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Consumer Facts **for Older Americans**

LONG-TERM CARE: IS PRIVATE INSURANCE RIGHT FOR YOU?

It's a task that few of us look forward to: arranging for help to be there if, as senior citizens, we are no longer able to care for ourselves. For 1.4 million seniors, that care comes in a nursing home where most residents have their bills paid by the government through the Medicaid program. For millions of others, that care comes from family members or paid providers, in homes or assisted living facilities.

Medicaid remains a crucial safety net for the most dependent seniors who require high-level care in nursing facilities. However, Medicaid offers limited assistance to seniors who remain in their homes or require less intense care outside nursing facilities. Because long-term care can be expensive and because Medicaid and other government programs aren't always available to pay for the type of care seniors choose or require, individual planning is important. A realistic and responsible plan may require arrangements in your family and community, judgments about your personal finances and confronting your attitude toward public aid.

In some cases, a portion of the payments comes from a long-term care insurance policy sold by a private company. While private long-term care insurance has been widely promoted by the insurance industry and some government agencies, such insurance is expensive and suitable only for some people with substantial wealth.

The Basics

What does it cost? If you are no longer able to live independently due to physical illness, a chronic disease or seriously declining mental capacity, you are likely to require care from a family member, a friend or a paid service provider. Such care may be delivered at home, in the community, in an assisted living center or in a nursing facility.

Paying for care can be quite expensive. Costs vary based on the location and the extent and nature of care provided. A 2007 survey by a long-term care insurer found that the average annual cost for a private room in a nursing home ranged from \$46,600 in Arkansas to \$185,200 in Alaska, while the average hourly rate for a home health aide ranged from \$15.35 in Miami to \$35.49 in Seattle. The duration of care also affects costs. Only about one in three seniors will stay for more than three months in a nursing facility. Fewer than one in 10 face a nursing home stay that lasts five years.

Paying for long-term care. Perhaps you have the ability to pay all or some of your long-term care expenses out of your savings or retirement income. Or if you have a low income and few assets, you may qualify to have Medicaid pay. In fact, Medicaid picks up the tab for more than half of all nursing home residents.

But many seniors and others planning for a time when they may need long-term care find themselves in a confusing middle ground: insufficiently wealthy to absorb the expense of long-term care, but holding too many assets to qualify for Medicaid. In that case, you may choose to pay for long-term care out of your own pocket – perhaps until you run out of money and qualify for Medicaid. Or you may plan to defray a portion of the cost with private long-term care insurance. That requires planning that is likely to be an exercise in number-crunching and strategy. Resist the temptation to seek an easy answer. The choices you make preparing to pay for long-term care could have a big impact on you and those close to you.

Because of the complexity and expense of long-term care insurance, it is important to seek out the advice of someone knowledgeable in the field with no stake in selling you a product. One place to look: each state has a Health Insurance Assistance Program with trained volunteers who may be able to help consumers sort through questions about long-term care insurance and Medicare. A list of these programs and contact information can be found at www.medicare.gov/contacts/Static/SHIPs.asp.

Deciding to Buy

Consumer advocates and insurance regulators say that you shouldn't pay more than 5 percent of your income on long-term care insurance premiums. And premiums are hefty. For example, in December 2007 the California Insurance Department looked at 31 comprehensive policies with lifetime coverage, inflation protection and a 90-day elimination period and found that the average premium for new coverage of a 65-year-old was \$324 a month. Even among these similar policies, monthly premiums ranged from \$107 to \$863.

Even if you have sufficient income and wealth to consider buying long-term care insurance, you should still carefully weigh the costs and benefits of the coverage against the costs and benefits of using your own resources to pay for care if and when you need it. If you have an estate plan that aims to preserve assets to pass along to your heirs, you should look at long-term care insurance in the context of that plan. Some states have a partnership program that may allow you to purchase long-term care insurance to shelter some assets that would otherwise have to be spent before qualifying for Medicaid.

If you think long-term care insurance may make sense for you, take the time to review your options with your state's Health Insurance Assistance Program, or get advice from a knowledgeable lawyer, financial planner or accountant to make sure you understand the financial and tax strategies you are implementing through your purchase of long-term care insurance.

Shopping

An ice cream store with 31 flavors offers a consumer a lot of pleasant choices. Long-term care insurance presents at least that many choices, but sorting through them may be anything but pleasant. To begin, you must estimate the likelihood that you will need long-term care, as well the likely duration and the rate that will be charged for that care.

Next, you must decide what level of coverage to buy. Key variables include maximum daily and total benefits, maximum duration of coverage, types of care, what events trigger coverage, the waiting time before coverage begins, and a policy's tax status and usefulness for protecting assets. And because care costs continue to rise, most experts suggest you purchase an inflation-protected policy that keeps premiums level while increasing benefit amounts over time. Each of these features must be evaluated to decide whether more extensive coverage justifies the payment of a higher premium. You

must weigh the potential advantages of each enhancement of coverage against your ability and willingness to pay the higher premiums required by each feature.

Collecting benefits sometimes has proved a challenge for long-term care policyholders. It is important to read and review – line by line – a policy before you buy it so that you understand in detail what is covered and what isn't. And even those familiar with their policies sometimes encounter unpleasant surprises. Recent news reports have described lawsuits challenging denials of benefits by some companies and noted evidence of increasing rates of claims denials.

It is also important to seek to do business with a company that will have the resources to pay your claim. To reduce the chances of having a claim denied or delayed by a distressed company, seek out information about the past performance of a company and its financial health rating prepared by A.M. Best, Weiss Ratings, Moody's Investor Services, Standard and Poor's, or Fitch Ratings.

Conclusion and Finding Help

Most elderly consumers cannot afford long-term care insurance. Even if you can afford it, you should weigh carefully whether long-term care insurance fits your particular financial and personal situation and needs. Some help can be found on-line, including:

- The U.S. Department of Health and Human Services' National Clearinghouse for Long-Term Care Information offers various consumer tools, including interactive calculators of the likely benefits and cost of long-term care insurance. Go to:
<http://www.medicare.gov/LongTermCare/Static/Home.asp>
- Contact information for the Health Insurance Assistance Program in each state can be found at www.medicare.gov/contacts/Static/SHIPs.asp or at www.shiptalk.org.
- "Taking Care of Tomorrow: A Consumer's Guide to Long-Term Care," detailed look at long-term care by California's Health Insurance Counseling and Advocacy Program, can be found at http://www.aging.ca.gov/publications/hicap/hicap_TCOT_main.asp.
- "A Shopper's Guide to Long-Term Care Insurance" by the National Association of Insurance Commissioners is posted at various sites on the Internet, including http://www.oregoninsurance.org/publications/consumer/naic_long-term.pdf.
- A 2003 Consumer Reports review of long-term care insurance is at <http://www.consumerreports.org/cro/money/insurance/longterm-care-insurance-1103/overview/index.htm?resultPageIndex=1&resultIndex=1&searchTerm=long-term%20care%20insurance>.

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