Planning and Paying for Long-Term Care (Part 3 in a series: Long-Term Care Insurance)

by Scott Alan Mitchell

As the name implies, long-term care insurance (LTCI) is an insurance policy that individuals can purchase to pay for some or all of the costs of long-term care. LTCI often covers not only skilled nursing care but also assisted living, personal care, in-home care, respite care, etc. LTCI is relatively new compared to other types of insurance, having been around for 30-35 years, and it has increased in popularity over recent years. Although the annual premium for LTCI can be significant, the policy could pay hundreds of thousands of dollars towards long-term care, so it can be an extremely valuable tool in protecting a family's assets from depletion by long-term care costs. Recall from Part 1 that the Department of Health and Human Services estimates that at least 70% of people over age 65 will need long-term care services at some point in their lives – and over 40% will need care in a nursing home for some period of time. So, in the end, LTCI can be much less expensive than paying for long-term care out-of-pocket.

The annual premiums and benefits paid under LTCI policies vary widely, depending upon factors such as the following: (1) age and health of the policy holder when the policy is first purchased/issued; (2) types of long-term care to be covered by policy (in-home care, personal care, skilled nursing, etc.); (3) any elimination period (the number of days before the LTCI policy will begin to pay benefits after an individual needs long-term care, such as 60 or 90 days); (4) daily benefit to be paid (such as $100 or $150 or $200 per day); (5) the maximum dollar benefits or years of coverage under the policy; (6) inflation riders (allowing for the purchased daily benefit to increase with inflation until the time benefits would be paid under the policy); (7) waiver of premiums after an individual needs long-term care and benefits begin to be paid under the policy; and (8) the insurance company offering the policy.

To provide a very general illustration of premium costs, one well-known LTCI carrier's website offers a premium estimate calculator by entering the age of the individual, daily benefit sought, and years of coverage. For a 50-year old Pennsylvania resident seeking 3 years of coverage for $200 per day (in other words, up to $219,000 in benefits apart from an inflation rider), the calculator estimates an annual premium of $1,700. For a 60-year old seeking the same benefits, the calculator estimates an annual premium of $2,600. For a 70-year old, the estimated premium is $5,180. So, for a 50-year old paying for LTCI for 25 years and entering skilled nursing care at age 75, the individual would have paid total premiums of $42,500, and the LTCI policy would pay out up to $219,000 (assuming no inflation rider).

Over the past few years, some companies throughout the country have begun to seek approval from various states' insurance departments to raise their annual premiums by anywhere from 10% to as much as 40%. In the early years of long-term care insurance, without the benefit of a history of claims to compare to premiums, many companies highly underestimated both the costs of long-term care, the increased length of time that individuals are living, and the number of claims that would be made under LTCI policies. As a result, now with the benefit of hindsight from the last 30-35 years, many companies have been forced to seek an increase in premiums or adjust the terms of existing policies – and further increases could be sought in future years. However, although a 10% to 40% increase in premiums is significant, in the above example, assuming a 40% premium increase, the 50-year old would have paid $59,500 in premiums to receive benefits of up to $219,000. So, even with a premium increase, an LTCI policy still offers a substantial benefit for those needing long-term care.

As a result of the passage of the federal Deficit Reduction Act in early 2006, states have been permitted to allow for what are generically known as "partnership" LTCI policies. Pennsylvania first approved these policies in late 2007, and approximately 15 companies currently offer partnership policies. As will be discussed in subsequent parts of this series, individuals can apply for Medicaid/Medical Assistance benefits for skilled nursing care when their "countable" assets have been spent down below a certain amount (approximately $120,000 for married couples). By purchasing a partnership policy, an individual may keep assets over and above the Medical Assistance eligibility - up to the amount of the total LTCI benefits paid out - and still be eligible for Medical Assistance benefits. For example, if a married couple otherwise must spend their assets down to $120,000 to qualify for Medical Assistance benefits, and if the spouse in the nursing home has a partnership policy that pays total benefits of $150,000, the couple can protect a total of $270,000 while becoming eligible for Medical Assistance benefits.

Another recent variety of LTCI is a "hybrid" policy. Some consumers are hesitant to purchase traditional LTCI because it might never be used. As a result, some companies now are offering policies that combine whole-life or universal-life coverage with long-term care benefits. By way of example, under such a hybrid policy, a 60-year old individual might make a single premium payment of $70,000 for a policy with a $150,000 death benefit. In addition to the death benefit, the policy might also offer a LTCI benefit of $200 per day for 4 years.

As can be seen above, LTCI can be an extremely valuable tool for protecting assets from depletion by long-term care costs. However, the options and costs for LTCI vary widely, and so it is important for individuals and couples to discuss LTCI with a knowledgeable insurance agent and elder law attorney to ensure that they purchase a policy that is right for them.

In Part 4, I will begin to discuss Medicaid/Medical Assistance.