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White Paper

*Long Term Care Insurance*

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# Long-Term Care Insurance

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## What is it?

Long-term care insurance (LTCI) is a contractual arrangement that pays a selected dollar amount per day for a selected period of time for skilled, intermediate, or custodial care in nursing homes and other settings (such as home health care). Because Medicare and other forms of health insurance do not pay for custodial care, many nursing home residents have only three alternatives for paying their nursing home bills: their own assets (cash, investments), Medicaid, and LTCI. For information about Medicare and other government programs that cover only a limited amount of long-term care expenses, see [Coordination with Government Benefits](#). For details about Medicaid, see [Long-term Care Insurance \(LTCI\) as a Medicaid Planning Tool](#).

In general, long-term care refers to a broad range of medical and personal services designed to provide ongoing care for people with chronic disabilities who have lost the ability to function independently. The need for this care arises when physical or mental impairments prevent one from performing certain basic activities, such as feeding, bathing, dressing, transferring, and toileting--activities known as ADLs ("activities of daily living"). For more information about these activities, see [Long-term Care Insurance \(LTCI\) Provisions](#). For details about places where you might receive long-term care, see [Types of Long-term Care](#). For information about different kinds of LTCI policies and places where you might purchase them, see [Types of Long-term Care Policies](#).

Long-term care may be divided into three levels:

- Skilled care--continuous "around-the-clock" care designed to treat a medical condition. This care is ordered by a physician and performed by skilled medical personnel, such as registered nurses or professional therapists. A treatment plan is created, and it is usually contemplated that the patient will recover at some point.
- Intermediate care--intermittent nursing and rehabilitative care provided by registered nurses, licensed practical nurses, and nurse's aides under the supervision of a physician.
- Custodial care--care designed to help one perform the activities of daily living (such as bathing, eating, and dressing). It can be provided by someone without professional medical skills, but is supervised by a physician.

## How is it useful as a protection planning tool?

The risk of contracting a chronic debilitating illness (and the resulting catastrophic medical bills incurred) is considered by many to be one type of risk best passed on to an insurance company through the purchase of a LTCI policy.

A number of factors can increase your risk of requiring long-term care in the future. Naturally, your health status affects your likelihood of incurring a long stay in a nursing home. Indeed, people with chronic or degenerative medical conditions (such as rheumatoid arthritis, Alzheimer's disease, or Parkinson's disease) are more likely than the average person to require long-term nursing home care. And because women usually outlive the men in their lives, women stand a greater chance of requiring long-term nursing home care. However, if you already have a primary caregiver (like a spouse or child), your likelihood of needing a long stay in a nursing home will be less, particularly if you're a man. Because the cost of long-term care can be astronomical and may exhaust your life savings, purchasing LTCI should be considered as part of your overall asset protection strategy.

**Example(s):** Sue is a 75-year-old widow with two children, John and Jill. Sue owns her condominium apartment and has \$200,000 in liquid assets. After enjoying independence much of her life, Sue suffered a stroke and now needs help with such things as bathing, dressing, and eating. John and Jill look into home health care and discover that it will cost \$1,500 per week (or \$78,000 per year). The money that Sue had hoped to pass on to her children will instead be spent on expenses that may otherwise have been covered by an LTCI policy.

## How much does it cost?

Although purchasing LTCI seems to be the easy answer to the problem of escalating long-term care costs, the premiums for LTCI can be, depending on benefit levels selected, quite expensive.

Your yearly premium for an LTCI policy depends on a number of considerations, including your age when you purchase the policy, your health, the length of the coverage period (for instance, three years, five years, or lifetime benefits), the amount of the daily benefit provided, and whether you purchase inflation protection. When buying an LTCI policy, you must also consider not only whether you can afford to pay the premiums now but also whether you'll be able to continue paying premiums in the future, when your income may be substantially decreased. For more information about the cost of LTCI and examples regarding how Medicare and Medigap may help defray some of the costs, see [Coordination with Government Benefits](#).

## Who should purchase LTCI?

During the "golden years," when income typically declines, the purchase of LTCI should be carefully considered. People with significant discretionary income and substantial resources to protect for spouses, children, and other loved ones should seriously consider purchasing LTCI. Individuals with modest resources (e.g., less than \$50,000 net worth) may find the premiums unaffordable, and may qualify for Medicaid by spending down their assets and/or engaging in a little Medicaid planning.

## How much coverage is enough?

Insurance protects against an event that might happen in the future. Therefore, buying enough protection is important, but affordability must also be considered. In terms of cost, you need to consider the amount of the daily benefit you want to purchase and also the length of the benefit period.

