A Buyer’s Guide to Long-Term Care Insurance

What to bok for and what to avoid in a good long-term care insurance policy

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Quick summary

Long-term care insurance can help defray the costs of a nursing facility, home care, or other paid long-term care for your parents -- or for you. Because the older you get, the more expensive the premiums, people usually buy long-term care insurance in their 50s or 60s, which means it may be more relevant to look into it for yourself than for your elder parents. But it may still be affordable and available for your parents if they're in their 70s, depending on their health history.

A policy with poor terms and coverage is a waste of money. So, if your parents are going to buy this insurance, be certain they get a policy from a reputable company, and make sure it has good provisions regarding premium raises, types of coverage, inflation protection, and coverage eligibility and exclusions.

Once you and your parents have narrowed your choice to a few policies, you can use the long-term care insurance buyer's worksheet to compare policy terms and conditions side by side.

Long-term care insurance basics

Here's a quick summary of the basics, pro and con, regarding long-term care insurance:

Best For

- People with liquid assets between $200,000 and $1,500,000
- Those who don't have extended family who are willing and able to provide unpaid long-term care
- People who will have enough retirement income to cover premium payments

Not So Good For

- People with less than $200,000 liquid assets
- People whose retirement income may not be able to keep up with premium payments

Look For

- Controlled premium hikes
- Inflation protection
- Highly-rated insurance company

Watch Out For

- Policy conditions that make it difficult to qualify for benefits
- Coverage exclusions
- Unwritten promises by insurance broker

Tip

Unless your parents are first buying long-term care insurance in their late 70s or early 80s, they're not likely to qualify for the benefits for at least 10 and perhaps 20 or more years. So, in every aspect of choosing a policy, you need to consider what their financial capabilities will be over the course of that time. That is, they shouldn't buy a policy whose premium will become too high for them to pay down the road.

You also need to consider what the cost of care is likely to be later, not now. That means buying a policy with good inflation protection.

How to begin searching for a Long-term care insurance policy

Like any insurance, a long-term care policy is a financial gamble: A buyer bets years of premiums against the likelihood of a long stretch of expensive long-term care. If your parents decide to take the gamble, you need to make sure they get a policy with premiums they'll be able to afford for many years to come -- and one that will pay substantial benefits if and when they need care. Here's what to consider when shopping for a policy.

You have three basic options:

- Insurance agents or brokers
- Large private or government employers (if either of your parents has worked for such an employer -- and, in some cases, if you do)
- Professional, labor, fraternal, or other nonprofit organizations

Insurance brokers or agents tend to be familiar with a limited number of long-term care insurance policies (ones they sell and perhaps some from direct competitors). So, while you may want to consult an insurance agent (who usually represents only one company) or a broker (not restricted to one company) about policies, don't limit your search to only one.

Also, don't rely on what an agent or broker tells you about how the policy works or what it covers. They usually don't know the policies in much detail. Make sure you get an actual copy of any policy your parents are seriously considering. Look it over with your parents, and put in writing any questions you have. Get those questions answered in writing by a representative of the insurance company itself, not just in conversation with the agent or broker.

Large employers may offer long-term care insurance policies. Check with your parents' previous and current employers to see if this is the case. If so, the prices may be a bit better than what you can find on the open market. But remember that the policy itself is from an insurance company, not the employer. So it's equally important to thoroughly check out any employer-sponsored policy. Also, if either of your parents is a veteran, check with the Department of Veterans Affairs about its long-term care insurance program.

Professional, labor, fraternal, or other nonprofit organizations may also offer long-term care insurance policies. If either parent belongs to any such organization, find out if it sponsors group policies. If so, the organization's buying power may result in a better price than your parents could get for a similar policy they purchased as individuals.

Group policies offer slightly lower initial premiums, the result of the group's buying power. But they also harbor potential disadvantages. Over the years, the group will negotiate with the insurance company regarding premiums. The group might favor younger workers over retirees, negotiating lower premiums for new policyholders and steep premium hikes for existing policyholders. Or the group might one day cancel the arrangement altogether, transforming the group policy to an individual one with much higher premiums.

