Colorado State University
Extension

Long-Term Care Planning

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Seventy percent of people age 65 or older will need some long-term care at home, through adult day care, care in an assisted living facility or skilled nursing facility in their lifetime. Of those needing care, women average nearly four years, men two. The likelihood of needing long-term care increases with age. Older adults are most likely to begin using skilled nursing home care after age 70, commonly around age 85. However, this isn't just a problem for older people. Currently 43% of people receiving long-term care services are between ages 18 and 64.

In addition to age and being female, risk factors for needing long-term care include health, lifestyle, and marital status. Single people with health conditions have greater risk.

Meeting long-term care needs can be very expensive. In 2013 in Colorado, the annual cost of assisted living homes averaged $42,240 and nursing homes averaged $77,380 for a semi-private room. Costs vary by location in the state.

Long-term care doesn't happen just to an individual, it happens to an entire family. Family members, particularly women, are most often providing these services without pay at home. 80% of care at home is provided by unpaid caregivers. Family caregiving decreases productivity at paid jobs and usually affects tenure on the job and retirement savings. Long-term care expenses can be a large financial burden on individuals and families.

How Do People Pay for Custodial Care?

Many people are mistaken and think that Medicare will pay for their long-term care expenses. Medicare will cover some short-term costs of a skilled nursing facility if you transfer to a skilled nursing facility following a 3-day qualifying hospital stay. Some costs for home health care will also be covered. More information is available at www.medicare.gov. However, Medicare will pay nothing after the first 100 days. There are four ways to cover long-term care costs.

Self insurance: If you plan to use your own assets for long-term care, be sure you understand the Medicaid guidelines that affect the non-institutionalized spouse. What will happen to your spouse if there are not enough assets to cover these costs? Consult with experts if you face a nursing home decision. Call your local area agency on aging, elder care locator or an elder care attorney for assistance. You might consider a reverse mortgage on your home to increase the availability of funds for long-term care. (See "For More Information.")

Medicaid: Medicaid is jointly funded by federal and state governments and managed by the states. Rules differ from state to state. Medicaid covers long-term care costs for people whose income and assets fall below a certain level. If the person is expected to return home or if there is a non-institutionalized spouse, Medicaid exempts the home and a vehicle below a certain value. Many states place a lien against the home or assess the estate to repay the state after the patient dies.

Life insurance or annuities: One way to pay for long-term care is to purchase a life insurance policy or a Medicaid qualifying annuity. These investment tools can be selected to earn a minimum rate of interest, say 3 percent. This builds up a cash reserve to cover nursing home or at-home care. Money not spent goes to heirs as a life insurance death benefit. Some instruments cover both husband and wife. If one spouse uses only a portion of the value, the remainder is available for the other spouse.

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Quick Facts

- 70% of people 65 or older will need some long-term care at home, through adult day care, care in an assisted living facility or nursing home in their lifetime. Of those needing care, women average nearly four years, men two.
- Currently 43% of long-term claims are for one year or less. 15% exceed 5 years.
- Older adults are most likely to begin using nursing home care after age 70, commonly around age 85.
- Premiums are based on your age and health status when you purchase the policy.
- When shopping for long-term care insurance, compare at least three companies.
- Policies should cover Activities of Daily Living (ADLs) or (not "and") cognitive impairment such as Alzheimer's disease.

www.ext.colostate.edu

What is Long-Term Care?

Long-term care (LTC) is a variety of services which help meet both the medical and non-medical needs of people with a chronic illness or disability who cannot care for themselves for long periods of time. It is common for long-term care to provide non-skilled care, such as assisting with normal daily tasks like dressing, bathing, and using the bathroom. Increasingly, long-term care involves providing a level of medical care that requires the expertise of skilled-care practitioners to address multiple chronic conditions. Long-term care can be provided at home, in the community, in assisted living or in nursing homes. Long-term care may be needed by people of any age.