- Daily benefit--Most policies will let you choose your amount of coverage, typically running anywhere from \$40 to \$150 or more per day. Of course, the greater the daily benefit and the longer the benefit period, the more the policy will cost. Also, note that the cost of nursing home care varies greatly from one metropolitan area to another, so you need to know where you'll be living out the remainder of your years. Certainly, it wouldn't make sense to purchase a policy with a daily benefit of \$40 if the average daily cost of nursing homes in your area is \$250 per day--unless, of course, you have substantial resources and plan to use some of your own income to pay for care. Consumers should generally buy enough coverage to cover 50 to 100 percent of nursing home costs. If you don't plan on using your own income to supplement, you should buy enough insurance to cover 100 percent of the nursing home costs.
- Length of benefit period--When purchasing LTCL, you'll be asked to select a benefit period. Benefit periods generally range from one to six years, with some policies offering a lifetime benefit. You'll want to choose the longest benefit period you can afford. If you can't afford a lifetime benefit, consider choosing a benefit period that coordinates with the look-back period for Medicaid (five years). For more information about ineligibility periods, see Look-Back Period for Medicaid.

**Tip:** The Deficit Reduction Act of 2005 gave all states the option of enacting long-term care partnership programs that combine private LTCL with Medicaid coverage. Partnership programs enable individuals to pay for long-term care and preserve some of their wealth. Although state programs vary, individuals who purchase partnership-approved LTCL policies, then exhaust policy benefits on long-term care services, will generally qualify for Medicaid without having to first spend down all or part of their assets (assuming they meet income and other eligibility requirements). Although partnership programs are currently available in just a few states, it's likely that many more states will offer them in the future.

## What are the tax ramifications?

If you purchase a "qualified" LTCL policy, part (or all) of the premiums you pay pursuant to the contract may be deductible on your federal income tax return. LTCL policies issued after January 1, 1997, must meet certain federal standards to be considered qualified. However, LTCL policies issued prior to January 1, 1997, that met the long-term care insurance requirements of the state in which the contract was issued are automatically considered qualified. For more information, see Taxation and Long-term Care Insurance (LTCL).

# Types of Long-Term Care Insurance (LTCI) Policies

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## Introduction

Long-term care insurance (LTCI) policies offered by insurance companies can be purchased directly from the companies, through an insurance agent, through your employer, or through an association.

If you work for the federal government (including the military), you may be able to obtain coverage under the Federal Long Term Care Insurance Program. Active and retired federal employees, their spouses, and their adult children are eligible to apply for coverage.

**Tip:** The Deficit Reduction Act of 2005 gave all 50 states the option of enacting long-term care partnership programs that combine private LTCI with Medicaid coverage. Partnership programs enable individuals to pay for long-term care and preserve some of their wealth. Although state programs vary, individuals who purchase partnership-approved LTCI policies, then exhaust policy benefits on long-term care services, will generally qualify for Medicaid without having to first spend down all or part of their assets (assuming they meet income and other eligibility requirements). Although partnership programs are currently available in just a few states, it's likely that many more states will offer them in the future.

## Individual policies

Most LTCI policies sold today are sold to individuals. An individual can purchase an LTCI policy through an insurance agent, can take advantage of mail solicitations, or can sign up through direct telemarketing efforts. Individual policies offer a wide range of coverage; in fact, one significant advantage of individual policies is that they afford you the opportunity to compare various companies. Thus, you can purchase the precise coverage you need.

## Group policies

### In general

Basically, group policies can be broken down into three categories: (1) those you purchase through your employer, (2) those you purchase from an association, and (3) those you purchase from an insurance company.

## Employer policies

Your employer may provide you with an opportunity to enroll in a group LTCI plan. You (as the employee) would pay the premiums for this coverage, and the policy will typically offer protection for you without your having to pass a medical examination. Some plans also will let your spouse (and even parents) buy protection, although these other individuals typically must pass the insurance company's medical screening process to qualify. The type of coverage provided by employer-sponsored group plans is similar to that provided in individual policies. If you're considering joining such a plan, however, make sure that the policy contains an option for you to continue coverage if you retire or if your employment is otherwise terminated. Group plans may have certain advantages. For instance, when deciding to go with a plan, the employer's benefits manager presumably will compare a number of different companies and plans and negotiate the best value for the employees. In addition, employees often have the convenience of contacting the employer if they have any questions or complaints regarding the LTCI policy's benefits. In some cases, however, employees must deal directly with the insurance company. Naturally, group policies possess some disadvantages as well, as discussed below.

## Association policies

LTCI is also available on a group basis through various organizations, such as the American Association of Retired Persons (AARP). Often, insurance companies pay these associations fees or commissions from the sale of LTCI to association members. Therefore, the association may have a financial interest in encouraging its members to buy coverage. Be aware that large organizations with many elderly members may be able to negotiate better rates and coverage than would be available to consumers through employer-sponsored or individual policies. In general, policies insured through an association are fairly similar to other types of LTCI policies. Members typically have a choice of benefit periods and deductible or waiting periods. For more information about these and other LTCI provisions, see

Long-Term Care Insurance (LTCI) Provisions. In most states, association policies must allow members to maintain coverage after they leave the organization. This is an advantage over the typical employer-sponsored plan, although conversion or continuation provisions may be required in some states.

