CALIFORNIA HEALTH ADVOCATES

Long-Term Care: Frequently Asked Questions About Long-Term Care Insurance

Free standing long-term care insurance (LTCI) only pays benefits when you need and receive long-term care services. Typically these policies pay a daily amount for the care you receive. Some life and annuity products may include a rider with benefits for long-term care. Other life insurance products substitute payment of a portion of their original benefit when you have a long-term care event, like a nursing home stay or a terminal illness. Those products may pay a specific benefit amount daily or monthly, or they may pay a lump sum benefit once a triggering event occurs.

This fact sheet answers some common questions about LTC insurance. For general and detailed information about long-term care, see our online Long-Term Care section under Medicare Topics at cahealthadvocates.org.

1. What is long-term care?
This type of care is primarily assistance, or supervision in the case of a person with dementia, with everyday tasks like bathing, dressing and helping someone get in and out of bed. It generally does not require a licensed health care professional to provide those services. Long-term care is often needed because of dementia or an illness, an injury or as result of aging. Because this kind of care is not medical care, it's usually not covered by Medicare or other health insurance products. Family members or friends provide most of this kind of care in the beginning, and bring in formal paid care when the need becomes greater than family members can provide. Most long-term care is provided at home or in the community by a combination of caregivers like nurses aides and family members. Less frequently care is provided in assisted living facilities or nursing homes.

2. What is long-term care insurance?
This type of insurance is designed to pay for the cost of long-term care services when a person needs this type of care. In the past, long-term care insurance was sold almost exclusively to seniors to pay for the nursing home care Medicare doesn't cover. Today this kind of insurance provides benefits for home and community care, assisted living care and nursing home care. It is also sold to much younger people than in the past. California has some of the strictest standards in the nation for this type of insurance and for the agents who sell it.

In addition to free standing long-term care insurance, other types of insurance policies may also have benefits for this kind of care. Some life insurance products may "accelerate" the death benefit of the insured person so that it can be used to pay for their long-term care expenses. Some annuities may "accelerate" the date an annuity would normally begin if a person has a triggering long-term care event. Some of these life and annuity products may include a rider with additional specific benefits for long-term care expenses after the underlying life or annuity benefit is used up.

Agents who sell free standing long-term care insurance must take specialized training to sell it. Agents who sell "combination" products, life insurance and annuities with long-term care benefits, may also have taken this specialized training.

3. What is a "Tax Qualified" (TQ) policy?
Tax-qualified or TQ policies must meet certain minimum federal requirements in addition to those required by state law. The federal government then allows taxpayers to deduct some, or all, of the premium for a TQ policy as a medical expense based on the age of the

insured person and the amount of premium paid in an applicable tax year. California allows a similar deduction on state income tax returns. The benefits paid by a TQ policy are not taxable as income.

Policies sold prior to the 1996 change in federal law are grandfathered in and became tax qualified regardless of whether they meet or exceed the federal standards. In general, a TQ policy pays benefits when someone is unable to perform 2 Activities of Daily Living (ADLs) out of a list of 6 ADLs, or when a person is cognitively impaired. The 6 ADLs are bathing, dressing, eating, transferring (e.g. from bed to chair), toileting and continence.

Non-Tax Qualified policies (NTQ) can pay benefits using a more generous threshold, or they can include additional ways to trigger benefits. In general, NTQ policies add a 7th ADL—walking— to the list 6 ADLs, or include other more generous benefit triggers. An insured person may qualify for benefits sooner with an NTQ polices. Few if any of these policies are still being sold.

The premiums for a NTQ policy are not tax deductible. No public decision has been announced by the Internal Revenue Service (IRS) about the tax treatment of NTQ policies.

4. What is a Partnership policy?
The California Partnership for Long-term Care is a program of the California Department of Health Care Services (DHCS). It is an innovative partnership among the State of California, consumers and some private insurance companies, plus CALPERS. These companies sell LTC insurance policies that are labeled as Partnership policies and meet certain requirements of the Partnership in addition to those set by state insurance law.

Each Partnership policy is tax qualified (TQ) and includes a built-in 5% compounded inflation protection. These policies have a unique state guaranteed asset protection feature that allows you to retain a certain amount of your assets if you use all your benefits and later need to apply for Medi-Cal (California's Medicaid program). Only agents who have taken additional specialized training can sell one of these policies. For more information about the Partnership, contact the Health Insurance Counseling and Advocacy Program (HICAP) (1-800-434-0222) or the California Department of Health Services at 1-800-227-3445 or visit their website, dhs.ca.gov/cpLTCI.