Long-term care insurance: This covers all or part of needed care. This choice spends money on premiums now on the chance it will save money later. One rule of thumb is to add up all the premiums you would pay until age 85. Usually this is less than the cost of one year in a long-term care facility. Be very sure that you will be able to pay the premiums in the future. If you cannot keep up premium payments, you may lose not only your protection but all the money you already paid into premiums. Although a policy may be guaranteed renewable, there is usually no guarantee that the premium will not increase.

People often put off making these long-term care decisions because it is expensive, emotional and they feel fine now. However, there is no guarantee on your health. To handle the financial risks, some experts do recommend buying long-term care insurance. However, this option is not for everyone. Income level and amount of assets are important considerations. Are there family or friends available to provide assistance and care if needed? Middle income people with some assets to protect may be the group who most needs to consider buying long-term care insurance.

Some financial planners recommend buying long-term care insurance if your:

- assets are at least $100,000 (excluding your home and car)
- income is at least $25,000 - $50,000
- premiums would be less than 7% of your gross annual income and you could afford premium increases over time.

Evaluating Agents and Companies

If you decide that buying long-term care insurance is appropriate for you, it is essential to be a good consumer. An informed decision can't be solely based on an insurance sales brochure or presentation. Shop around and compare at least three companies. It is risky to buy from a door-to-door salesperson or a telephone solicitation. Check with local agents who can provide service after you purchase a policy.

Only the official company wording in the brochure or the policy is legally binding. Don't rely on an agent's verbal comments, promises or notes written on a brochure. Record the verbal sales pitch. Read the fine print. Never withhold information about pre-existing conditions, even if an agent says they aren't important. This might allow the company to void the contract.

Choose a large, experienced company licensed in Colorado. There are 30 – 40 Colorado licensed companies marketing long-term care insurance. The financial stability of the company is important. The company you select should have high ratings for stability. Purchase only policies issued by companies which Standard & Poor's and A.M. Best rank as being the most financially secure. If you buy a policy from a less stable company, you may have larger premium increases in the future or the company could go out of business. Most people who have purchased long-term care insurance have not yet used any benefits. No one is sure what the impact will be when many people start using it.

The premiums should be competitive with other policies, not significantly below market rates. Cut-rate premiums may jump significantly in the future. Benefits should be comparable to other policies. If premiums are too low or benefits too generous, the company may not be in business when you need care. Look for companies that have a high claims payout percentage versus the claims filed. Determine if benefit enhancements are made to existing clients and not just new ones. Compare services carefully.

Comparing Policies

Coverage should be allowed at all levels of care that a doctor orders in any state-licensed facility or at home. Some policies specifically exclude care for Alzheimer's patients. Policies should cover Activities of Daily Living (ADLs) or (not "and") cognitive impairment such as Alzheimer's disease. Some policies cover adult day care, nursing homes, assisted living and home health care. You might want home care if someone lives with you. If you live alone, however, having someone come in a few hours a day or a few times a week may not be enough care. Some policies have a geriatric care manager who works with the family and doctor to determine how to best provide the care. Avoid policies that require that only registered or licensed practical nurses can provide services or where insurance-company-paid doctors determine eligibility for long-term care coverage.

The policy selected should have a clear definition of the benefit triggers, especially your ability to perform a specific number of activities of daily living (ADLs). It is important to know who will make the decision on your eligibility. Avoid

How Do You Qualify for Benefits?

Many insurance policies state that you are eligible for long-term care funds if you can't perform two or three out of five or six activities of daily living (ADLs), including bathing, dressing, continence, toileting, transferring and eating. All tax qualified policies state that you must be evaluated by a designated person such as a doctor and certified that you are chronically ill and expected to continue this illness for at least 90 days.

policies that require continual one-on-one assistance to qualify for benefits. Steer clear of policies that require prior hospitalization in order to qualify for nursing home stays and/or home-care. By law, no company can require a prior hospital stay in order to qualify for benefits. Never-the-less, a company might write this into a policy.

