One Resource Group

AN INTEGRITY COMPANY

Understanding Long-Term Care Insurance

It's a fact: People today are living longer. Although that's good news, the odds of requiring some sort of long-term care increase as you get older. And as the costs of home care, nursing homes, and assisted living escalate, you probably wonder how you're ever going to be able to afford long-term care. One solution that is gaining in popularity is long-term care insurance (LTCI).

What is long-term care?

Most people associate long-term care with the elderly. But it applies to the ongoing care of individuals of all ages who can no longer independently perform basic activities of daily living (ADLs) - such as bathing, dressing, or eating - due to an illness, injury, or cognitive disorder. This care can be provided in a number of settings, including private homes, assisted-living facilities, adult day-care centers, hospices, and nursing homes.

Why you need long-term care insurance (LTCI)

Even though you may never need long-term care, you'll want to be prepared in case you ever do, because long-term care is often very expensive. Although Medicaid does cover some of the costs of long-term care, it has strict financial eligibility requirements - you would have to exhaust a large portion of your life savings to become eligible for it. And since HMOs, Medicare and Medigap don't pay for most long-term care expenses, you're going to need to find alternative ways to pay for long-term care. One option you have is to purchase an LTCI policy.

However, LTCI is not for everyone. Whether or not you should buy it depends on a number of factors, such as your age and financial circumstances. Consider purchasing an LTCI policy if some or all of the following apply:

- You are between the ages of 40 and 84
- You have significant assets that you would like to protect
- You can afford to pay the premiums now and in the future
- You are in good health and are insurable

How does LTCI Work?

Typically, an LTCI policy works like this: You pay a premium, and when benefits are triggered, the policy pays a selected dollar amount per day (for a set period of time) for the type of long-term care outlined in the policy.

Most policies provide that certain physical and/or mental impairments trigger benefits. The most common method for determining when benefits are payable is based on your inability to perform certain activities of daily living (ADLs), such as eating, bathing, dressing, continence, toileting (moving on and off the toilet), and transferring (moving in and out of bed). Typically, benefits are payable when you're unable to perform a certain number of ADLs (e.g., two or three).

Some policies, however, will begin paying benefits only if your doctor certifies that the care is medically necessary. Others will also offer benefits for cognitive or mental incapacity, demonstrated by your inability to pass certain tests.

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Comparing LTCI policies

Before you buy LTCI, it's important to shop around and compare several policies. Read the Outline of Coverage portion of each policy carefully, and make sure you understand all of the benefits, exclusions, and provisions. Once you find a policy you like, be sure to check insurance company ratings from services such as A.M. Best, Moody's, and Standard & Poor's to make sure that the company is financially stable.

When comparing policies, you'll want to pay close attention to these common features and provisions:

- Elimination period: The period of time before the insurance policy will begin paying benefits. Also know as the waiting period.
- Duration of benefits: The limitations placed on the benefits you can receive (e.g., a dollar amount or a time limit).
- Daily benefit: The amount of coverage you select as your daily benefit.
- Optional inflation rider: Protection against inflation.
- Range of care: Coverage for different levels of care (skilled, intermediate, and/or custodial) in care settings specified in policy (e.g., nursing home, assisted living facility, at home).
- Pre-existing conditions: The waiting period (e.g., six months) imposed before coverage will go into effect regarding treatment for pre-existing conditions.
- Other exclusions: Whether or not certain conditions are covered (e.g., Alzheimer's or Parkinson's disease).
- Premium increases: Whether or not your premiums will increase during the policy period.
- Guaranteed renewability: The opportunity for you to renew the policy and maintain your coverage despite any changes in your health.
- Grace period for late payment: The period during which the policy will remain in effect if you are late paying the premium.
- Return of premium: Return of premium or non forfeiture benefits if you cancel your policy after paying premiums for a number of years.
- Prior hospitalization: Whether or not a hospital stay is required before you can qualify for LTCI benefits.

When comparing LTCI policies, you may wish to seek assistance. Consult a financial professional, attorney, or accountant for more information.

What's it going to cost?

There's no doubt about it: LTCI is often expensive. Still, the cost of LTCI depends on many factors, including the type of policy that you purchase (e.g., size of benefit, length of benefit period, care options, optional riders). Premium cost is also based in large part on your age at the time you purchase the policy. The younger you are when you purchase a policy, the lower your premiums will be.

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