand Inflation’s Impact on the Cost of Nursing Home Care

The purchase of long-term care insurance is a lifetime commitment, and it will certainly include premium increases along the way. Those who purchase it should be committed to paying premiums for the long haul and have a reasonable certainty of having the resources to do so. Purchases should be made by age 65, but no sooner than is required by one’s circumstances and risk of insurability. Payment of premiums between ages 60 to 65, or sooner, is cheaper per month, but adds considerably to the amount prepaid in today’s dollars in advance of the most probable time when benefits might be used: ages 80–90.

Average Cost per Day of Long-Term Care in Kentucky Nursing Homes

Rate of Inflation	2005	2010	2015	2020	2025
5%	$150	$191	$244	$312	$398
6%	$150	$201	$269	$359	$481
7%	$150	$210	$295	$414	$580
8%	$150	$220	$324	$476	$699

The chart above shows compounded inflation increases over a 20-year period. If you buy a long-term care insurance policy that has a compound increase in benefits per day of 5 percent, in the year 2025 your daily benefits will be $398.00. However, if the daily cost of long-term care increases at 7 percent per year, the actual cost will be $580.00, for a difference of 182.00 per day that you will have to pay out-of-pocket. Over the last ten years, the cost of long-term care has increased at an average rate of 8 percent per year, which means that you would be paying, out-of-pocket, $301.00 per day. If you buy a long-term care policy at an early age, such as 50, you should be looking at a policy that will pay significantly more than $150.00 per day if the past history of rate increases continues at 8 percent per year. The chart above will also help you figure for lower inflation rates of 6 percent or 7 percent. Unfortunately, no one really knows the actual compound inflation rate that you will have to pay for long-term nursing home care.

Changes in Kentucky Law on Long-Term Care Insurance

Long-Term Care Insurance Partnership Program (NEW Provision)

In July 2010, the long-Term Care insurance provision went into effect. According to the Kentucky Department of Insurance, the provision “encourages Kentuckians to purchase long-term care in order to protect some or all of their assets by providing exemptions from the Medicaid spend down requirements. Consumers who purchase and utilize benefits from a long-term care insurance partnership policy will be exempt from Medicaid spend down requirements equal to the amount of benefits paid by the long-term care partnership insurance policy. For example, if your long-term care partnership policy paid $200,000 in benefits, then $200,000 of your assets would be exempted from Medicaid spend down requirements.”

For more detailed information on this provision go to the following Web site:
http://insurance.ky.gov/Documents/LTCPartFAQ052610.pdf

Previous Changes in Kentucky Law Related to Long-Term Care Insurance

The 2002 Legislature made several changes in Long-Term Care Regulation (806 KAR 17:081) to help Kentucky consumers. Some of the changes went into effect July 15, 2002. Section 4, for instance, requires insurance companies to allow consumers to designate at least one other person, in addition to the insured, to receive notice of lapse or termination of coverage due to nonpayment of premiums 30 days before the lapse or termination would take effect, providing a safeguard for the insured in case they become incapacitated or a cognitive impairment prevents them from paying. Under the new regulation, insurers are required to reinstate a policy due to unintentional lapse if the insured is able to provide proof of cognitive impairment or loss of functional capacity before the end of the grace period. Such proof must be provided to the insurer within five months of termination.

As of January 16, 2003, under Section 6, insurers selling long-term care policies must disclose their rate increase history for the last ten years. Group long-term care policies already in force before July 15, 2002, must meet these requirements by July 16, 2003, a year after the regulation took effect. This change helps consumers compare similar policies from various insurance companies. For instance, in the past, Company A might have provided essentially the same coverage as Company B for $200 less. However, Company B never increased their premiums, while Company A increased prices to current policy holders three times in the past 10 years, so that Company A's yearly premium is now $500 more than that of Company B. Consumers must now be given a copy of each company's rate increases for the past 10 years. Remember that a company's history cannot necessarily predict what they will do in the future, and rate-increase reports are likely to show a more complex reality than the simplified example given above.