How to check on an insurance company's reliability

Your parents aren't likely to collect on their policy for 10, 20, or 30 years, and if the company that issued the policy goes belly-up in the meantime, your parents will be left holding a very expensive but worthless piece of paper. There's no way to guarantee that an insurance company will still be in business when your parents are ready to collect policy benefits years from now. But you can at least make sure that a company is in good financial shape for the foreseeable future by checking its financial ratings with Moody's Investors Service (http://www.moodys. com) or Standard & Poor's (http://www.standardandpoors.com/home/en/us) insurance rating services.

You also want the policy to come from a company that has a track record of honoring long-term care benefit claims. Check on the company's record of complaints with your state government's department of insurance. You can find contact information for your state's insurance department by going to the home page of your state government and searching on *Department of Insurance* or *Insurance Commission.* If a company has a steady pattern of complaints, you should look for a different company.

Special advantages to Look for in a Long-term care insurance policy

Some broad categories of policies offer certain advantages beyond their coverage and benefits.

Qualified Long Term Care Insurance (QLTCI): One type of long-term care insurance offers the advantage of a double tax break. Premiums paid for these QLTCI policies can, under certain conditions, be deducted from federal income as an itemized medical expense. The deductible amount depends on the insured's age. The other part of the tax break is that benefits paid under a QLTCI policy are not taxed as income. Since a policy might pay upwards of $30,000 per year in benefits, this could be a big savings.

State partnership policies: State partnership long term care insurance policies are available in eight states: California, Connecticut, Florida, Idaho, Indiana, Kansas, Nebraska, and New York. They are connected to Medicaid (https://www.caring.com/questions/medicai d-or-MediCare-long-term-care), which can pay the full cost of a long-term nursing facility or home care. Medicaid allows a beneficiary only very limited income and assets, however. With a state partnership policy, your parents could keep considerably more assets and still qualify for Medicaid coverage of long-term care costs that insurance doesn't pay.

How initial premium amounts are set

In general, a long-term care insurance policy's premium amount depends on several factors, which are determined by the insurance company's own formula. But your parents can control some of these factors by the choices they make. Factors include:

- Age. The older your parents are, the higher the premium.
- Health. Prior or existing health conditions can raise premiums; these conditions are revealed during underwriting, which may include both an examination of your parents' medical records and a physical exam by an insurance company doctor.
- Coverage. The more types of care the policy covers, the higher the premium.
- Benefit amount and duration. The higher or longer the benefit, the higher the premium.
- Inflation protection. Benefits that increase with inflation are a crucial part of a good policy but may add to its cost.
- Waiting period before benefits begin. The shorter the waiting period, the higher the premiums.
- Miscellaneous provisions. Provisions that allow premium reduction or cashing-out of the policy may affect initial premiums.

Shop around. Remember that for virtually the exact same policy, different companies might charge your parents widely different premiums.

Locking in long-term care insurance premiums

Except for "attained age" policies (see below), an individual's premiums won't go up just because he gets older. But while individuals aren't singled out for premium increases, an insurance company can and will raise premiums across the board for everyone who holds a similar policy.

How much premiums go up over time may determine whether the policy will still be affordable for your parents 15 to 30 years from now. That's why it's important to understand how companies set up premium raises and, if possible, to pick a policy with favorable terms.

- Level premiums are the best type of premium increase provision. The insurance company will only increase premiums by the same percentage for everyone holding the same policy. For this type of premium raise, an insurance company needs approval from the state insurance commission. This provides some protection against frequent or dramatic premium increases.