## Insurance policies

Groups can also purchase policies directly from insurance companies.

## How do group plans differ from individual policies?

There are some significant differences between group policies and individual policies. In group policies, for example, the sponsoring organization (i.e., the employer or association) and the insurance company usually reserve the right to change benefits and premiums without the consent of the individual policyholder. In fact, sometimes they even reserve the right to cancel the master policy or individual policies without the consent of the individual policyholder. As a result, consumers are somewhat at the mercy of the sponsoring organization, particularly if the sponsoring organization is an employer.

Therefore, you need to review all policy provisions and rights to continue the policy after departure from your employer.

However, the group's large membership often helps it to negotiate lower premiums and perhaps better coverage, so there can be some significant advantages. In fact, it's likely that the cost of a group policy may be 5 to 10 percent less than the cost of an individual policy.

## What is a life insurance LTCI policy?

Sometimes, long-term care (LTC) coverage can also be obtained as a feature of a life insurance policy. Certain life insurance policies contain a rider that allows the cash value or a portion of the death benefit to be used to fund LTC expenses. Typically, a portion of the death benefit is paid on a periodic basis when the insured needs LTC care. Money used under this type of coverage will reduce the amount of death benefit the insured will eventually have. It will also reduce the cash value (if any) of the life insurance policy.

**Example(s):** Jerry buys a life insurance policy with a \$100,000 death benefit, and there is an LTC rider attached. If Jerry enters a nursing home and uses \$60,000 worth of benefits for LTC, the death benefit of his policy will be reduced to \$40,000.

It's worth noting that life insurance policies with LTC riders attached typically provide more comprehensive benefits, and therefore can require higher premiums, than separate life or LTCI policies.

# Evaluating Long-Term Care Insurance (LTCI) Policies Discussion

## What is evaluating, comparing, replacing, and conserving long-term care insurance (LTCI)?

In some ways, comparing long-term care insurance (LTCI) policies from different insurance companies is like comparing apples with oranges. LTCI can be expensive, especially if you decide to purchase a policy particularly late in life. In addition, because LTCI policies are not standardized at present, provisions contained in different policies may vary greatly, and the premiums charged will vary as well. Therefore, it is important for you to evaluate and compare various LTCI policies to ensure that you purchase a policy that best fits your needs, financial and otherwise. To compare the cost of two policies accurately, you'll need to ensure that each policy provides the specific benefits that you require.

While it's important for you to review the provisions of each policy, it's also essential to research the financial stability of the issuing insurance company and to decide whether you want to purchase a traditional policy or one of the new tax-qualified policies. And if you already own an LTCI policy, you might wish to consider switching plans or upgrading coverage. This might be appropriate, for instance, if you're in good health and have an old LTCI policy that was highly restrictive (e.g., it required you to have a prior hospital stay before benefits would kick in). Most of the newer policies are less restrictive and offer the added advantage of inflation protection. In terms of conserving your policy, you'll want to make sure that you pay your premiums in a timely fashion and follow all applicable requirements to ensure that your policy remains in effect.

## How should you evaluate and compare long-term care insurance (LTCI) policies?

Many factors are involved in selecting a suitable LTCI policy. The best policy for you depends on your family arrangement, your financial situation, your preferences regarding long-term care choices, and the level of risk you are willing to accept. There is no one best company or one best policy for everyone. You should select a policy that meets your needs. But before analyzing different policies, you should complete the following steps:

- Obtain sample policies and outlines of coverage from each carrier you are considering. The outline of coverage summarizes the policy's benefits and highlights the important features.
- Review the company's rating and financial strength (discussed later).
- Determine the current cost of long-term care in the area in which you live (or the area in which you intend to move). You can do that by contacting nursing homes, home health care agencies, adult day cares, and state elder affairs offices.

Next, you need to read the actual policies carefully, making sure you understand each provision. After you've made sure that each policy contains the provisions you desire, you'll want to compare prices. Finally, you might wish to consult with an agent, financial planner, or other professional to ensure that you've selected the policy that will best suit your needs.