Be very clear on coverage and any exclusions to the policy. Equally important are the amount of daily coverage (e.g. $200 per day), length of the benefit period, and maximum amount of coverage. Currently 43% of long-term care insurance claims are for one year or less. The average length of claims, if more than one year, are for 3.9 years. 15% of claims are for greater than 5 years. The longer the benefit period, the more expensive the premium. Some policies have shared or survivorship benefits allowing a spouse to use benefits remaining after the death of a spouse. The elimination period is how long the insured individual must be receiving long-term care services, paying the costs out-of-pocket, before insurance actually starts paying. Think of it as the waiting period or deductible on a policy. The longer the elimination period, the less expensive the premium. Look for policies that count days in the elimination period cumulatively over several stays, rather than consecutively during one stay.

All companies in Colorado must offer inflation protection. You want to be sure your policy will keep up with rising costs of long-term care. A "compound" inflation rider results in a larger benefit increase than a "simple" inflation rider, but it also costs more. The difference is that a simple inflation rider is calculated on the original benefit amount, while the compound inflation rider is based on the (inflation-adjusted) amount paid during the previous year (similar to simple interest and compound interest on bank accounts).

Legally, all long-term care policies are guaranteed renewable, so the company cannot drop you if you develop a serious health problem. Your policy cannot be cancelled unless you stop paying the premiums or your benefits have been used up. You may be offered a non-forfeiture benefit rider. Should a policyowner surrender the policy after owning it for at least three years, the premiums paid into the policy will be available to pay for care some day in the future. Note that this is not a return-of-premium benefit, although return-of-premium at death is an optional rider on many policies.

Look for third-party notification so the policy can't lapse if you just forget to pay a premium. Most policies also include a waiver-of-premium provision meaning premiums are waived as long as the policy owner is receiving benefits.

The policy is a legal contract between you and the insurance company, so read everything carefully. Most policies allow you to cancel within 10 days for a full refund if the policy does not meet your expectations.

Incentives for Purchasing Long-Term Care Insurance

- Tax-qualified long-term care premiums are considered a medical expense and may be deductible on federal taxes if expenses exceed 7.5% of your adjusted gross income. Tax qualified means that you don't pay taxes on benefits. There are limitations based on age and tax year. Discuss this possibility with your tax advisor.
- Policies purchased through the Colorado Partnership program allow you to keep more of your assets should you deplete your long-term care insurance benefits and need to apply for Medicaid.
- Money from a Health Savings Account may be used to pay long-term care insurance premiums.

Long-Term Care Partnership Program

Colorado's Long-term Care (LTC) Partnership Program is a public-private venture designed to encourage and reward Colorado's residents for planning ahead for future long-term care needs. It is an alliance between the private insurance industry and the state government to help Coloradoans plan for future long-term needs without depleting all of their assets to pay for care.

A LTC Partnership policy allows consumers to protect personal assets in the event they must apply for Medicaid assistance to pay costs. Colorado is using the "dollar-for-dollar" model. LTC Partnership policy holders who apply for Medicaid coverage are able to maintain their assets equal to the benefits paid under the LTC Partnership policy. The federal Deficit Reduction Act of 2005 (DRA) outlined specific requirements for LTC Partnership policies. Based on the requirements, Colorado LTC Partnership policies require inflation protection in most policies.

By federal law, Colorado is not allowed to add the LTC Partnership provisions to current policies. Current long-term care insurance policy holders who wish to obtain Partnership policies should contact their agent, carrier or the carrier of their choice regarding issuance of a new Partnership qualified policy.

LTC Partnership policies are not for everyone. However, for many consumers with significant assets to protect, Partnership policies represent viable options to state estate recovery processes in the event those consumers must rely on Medicaid assistance with care in the future. For additional information, consumers should talk with their financial planner, insurance agent or a Senior Health Insurance Assistant Program (SHIP) counselor.

