

# **Long Term Care Insurance**

## **15 Questions to Ask**

Did you buy Life Insurance while you were working to protect your spouse and family if you were no longer there to bring home a paycheck? Well, now that you are retired, you don't need insurance any longer. Right? WRONG!

While it's true you no longer depend on a paycheck, isn't it so that you and your spouse will depend on your savings and your 401k to live a comfortable life in your golden years? Just as your death could have sent your family to ruin, so too, can your prolonged illness decimate your savings, leaving your spouse to sell the house and live in poverty after you are gone. You are correct to say your life insurance need has been almost eliminated, but you still must protect your spouse from your costs of Long Term Care. Life Insurance protects your paycheck. Long Term Care Insurance protects your retirement nest egg!

Think about this: 42% of Americans who are 65 today will enter a nursing home during their lifetimes. A good policy can keep you out of the poorhouse when illness strikes, but premiums can be steep. Before buying, answer these 15 questions.

### **The Cost of Care is Enormous**

The current average annual cost of a one-year nursing-home stay in the Boston area is over \$80,000, and none of this cost is covered by Medicare, Medigap or private medical insurance. Home health care, usually the least expensive alternative for someone who needs regular medical attention, can cost on average more than \$3,000 a month. In cases where significant medical processes are required, home care can be just as expensive as a nursing home.

Women are especially vulnerable because they have a 50% greater likelihood of needing nursing-home care than men.

### **Insurance is costly, but...**

The premiums for long-term care insurance are not cheap, but unless you have assets of \$2 million or more, you probably need it -- especially if you have a spouse or heirs for whom you want to preserve some assets. Premiums vary based on your age, sex, geographical location and policy type, but annual costs can vary from \$1400 a year for a 50-something male to more than \$5,000 for a man or woman aged 70 or older.

There are several ways to keep premiums down. The first is to buy group coverage if you can, because it's cheaper than a comparable individual policy. But, beware, many group policies do not have the all important inflation protection we will discuss later. No inflation protection is almost the same as no protection, since you won't likely need the coverage for many years.

You can also save money by choosing a longer waiting period, lower benefits or coverage that ends after a certain time frame. However, as with life insurance, the amount of the premiums is not the most important consideration when purchasing long-term care insurance -- in fact, it is one of the least important considerations.

### **Ask the right questions**

What matters most are the policy benefit amounts and the specific terms of the contract. These policies are complicated, but if you ask these 15 questions, you'll come close to finding the best policy for you.

**1. *Is this policy "qualified" under the Health Insurance and Portability Act of 1996?***

Purchase a policy that is "qualified," because only those policies allow you to take tax deduction for the premiums and pay out tax-free benefits.

**2. *Is this policy guaranteed for life, or can the insurance company cancel it?***

Make sure that the insurance company cannot cancel your policy or raise premiums if it finds out that you're in poor health. Note that virtually no companies issue policies with guaranteed premiums, but most states require that any increases in premiums be approved by the regulators after clear evidence that the entire book of policies was mis-priced, not just that your policy was not profitable.

**3. *What is the waiting period, and does it only have to be met once?***

The waiting period should be no longer than three months, and you should only have to meet that requirement once during your lifetime.

**4. *Does it cover home health care, as well as skilled, intermediate and custodial nursing-home care?***

These provisions give you an option to stay at home and receive care, as well as to receive all levels of care in a nursing home. That way, if your condition changes, you don't lose any benefits.

**5. *Do I have to be hospitalized before benefits begin?***

Buy a policy where hospitalization is not required. You may simply start needing home health care, and your medical insurance might not pay for a hospital stay, in which case you would have to pay out-of-pocket for a hospital visit.

6. ***What are the conditions that trigger benefit payments?***  
The conditions should include cognitive impairment of any kind and should explicitly include Alzheimer's disease. Other triggers should include the inability to perform two out of five or six activities of daily living (ADL) -- usually eating, bathing, dressing, using the toilet, transferring (moving unassisted from a bed to a chair, for example) and continence.
7. ***What are the daily benefits for home health care and nursing-home care?***  
Know the cost of these services in your area so that you can choose a policy that adequately covers those costs. Your insurance agent, or a state elder-care agency, should be able to give you this information.
8. ***Is there an inflation clause so that my daily benefits increase over time?***  
The cost of home health and nursing-home care has skyrocketed in the past few years, so make sure that your policy benefits will keep up with those costs. This is a must. A policy that offers a buy up for inflation will become so expensive in future years that you will be all but assured to let it lapse just before you need it. The inflation rider is the one option you have to have.
9. ***How long will benefits be paid?***  
If possible, you should purchase a policy with a period of at least six years. The benefit period should be the same for nursing-home care and home health care.
10. ***Is there a pre-existing conditions clause?***  
This clause excludes pre-existing conditions (medical conditions or ailments you already have prior to purchasing the policy, which are usually listed on your application). Your policy should not have a pre-existing condition clause.
11. ***Are there specific, guaranteed protections against policy lapses and reinstatements?***  
This protects you if you are having physical or mental difficulties and forget to pay the premium. You can have the policy reinstated even if your premium is late.
12. ***How are benefits paid?***  
The traditional long-term care policy is based on reimbursement of eligible expenses -- you submit actual expenses and get reimbursed. Other policies are indemnity-based -- if you qualify for benefits, you receive the daily benefit and pay for your expenses with it. You don't submit bills for approval. Reimbursement is the cheaper alternative, but beware of the "daily benefit" trap that requires you to use the daily benefit each and every day, and disallows any carryover of unused funds to future days. A monthly "bucket of money" is the preferred alternative. Remember, someone must be able to manage the process of submitting the expenses for you.

13. ***How long has the company been selling long-term care insurance?***  
Choose a company that has a good track record in the sales and administration of long-term care insurance. Make sure you buy insurance from a company that has been selling long-term care insurance for at least five years.
14. ***What are the insurer's financial-strength ratings from the major insurance ratings services (A.M. Best, Standard & Poor's, Moody's, and Duff & Phelps)?***  
You want to choose a company with solid financial strength so that if expenses are substantially greater than expected, the company can handle them with ease.
15. ***Ask for a sample copy of the exact contract of the policy you would be purchasing from your company.***  
Here is where you will probably get the answers to most of the questions listed above. Do not depend on what an insurance agent tells you verbally; it's what's in the contract that counts.