5. Who sells LTC insurance?
Individuals can purchase LTCI insurance from insurance companies through licensed agents or through various groups or an employer. Some private employers sponsor this type of insurance, and public employers like the California Public Employees Retirement System (CALPERS) or the Federal Employees Long-term Care Insurance Program (FLTCIP) sponsor their own long-term care programs. Some associations, like AARP, and fraternal and faith-based organizations may also sponsor LTCI insurance programs. Employers and other groups rarely pay any part of the premium. They may simply make the insurance available to their employees or members, and sometimes to other family members as well. Health screening or medical underwriting is usually still required, although active employees may be exempt from this requirement or be subject to only minimal screening for employer-sponsored coverage.

6. Should I buy LTC insurance?
This answer depends on your individual needs and circumstances. Buying LTC insurance is part of a planning process for life and retirement. You need to have enough income to pay the premiums for the rest of your life, including premium increases or life changes, such as the death of your spouse. If you pay a one-time lump sum premium payment, it shouldn't consume most of your assets that you may need for unexpected future expenses.

You need to consider how long benefits you buy should last in relation to the premium you will pay. Most people with modest resources may be better able to pay for a policy with 1 to 3 years of coverage rather than one with benefits that last longer. Also, if you have few, if any assets, it may not make sense for you to buy this type of insurance at all. Other options for paying for long-term care include investments, savings, a reverse mortgage, and the state Medicaid program known as Medi-Cal in California.

7. What is the best LTC insurance policy?
What is best for one person may not be good for another. The benefits and amount of coverage an individual or couple needs depend on their own unique circumstances. A single or widowed woman may need very different benefits than a married man, particularly if their economic circumstances are different. Women are more likely to live longer than men and also more likely to live alone at the end of their life. Without family members willing to provide some home care and support services, women are more likely to get their long-term care in a nursing home or in an assisted living facility. Recently insurance companies have begun charging women higher premiums based on their longer life span and their more frequent need and use of long-term care services. As a result, women may be even less able to afford premiums for this kind of insurance than in the past.

8. What is the best company to buy from?
There is no good answer to this question. Selecting an insurance company, like choosing and agent, is a personal choice based on experience or recommendations from friends and families. Rating services like AM Best or Standard and Poors provide information to help you evaluate the financial strength of these companies. The California Department of Insurance (CDI) publishes comparative information about products sold in California that can help you choose a company and a complaint ratio for all insurance companies.

Recently some companies have stopped selling this insurance, although a number of companies still sell LTC insurance in California. Some companies have decades of experience, while others are relatively new to this product. Some are large companies with many other products and subsidiaries; others are smaller and specialize in LTC insurance.

CDI also publishes data showing which companies have raised their premiums during the last 10 years on this type of insurance, the amount of the increase, and which states were affected. Contact CDI at 1-800-927-4357 or visit their website insurance.ca.gov.

If you buy your coverage through a group, you will need to check to see if that policy is approved in California or in another state. It may not meet the same high standards or include all of the consumer protections that are required by our state law. CalPERS long-term care program, for instance, is self-funded and is not subject to the state's insurance law. It is, however, subject to the standards and requirements set by the CalPERS board, and meets many of the state's standards for long-term care insurance.

9. What is the right age to buy LTC insurance?
This is a very individualized decision, based on many factors. Most people think about this type of insurance when they are close to retiring. Others buy it through an employer much earlier. Here are some things to consider. Premiums are much lower for people in their 40's or 50's than at 65 years of age, but they are likely to pay premiums over a longer period of time. As people age, they are more likely to develop a health condition that could make them uninsurable. After 60 years of age, premiums for this type of insurance begin to rise steeply and you may be unable to afford the same amounts of coverage you could when you were younger. It's also important to consider that long-term care services and places where people get care are changing and may not be the same services or places described in a LTC insurance policy purchased 20 or even 40 years earlier.

10. Can insurance companies charge me a higher premium because I am a woman?
Yes. There is no law in California that prevents a company from charging women higher premiums. Legislation that would have prevented companies from charging women higher premiums died in the legislature in 2014. Premium rates for women can be as much as 40% higher than for men. Companies say they

are charging these higher rates based on their claims experience that shows women use their benefits sooner and longer than men due to their longer life spans and their tendency to out live their spouse who could have been their caregiver.