Section 20 of this regulation requires insurers to consider the suitability of a long-term care policy based on the consumer's ability to pay, and whether such a policy meets the applicant's actual goals and needs. Not everyone will need long-term care, and the new regulation provides a safeguard against insurers taking advantage of unwary consumers. (The rule of thumb is that your long-term care insurance premiums should not amount to more than 7 percent of your income. Remember to take into consideration what your income will be when you retire, rather than your current income.)

Contingent Benefit Upon Lapse — Beginning July 16, 2002, under Section 22, insurance companies must offer a nonforfeiture benefit. If this benefit is declined, then a contingent benefit upon lapse clause must be included in the policy. The contingent benefit upon lapse is triggered when premiums increase above a certain percentage, which varies by age, and the policy/certificate lapses within 120 days of the date of the premium increase. The contingent benefit includes options to:

- Reduce benefits provided by the current coverage without requiring additional underwriting. This will keep premiums from increasing.
- Convert coverage to paid-up status with a shortened benefit period.
- Notify the policy or certificate holder that a default or lapse at any time during the 120-day period will be regarded as an acceptance of the offer to convert. Nonforfeiture benefits provide similar options, although these options are available at any time and are not contingent upon a rate increase.

Notes and Tips Regarding Long-Term Care and Long-Term Care Insurance

1. For the average consumer, it is very difficult, if not impossible, to find the perfect LTC policy at an affordable price. Compromises are needed. Thus, consumers should begin with these considerations:
   a. What is the likely probability that I will need institutional care lasting longer than three months?
   b. Will I likely need one-to-three years of institutional care? Three-to-five years? Five years or more?
   c. What is the probability that I will need or use community-based or at-home care that I cannot afford or that my family will not be able to provide?
   d. What is it that I want to protect regarding payment for long-term care? My ability to get the care I may need? My spouse's lifestyle and economic well-being? My children's or beneficiaries' estate?
   e. What competing financial needs, risks, and wants will I have during my retirement or old-age years?
   f. How much will I be able to afford to protect myself against the potential costs of long-term care now and throughout my retirement or old-age years?
   g. What financial strategies can I employ to maintain my spouse's lifestyle and economic well-being if I should die, fall seriously ill, or become incapacitated and in need of long-term care?
   h. What legal strategies can I employ to protect my estate for the benefit of my beneficiaries in advance of my becoming impoverished or bankrupt due to some catastrophic illness, event, or condition?

2. If it becomes obvious that long-term care insurance provides the protection that a consumer wants, needs, and can afford, then what policy features and options would best serve these wants and needs?
   a. Certain essentials are part of any acceptable policy: guaranteed renewable for life, daily benefit equal to or exceeding average local costs, automatic compound inflation protection, nursing home care and assisted living or residential home care in facilities that are not unduly restricted.
   b. Other features and options can be used to tailor a policy for the individual: period of benefits in keeping with personal risk assessment, extent of at-home or community-based care coverage in keeping with individual circumstances, elimination period in keeping with risk and affordability.

3. If it becomes obvious that long-term care insurance is needed and wanted, but is not easily affordable, then what cost-saving measures can be taken? Don't cut back on daily benefit or compound-inflation protection, but consider cutting back on features and options that are not essential for you.

4. If it becomes obvious that long-term care insurance is individually assessed to be not needed, wanted, or affordable, then what other measures should or could be entertained?
   a. Certain economic measures can be undertaken to increase the resources available to preserve and protect one's income, lifestyle, and assets: purchase of annuities in own and/or spouse's name to ensure guaranteed income, use of first-to-die life insurance to provide estate for surviving spouse, use of second-to-die life insurance to provide estate for beneficiaries.
   b. Certain legal measures can be used to preserve one's estate from dissolution: use of irrevocable living trust to preserve estate for beneficiaries, use of gifts well before period of greatest risk to distribute excess wealth to beneficiaries, use of ownership transfers to preserve property for the benefit of beneficiaries.

c. Certain financial strategies can be utilized to provide a flexible source of funds to pay a variety of foreseen or unforeseen expenses. Roth IRAs can be used to invest relatively small amounts of excess retirement funds in growth-oriented investments for long-term appreciation; small portions of qualified retirement plans or pensions can be rolled over and invested for long-term growth; earnings from income-producing investments can be used to purchase desired LTC insurance or to supplement the income diverted to purchase such insurance.