- Attained-age premiums increase every time the insured reaches a certain age benchmark: 70, 75, 80 years, and so on. If an attained-age policy spells out how much the premiums will rise at each attained age, it offers some predictability. You can do the math and figure out whether those amounts seem like they'll still be affordable 1O to 30 years out. Avoid a policy that says premiums will increase at various age benchmarks but fails to spell out by how much.
- Issue-age premiums, which are less common than the other types, use the age at which your parents first buy the policy as the basis for premium increases. Let's say one parent buys a policy at age 65. From then on, your parent pays the same amount as anyone who first buys the same policy at age 65 -- no matter what age your parent reaches. The premium steadily increases as the cost of insurance does, but market forces provide some limit on how much it will go up, since the company will always want its rate to look attractive to new 65-year-old buyers. This is a risky kind of policy term.

Be prepared for premium hikes. During the first two decades, when long-term care insurance was first being offered, policyholders forfeited about half of all policies because they were unable to keep up with rising premiums. So, unless you're certain what a policy says about the circumstances under which its premiums can be raised, your parents shouldn't buy it.

Premium payments once your parents start collecting benefits

A policy term called a "premium waiver" allows your parents to stop paying premiums after collecting benefits for a certain period -- usually 30 to 90 days. A few policies allow an immediate premium waiver. Be aware, though, that some premium waiver provisions apply to collecting nursing facility benefits but *not* to home care. Usually, a more generous premium waiver provision means slightly higher initial premiums.

Types of care coverage available

Some policies routinely include coverage for several types of care. Others charge extra for different types of coverage. Here are the types of care covered, and the situations under which your parents might consider them:

- Nursing homes. As part of standard terms, all policies offer nursing home coverage. This is the most expensive care -- other than 24-hour home care -- and the type that concerns most people. Still, it's possible that your parents might never need nursing home coverage and, if so, could save a lot of money by limiting coverage to other types of care. This could be the case if one of your parents has a younger, healthy spouse who can serve as a primary home caregiver and many nearby family members are willing and able to commit themselves to help care for your parent at home. If so, your parents might choose to buy coverage for home care but not for a nursing home for one of them, and broader coverage for the other.

- Assisted living communities. Assisted living, in which elders maintain their own private living space in a group setting, is for those who need some assistance and monitoring but not at the level of care a nursing home provides. Many policies now include assisted living coverage as standard, but many others charge higher premiums for it.

- Home and community care. Including home care in a policy can make the difference between your parents staying at home -- theirs, yours, or another family member's -- or having to move into a nursing home. As their needs grow, paid home care can allow them to live with family but not place the entire burden of care on family members.

Some policies also include coverage for community care, which usually means adult daycare. This is nonresidential care during "office hours" at a senior center-type facility. It can help allow your parents to live in a family member's home by relieving the family from care duties during the daytime.

- Independent, non-agency home care. Home care from a state-certified agency is covered by any long-term care insurance policy that includes home care. But many people find that independent, non-agency home care aides (https://www.caring.com/articles/hi ring-a-caregiver) provide more flexible, more consistent, and far less expensive home care than aides provided through a home care agency. To take advantage of independent -- even unlicensed -- home care, a policy's home care coverage should *not* be limited to state-certified home care agencies.

How much benefits coverage your parents need

Most long-term care insurance policies pay a set daily benefit amount, usually twice as much for nursing home care as for home care, while benefits for assisted living are usually somewhere in between. What's the right amount for your parent?

There's little point buying a policy if the benefits would only make a small dent in long-term care costs. The minimum should be:

- $100 per day for nursing facility care
- $50 per day for home care

Amounts nearer to $200 per day for nursing home care and $100 per day for home care are more comfortable figures, but this benefit level means higher premiums. Those who can afford the higher premiums choose $300 per day for nursing home care and $150 a day for home care. At that level, benefits would cover $110,00 a year for nursing home costs and $55,000 for home care, which is close to the full cost of care currently available in many areas of the country (and significantly higher than average costs in others).

Inflation protection. Whatever level of benefits your parents wind up buying, make certain that the policy contains inflation protection. Without it, the policy your parents buy today may be next to worthless when they're ready to collect on it.