Other Options to Consider if you Cannot Afford Long-Term Care Insurance

- Life insurance policy reconsideration/accelerated death benefit
- Loan against cash value of whole life insurance policy
- Reverse home mortgage
- Other family member pays long-term care insurance premium

How Much Does It Cost?

Premiums are based on your age and health status when you purchase the policy. After age 60, premiums begin to increase substantially. You can reduce them by increasing the elimination period and covering the first 90 or 100 days yourself. Also, higher daily benefits mean a higher premium. If you have Social Security or a pension benefit, you won't need to cover the full cost from insurance. Smoking increases premiums. Good health when you purchase the policy reduces them.

Check the cost of facilities and service in your area. Learn the facility's policy on increasing rates. Ask the facility managers what additional costs you must pay yourself, such as a private phone, hair care, meals away from the facility, transportation to appointments, etc.

For More Information

Administration on Aging
National Clearinghouse for Long-Term Care Information: Own Your Future
www.longtermcare.gov

Colorado State Division of Insurance
1560 Broadway, Suite 850
Denver, CO 80202
Phone: (303) 894-7499
www.dora.state.co.us/insurance/senior/ltc.htm

Colorado Long-Term Care Partnership
www.ColoradoLTCPartnership.org

Senior Health Insurance Assistance Program
Colorado Division of Insurance
Phone: (888) 696-7213
Email: SHIP@dora.state.co.us

"Shopper's Guide to Long-Term Care Insurance" Contact the National Association of Insurance Commissioners
www.naic.org/index_ltc_section.htm

Area Agency on Aging. See your local phone book or contact the Colorado Department Human Services (below)

Colorado Department of Human Services, Division of Aging and Adult Services
1575 Sherman St., 10th floor
Denver, CO 80203
Phone: (303) 866-2800
www.colorado.gov/cs/Satellite/CDHS-VetDis/CBON/1251595440312

National Institute on Aging
Building 31, Room 5C27
31 Center Drive, MSC 2292
Bethesda, MD 20892
Phone: (301) 496-1752
www.nia.nih.gov

Center for Medicare and Medicaid Services
7500 Security Blvd.
Baltimore, MD 21244-1850
Phone: (877) 267-2323
www.cms.gov

Colorado Senior Law Handbook
Colorado Bar Association
1900 Grant St., Denver, CO 80203
Phone: (800) 332-6736
www.cobar.org/index.cfm/ID/726/dpwfp/Senior-Law-Handbook/

National Academy of Elder Law Attorneys, Inc.
1577 Spring Hill Road, Suite 220
Vienna, VA 22182
Phone: (703) 942-5711
www.naela.org/Public

National Eldercare Locator Service
U.S. Administration on Aging
927 15th St., NWWashington, DC 20005
Phone: (800) 677-1116
www.eldercare.gov

Veterans' benefits
www.va.gov

See Chart on Next Page

Chart 1: Comparing Long-Term Care Insurance Policies.

Comparative Factors	Policy A	Policy B	Policy C
Premiums competitive, not dramatically below market rates			
Company has a high Standard & Poor’s rating			
Length of time company has sold long-term-care policies			
Covers all levels of care (nursing home, home care, assisted living, adult day care			
Benefit triggers, ADLs or cognitive impairment, including Alzheimer’s disease			
Eligibility determination – who decides			
Amount of daily benefit (50%, 80%, 100%). Make sure all comparisons are equivalent			
Length of benefit period coverage and maximum benefit			
Elimination or deductible period			
Elimination period satisfied once in a lifetime			
Inflation protection (none, simple, compound)			
Pays daily rate even when away from the facility (hospital, visiting)			
Bed reservation benefit (holds your bed for a short hospital stay)			
Waiver-of-premium possibilities			
Waiting period for pre-existing conditions			
Marital discount possibility			
Third party notification			
Tax-qualified policy			
Colorado Long-term Care Partnership Policy			