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WHITE PAPER

Insurance

TOPIC: Long-Term Care (LTC) Insurance

The increasing life span of the average American means that an ever larger percentage of the population will require extended nursing or custodial care. Since many types of nursing care are not eligible for reimbursement under Medicare and other forms of major health insurance, long-term care (LTC) insurance may be appropriate for those who would be disproportionately impacted by the costs of extended medical care. This paper describes the services covered by LTC insurance and identifies those persons who ought to consider purchasing this kind of policy.

Long-Term Care Defined

Long-term care (LTC) specifically refers to the medical, daily living assistance and specialized housing required by those with chronic health problems who can no longer perform many of the normal activities of daily living (ADLs), such as walking, bathing, cooking, etc. It also applies to those suffering from dementia, including Alzheimer's disease. These costs typically are not covered by medical or disability insurance (disability insurance replaces lost income, but if one is not working or is already retired, disability insurance won't provide any benefits).

The Types of Long-Term Care

The most intensive form of long-term care is administered in a skilled nursing facility. This level of care refers to 24-hour availability of a registered nurse under a physician's supervision. Less intensive nursing or rehabilitative care is called "intermediate" care. Each of these types of care is expensive (typically $150 to $300 per day, or more), and most LTC policies are written to offset these costs on a dollar for dollar basis. Indeed, it is the fear that these costs can drag on for months or even years that commonly causes consumers to consider purchasing LTC insurance in the first place.

Less expensive but more common long-term care needs often fit under the title of "custodial" care. Custodial care generally responds to needs which are not entirely medical in nature, and includes assistance with bathing, moving about the house, preparing food and so forth. The least intrusive but most common type of long-term care is home care, which is typically administered in the patient's own home, often by friends and relatives. These services cost less to deliver, but nursing care policies are often less generous in reimbursing such expenses. While some policies treat home care as fully reimbursable, many others will cover only 50% of the cost of these expenses.

The Limits of Medicare

Medicare will pay for the first 20 days of skilled care and everything over a deductible amount for the next 80 days of skilled care. However, these benefits are limited to those people who have been directly transferred from a hospital and are in need of full-time care under the guidance of a physician. These two criteria are satisfied in little more than 5% of nursing home admissions. Less intensive forms of long-term care are often completely without Medicare reimbursement provisions. Medigap policies rarely address any of these issues either.

Are You At Risk?

Given the limitations of Medicare and most other common forms of health insurance coverage, it is only prudent to consider the financial impact of needing extended care. It is difficult to generalize regarding who is most at risk, but some conclusions may be rather surprising. First, truly financially independent consumers likely need not purchase LTC insurance. Even in the San Francisco area, excellent nursing care facilities are available for about $7,000 to $9,000 a month, and expenditures of this nature, though taxing, may not jeopardize a secure retirement for some. Those who are at greatest risk may be married homeowners in their late 50s and early 60s. An extended nursing care bill for one of these persons may jeopardize the healthy spouse's ability to maintain the primary residence, not to mention the ability to pay the other bills which arrive each month.

Considerations When Buying

As with many other forms of insurance, LTC insurance is priced most affordably for those who are least likely to need it, namely the young and the healthy. Yet waiting until retirement or infirmity before purchasing a policy may result in premiums which are unaffordable. Often times the best strategy is to shop for the product a year or two before a "big" birthday, such as a 60th or 70th birthday. Many insurance providers not only push the price up dramatically after such birthdays, but also limit the availability of their product to those who pass physical and cognitive exams. Persons with family histories which include degenerative diseases should of course consider buying well before these later dates.

Provisions of LTC insurance policies are complicated, but most buyers will want to ensure that the coverage they buy today will increase over time along with the rate of inflation. Since the average nursing home stay is about 2 ½ years, consumers should also consider policies with benefit periods of at least 2 years. A 5 year benefit period costs more, but is probably a more prudent purchase.

In terms of controlling the cost of LTC insurance, recognize that lower prices are available for those willing to go out of pocket to pay for the first few months' of nursing care costs. This consumer still relies upon the insurance provider for the truly onerous expenses of longer-term needs, but gets the cost benefit of limited self-insurance. In this same way, most everyone who buys LTC insurance would also be wise to cover only those costs beyond that which can be covered by other sources of income. In the case of someone in a $200 per day facility, for example, retirement funds and social security may be sufficient to cover $100 of that daily cost without excessive difficulty. The level of insurance purchased should therefore target the remaining $100 per day, and not the entire expense. As with the purchase of other forms of insurance products, buyers should isolate the risks which simply cannot be tolerated and insure accordingly. Expenses which can be handled through one's financial assets should not be insured unless there is a strong desire to prevent the depletion of your estate (for future beneficiaries) should a long-term care need arise.

Finally, when purchasing LTC insurance, make sure to compare the available prices with the financial strength of the insurer. Shopping around on the Internet and elsewhere can easily help identify those providers with the lowest prices. Investigating that insurer's financial strength is likely a more important consideration, however, and can be accomplished through the purchase of ratings from companies such as A.M. Best, Fitch, Moody's, Standard & Poor's or Weiss. Choose only among those insurers with the strongest ratings, since most people buying insurance today will start relying upon their insurer's strength twenty years from now.

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