11. If I buy a policy before my next birthday, will I pay a lower premium?
Not necessarily. Companies do base their premiums on age, and the older you are, the more you will pay. However, the difference in premium for one year of age may not be significant. If the only reason you are buying a particular policy is to lock in a lower premium, you may not know enough about the policy to justify that decision. In addition, a well-trained, professional agent won't pressure you to make a decision just to save a few dollars before you fully understand the product you are buying.

A good agent will understand that this is a product you will be keeping for the rest of your life and it's important that you understand how it works and are comfortable with the decision you are making. It is always a good idea to have a friend, relative, or other advisor with you when having an agent visit for the purpose of selling you any insurance policy.

12. I am planning to buy a policy from a particular company and agent, but the cost of inflation protection adds hundreds of dollars to the premium. Do I really need it?
In general, yes. Inflation protection should be included in every LTC insurance policy because these policies pay a fixed dollar amount for each day of care. Most people buy these policies years, sometimes decades, before they will need care.

A fixed daily benefit loses buying power each year. In 14 years it will only pay for half the care that it pays for today, while the cost of care continues to inflate each year. The difference between a LTC insurance benefit and the cost of care will have to come out of your own pocket.

Inflation protection will help your benefits keep up as the cost of care increases. As greater numbers of people begin to need care, the competition for caregivers and places of care will fuel increases in the cost of care. Also, inflation protection is important even at older ages because some people can live well into their 8th and 9th decade of life and some will live to be 100 or even older.

13. If I buy a LTC insurance policy and then move to another state will it still pay benefits?
Yes. You can use the benefits of a long-term care policy purchased in California anywhere in the country. California has the strongest standards and consumer protections for this kind of insurance of any state in the nation. However, the definitions in your California policy may not match the places and people that provide long-term care services in another state. For instance, the definition in your policy that describes an assisted living facility is unique to California, and may not accurately describe assisted living facilities in another state. If you move, you will need to contact the company to make sure that any place you might want to get care will be covered by your policy.

14. Will I be able to stay out of a nursing home if I buy a LTC insurance policy?
Not necessarily. Having a LTC insurance policy may not keep you out of a nursing home if that is the only place that can provide appropriate care. Around the clock care at home is generally more expensive than nursing home care and may require more than one caregiver for each 8-hour shift. Since the reason you may need care, and the amount of care you may need is so unpredictable, a LTC insurance policy should provide you with protection in any of the settings where you are likely to need care, including care at home, in assisted living facilities and nursing homes. While most people want to be cared for at home, and many can be for at least short periods of time, others may have no choice if their condition becomes so severe that getting care at home is not feasible.

15. If I buy a 2-year LTC insurance policy, will the company only let me keep it for 2 years?
This is a common misunderstanding. When you begin collecting benefits, your total benefits may last for 2 years if you use them up at the maximum amount you bought for each day of care. The total amount of your policy benefits can last much longer if your daily expenses are less than the maximum daily benefit in your policy.

16. My insurance agent says his policy is different and has a pool of money I can use to pay for long-term care. What does that mean?
California law requires all LTC insurance policies to define the maximum benefit the policy will pay by a single dollar amount, not years. This is commonly called a pool of money or a total dollar amount that is available to pay for your care in all of the places covered by the policy.

For example: If you bought a policy that pays a maximum daily benefit of $100 a day in a nursing home for 2 years, but pays only $50 a day for home care, your maximum policy benefits may last longer than 2 years depending on how you use them.

For instance, you would have $73,000 in total benefits ($100 x 730 days) available to you. After you used home care benefits every day for 1 year ($50 x 365), you would still have $54,750 in benefits left; equal to 1.5 years of nursing home care at $100 a day, or 3 years of home care at $50 a day, or any combination of covered care that equals $54,750. If you bought inflation protection, the amount of your maximum daily benefit and maximum policy benefit would be greater than $100 or $50 a day, depending on how many years you had the policy before you began using it.

17. Several people in my husband's family have Alzheimer's disease and I think my husband may be showing signs of it. Can I get a policy for him?
All LTC insurance policies require some health screening, called medical underwriting. Insurance companies won't insure people who are likely to need long-term care. Increasingly, companies are requiring a paramedic exam complete with blood work and a mini mental exam to check for any cognitive dysfunction.

Most companies review the medical records of applicants over a certain age at the time they apply, and some will do a phone interview or face-to-face interview for everyone over a certain age to assess their functional and cognitive abilities. Some companies will sell a policy to people who have certain types of health conditions, but may charge a higher premium.