Checklist of Important Points and Considerations

_____ 1. Make an assessment of your potential risk for needing paid long-term care of any kind.

_____ 2. Make an assessment of your potential risk for needing paid long-term care that would last longer than 90 days, but less than a year.

_____ 3. Make an assessment of your potential risk for needing paid long-term care that would last up to 3 years.

_____ 4. Make an assessment of your potential risk for needing paid long-term care that would last up to 5 years, or even longer.

_____ 5. Make an assessment of your ability and willingness to pay for your own long-term care up to 100 days if it is not covered by Medicare and/or Medicare Supplement Insurance.

_____ 6. Investigate the cost of a long-term care insurance policy that would pay for the level of long-term care that your assessments reveal you are most likely to need. Review page 4 of this article and be sure to include the features that you would consider essential for you.

_____ 7. Determine whether you would be able and willing to pay for such a policy, including expected premium increases, throughout your retirement years.

_____ 8. Determine any cost-saving and/or premium-reducing measures you would find acceptable in order to maintain a worthwhile, but affordable LTC policy throughout your retirement years.

_____ 9. Determine what alternative strategies you could employ to accumulate funds for your retirement and old-age needs, and to protect your assets for your spouse and/or beneficiaries.

_____10. Determine what actions you should take prior to or during your retirement to decrease your chances of needing LTC and to adapt your surroundings to support your eventual needs.

Additional Reminders

If you should need paid long-term care lasting more than a year, the most cost-effective way to provide for that need, short of Medicaid, is through the purchase of a good long-term care policy.

If you purchase any long-term care insurance policy, be sure to buy one that provides an adequate, inflation-protected daily benefit for all types of care provided in all types of facilities.

There is little need to purchase or increase your coverage for at-home care if there is little likelihood that you will have the personal help needed to manage your care or to sustain yourself independently.

If you purchase a long-term care policy, you should understand that the premiums possibly will be increased at least every five years, if not more frequently, over the life of the policy.

If you purchase a long-term care policy, you should do so with the intention of holding onto it and paying the necessary premiums, including any premium increases, for the rest of your life. Purchasing an LTC policy well before age 65 is not necessarily cost-effective or recommended.

Premiums Associated with Different Daily Benefits and Benefit Periods

Below are illustrative premiums for a policy that includes: all major types of LTC care; 5 percent compounded-inflation protection; a 90 day elimination period; benefits based on reimbursement of expenses up to daily limit; pooling of benefits; and a gradation of benefits based on daily maximum benefit and specific type of care (i.e., nursing home care, 100 percent; assisted living and residential home care, 75 percent; community-based and home care, 50 percent). The figures below are presented to provide a frame of reference for exploring the costs that might be charged for similar policies or policies with different costs and features.

Age	***$100 per day/3 years***	***$150 per day/3 years***	***$200 per day/3 years***
60	$92/month $1,104/year	$135/month $1,620/year	$178/month $2,136/year
65	$111/month $1,332/year	$164/month $1,968/year	$217/month $2,604/year

ADDITIONAL COST OF "RETURN OF PREMIUMS" AND "NONFORFEITURE" OPTIONS

Total premiums paid from ages 60 to 64	$5,520	$8,100	$10,680
Additional cost of the "return of premiums" option to return amount above upon death at 65	$ 299	$ 441	$ 583
Additional cost of the "nonforfeiture" option to return above amount in benefits at Age 65	$ 518	$ 763	$ 1,009
Additional cost of the two options to insure return on premiums paid if policy discontinued	$ 817	$ 1,204	$ 1,592

Note: The added cost of the two options amounts to 15 percent of all premiums paid *for the life of the policy*, despite the fact that the benefits to be derived diminish over time and serve only to insure some return on the premiums paid. This amount might be better saved for other needs or used to improve basic coverage.

Resources

"Do You Need Long-Term-Care Insurance?" *Consumer Reports*, November 2003, pp. 20-24.

Kentucky Consumer Guide: Long-Term Care Insurance, 2009-2010. Frankfort: Kentucky Office of Insurance.

Adapted for use in Kentucky from "Considerations Regarding Long-Term Care Insurance" (FC-54a), by Ron Wall, Extension Specialist in Family Economics and Management, Hawaii Cooperative Extension Service, February 2001.

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