## Cost of long-term care insurance (LTCI)

Because LTCI premiums are based on age at the time of purchase, the younger you are when you purchase a policy, the less expensive the annual premium will be. The premiums for most policies stay level each year as you age (unless your state's insurance commission approves a rate increase for all persons within a given class). Therefore, if you buy at age 55 a policy that costs \$800 per year, it is likely that you will continue to pay the same premium. However, if you wait until you are 65 to buy a policy, the same policy might cost you \$1,700 per year. For more information about cost, see *Determining the Need for Long-term Care Insurance (LTCI): How Much Is Enough?*

In general, premiums for LTCI begin to accelerate each year around age 65. Rates increase dramatically for those buying coverage in their 70s and 80s. Nevertheless, it probably makes little sense to buy a policy before age 50. This is because you'll probably end up paying premiums for many years unnecessarily, considering that most people don't enter nursing homes in their 50s. Bear in mind that an inexpensive policy is not necessarily the best policy. Furthermore, it's difficult to compare premium costs between two plans, since the cost for care fluctuates between insurers, issue ages, and benefit levels. It's important, therefore, to review the provisions of each policy to make any price differential more meaningful. For instance, it may be that the policy with the higher premium allows you the flexibility to receive care in virtually any setting, whereas the policy with the lower premium limits care to a skilled nursing home.

## Comparing provisions

You'll want to determine that certain necessary provisions are included in the policy while keeping in mind that the more features or benefits the policy has, the more expensive it will be. Questions that should be addressed when evaluating an LTCI policy include the following:

- What long-term care services are covered? Does the policy cover skilled nursing, intermediate care, custodial care, home health care, and adult day care?
- Is the policy renewable regardless of the insured's age or physical or mental condition?
- How do you qualify for benefits?
- When do benefits begin? Is there a waiting or elimination period?
- How long will the policy pay benefits?
- How much does the policy pay? What is the minimum and maximum daily benefit amount that you can purchase?
- Will benefits increase with inflation?
- Is the policy tax qualified?

- Can the policy be upgraded if the insurance company offers an improved policy?
- What conditions are specifically excluded from coverage?
- Does the policy limit benefits because of pre-existing conditions?

## How should you compare companies?

You should check with several companies and insurance agents before you buy an LTCI policy. And it's important to check out the financial strength of the companies you're interested in. You can determine a sound investment by reviewing the company's A. M. Best Company's rating along with the opinions of other rating services, such as Moody's or Standard & Poor's Insurance Rating Services, at your local library.

If you decide to go with an A. M. Best rating, you should select an insurance company that has received a rating of at least A or A+. This means that the investment is excellent or superior and entails very little risk. The following table outlines the various ratings:

COMPANY RATING	A. M. BEST SCORE
Superior (little risk)	A++ or A+
Excellent (slightly more risk)	A, A-
Very Good (strong claims-paying ability)	B++, B+
Fair (less protection against risk)	B, B-
Marginal (relatively high risk factor)	C++, C+
Weak (high risk factor)	C, C-
Poor	D
Under Regulatory Supervision	E
In Liquidation	F
Suspended	S

If you are financially savvy, you can also review the company's financial statements to determine its financial stability. Review the annual report and find out how long the company has been in business. (Note that this type of research might prove to be quite time consuming, however.)

For more information about insurance company ratings, see Finding Insurance Company Rating Information.

## What about replacing or updating your policy?

There might be situations in which canceling an existing policy and buying a new one makes sense. You should carefully compare the increased premiums to the added benefits of the new policy. Insurance companies introduce new products every few years. An older plan might be more restrictive (e.g., it might require a hospital stay before paying benefits for nursing-home care, or it might not cover assisted living).

Ask your agent about the company's record regarding policy upgrades. Many companies automatically notify existing policyholders and offer the new policy at a higher premium because of the enhanced benefits. Some companies automatically upgrade existing policies to new policies. If a policy is upgradable, you'll be able to acquire an improved policy without meeting the health requirements of a new policyholder. In some cases, it may be possible for you to replace your current policy with one of the new tax-qualified policies. Qualified policies allow certain taxpayers to deduct all or part of the premium for their long-term care insurance. However, these tax-qualified policies can be more restrictive. For more information, see Taxation and Long-Term Care Insurance (LTCI).

## What about conserving your policy (LTCI)?

You probably shouldn't buy an LTCI policy unless you intend to keep it for the rest of your life. Unfortunately, it's all too easy for some people to allow a policy to lapse inadvertently or because they can no longer afford the premiums. "Conserving" your policy means ensuring that you pay your premiums in a timely fashion and follow all applicable requirements to keep your policy in effect.

Some companies have begun to add safeguards to make sure that the people who want to stay insured do. If you miss a premium, some companies will send a notice of a missed premium to a third party of your choosing. Some companies may offer the right to reinstate a policy after five months if it lapsed because a policyholder was cognitively or functionally impaired. Some states require these provisions. At a price, you can also purchase nonforfeiture of premiums as an option. This requires the insurance company to refund all or a part of your premiums if you hold the policy for a specified number of years before discontinuing it. For more information, see Options and Riders.

## Disclosures

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice.

State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters.

The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

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