However, it is unlikely a company would issue a LTC insurance policy to someone who already shows signs of cognitive deterioration. It's important that an application be completed accurately and truthfully. Otherwise it could result in the company canceling the coverage later.

18. I have a LTC insurance policy that only pays $100/day for nursing home care after a 100-day waiting period. It doesn't have inflation protection and I want home care benefits. What should I do?
If you are still insurable and can afford to pay an additional premium you may be able to buy additional coverage. You might be able to keep the policy you already have and add the benefits missing from your existing policy by buying a second policy from the same or different company if you can pass their health screening. Or, your current company might issue you one of their newer policies and give you a premium credit for your old policy towards a premium for a new policy if you can pass their health screening.

Your agent may be able to help you add benefits to your existing policy, or replace it. If you decide to replace the policy your agent must give you a written comparison of the difference between the 2 policies and identify how the replacement will benefit you.

If you are NOT still insurable, your policy will still pay the benefits you bought, but it will not provide the newer benefits you want. You will need to weigh the continuing cost of your older policy against the benefits it provides to determine if it is in your best interest to keep the policy. Generally, older policies are less expensive than newer policies and it may be worthwhile to keep it for the benefits you originally bought. If you decide not to keep it, the company will keep all the premiums you have paid without incurring any future risk of a claim.

19. What are my options if I can't afford to pay the premium for my policy?
Any consumer in California can request a reduction in their policy's benefits after the first year so they can afford to continue paying premiums and keep some of their benefits. When you have paid for this type of insurance for years, you probably will not want to cancel your policy and waste those premium payments. You don't have to wait for a premium increase to exercise this right.

You can reduce the daily benefit amount, the number of years the policy will pay, or make other changes that will reduce the premium to an amount you can afford to pay. Pay careful attention to any offers from the company to change your inflation protection. A reduction or elimination of inflation protection could leave you with less benefits to pay for any care you may need in the future. If you need help with these decisions you can request an appointment with your local HICAP to help you understand your options.

20. I thought the company couldn't increase the premium I pay for my long-term care insurance policy?
It is true that companies cannot single you out for a rate increase based on your age or your health or how long you've had your policy. However, every company reserves the right to increase premiums, usually for a group of people in the same state who all bought similar policies issued during a particular period of time, often referred to as a "class." The right to increase premiums is usually on the first page of a policy along with a guarantee that the company cannot cancel your policy unless you don't pay the premium.

21. Why is my premium going up by such a large amount?
In some cases companies underestimated what these policies would cost over time because they thought more people would drop their policies before using the benefits. Some companies underestimated the cost of the number of claims that would be made against these policies or the length of time those claims would last. Insurance companies also invest the premiums they collect and their investment income may have been less than they estimated when they designed the premiums for a certain group of policies. A change in any one of these factors can affect the premium a company needs to charge to have enough money in reserve to pay claims now and in the future.

A few companies were better than others at predicting these factors and haven't needed to increase premiums. Most had worse experience and needed significant increases.

California law makes it harder for companies to have a premium increase approved for policies they sell today. In addition, since 2006, the California Department of Insurance can require a company that files for a premium increase over a certain amount to allow you to stop paying your premium and keep benefits that equal the total amount of premiums you have already paid the company.

If you receive a notice of a premium increase, you can call the California Department of Insurance at 1-800-927-HELP (4357) to find out more about this protection that is in addition to your right to reduce benefits in return for a lower premium.

22. Why did my premium go up by 40% and my neighbor's policy only went up 15%?
Premium increases are based in part on the benefits that were purchased. Someone who has a policy that will pay benefits for 5 years will usually have a greater premium increase than someone with a policy with the same benefits that pays for just one year.

23. Can a company sell my policy to another company?
Yes, companies can sell all their long-term care business, or only selected groups of policies. Also an entire insurance company can be bought by another company. However, your policy and the benefits it provides will not change, although your premium might if the new company uses different assumptions for pricing than your previous company did.

For general and detailed information about long-term care, see our online Long-Term Care section under Medicare Topics at cahealthadvocates.org.

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The fact sheet contains general information and should not be relied upon to make individual decisions. If you would like to discuss your specific situation, call the Health Insurance Counseling and Advocacy Program (HICAP). HICAP provides free and objective information and counseling on Medicare and can help you understand your specific rights and health care options. You can call **1-800-434-0222** to make an appointment at the HICAP office nearest you.

Note: Online access to all CHA fact sheets on Medicare and related topics is available for an annual subscription. See cahealthadvocates.org/facts.html.