The benefits of inflation protection

Inflation protection is a highly recommended feature. Why? Let's say that at age 65, your parents buy a long-term care insurance policy with a flat benefit of $200 per day for nursing facility care and $100 per day for home care (and we'll assume that these numbers reflect the cost of care in the area where they live). The problem is that the cost of care won't be anywhere near those amounts 15 or 20 years later, when your parents are likely to collect on the policy. Every year, the cost of healthcare goes up faster than the general cost of living. So, while a $200 daily benefit might cover nearly the full cost of a nursing facility now, in 20 years it might pay only 1O percent.

That's where inflation protection comes in. This important provision increases the amount of your parents' benefit over the years they keep the policy. In fact, many policies now include inflation protection as a standard policy term. With other policies, you have to pay a higher premium for it. Either way, make sure the policy includes it.

Most policies place a time limit on inflation protection, usually 10 to 25 years from the date the policy was first purchased. Other policies stop the benefit increases when your parents reach a certain age, usually 80 or 85. Look for the longest period of inflation protection, especially if your parents are relatively young when first buying a policy.

Best types of inflation protection

Inflation protection comes in several forms:

- Compounding automatic increase. This is the *best kind* of inflation protection. It automatically increases benefits each year, by a percentage set in the policy. Also, it has a compounding effect, using each year's increased benefit amount as the base for calculating the next year's increase.
- Simple automatic increase. This type of inflation protection automatically increases the benefit amount each year by a set percentage but it uses the policy's original benefit amount to calculate this increase. Over the life of the policy, this increases benefits far less than a compounding increase would.
- Added coverage purchase. This is a very poor cousin to automatic increases. It allows you to increase the benefits every few years -- by paying more. Unless there's a guarantee about what this added coverage would cost, it might not be affordable. This is a gamble to avoid, if possible.

How long a benefit period your parents should buy

Once you've decided how much in daily benefits your parents will need and can afford, the question becomes how long the benefit period should last: One year? Three years? Five? The longer the period of coverage, of course, the higher the premium.

Limiting benefits to a year probably isn't worth the cost of the policy. Buying coverage for more than six years of nursing home care is generally unnecessary and usually unaffordable. Three to five years of nursing home care is what most people choose and, statistically, what's most appropriate. Whether you choose three, four, or five years depends on what you think is affordable now and in the future.

Flexible payout versus payout only for specific types of care

Because you can't be sure whether your parents will need care at home or in a nursing home -- or some combination of the two -- it's best to find a policy with a flexible payout. This combines the policy's maximum total benefits for home and nursing facility care into a single coverage pool of money. Your parents can then use this benefits pool in whatever combination of home care and nursing home care is needed.

Buying a joint Long-term care insurance policy for both parents

Most long-term care insurance companies offer "share-care" policies for couples. With these policies, the total amount of coverage is pooled between the two. If one parent dies without having used up all his policy benefits, the survivor gets those unused benefits added to the remaining policy.

This type of shared policy makes a lot of sense because women tend to live longer than men, and so they usually need longer periods of paid care. Share-care policies cost more than two individual policies, but they're a particularly good idea if either of your parents living alone would likely depend mostly on paid care, or if one of your parents is quite a bit younger than the other.

Hidden coverage exclusions you should know about that might prevent benefits from being paid

During the first decades in which these policies were sold, many long-term care insurance policy holders never saw a dime in benefits. A major reason was that many policies had coverage exclusions -- buried in the policy's text, obscured by insurance lingo -- that blocked people from getting their benefits. Policies have fewer of these exclusions now. But they still exist, so it's important to keep an eye out for the following:

Prior hospital or skilled nursing facility stay requirement. This can be a disastrous policy provision. Many early long-term care insurance policies would not pay benefits unless the long-term care followed -- usually within 7 to 30 days -- a stay of at least three days in a hospital or a skilled nursing facility. But many people need long-term care because of increasing frailty, chronic illness, dementia, or Alzheimer's, which do not necessarily lead first to hospitalization or skilled nursing facility care. With a prior hospitalization requirement, these people would be completely out of luck. Most states have outlawed these exclusions, but they're still legal in about a quarter of states, so *keep a sharp eye out for such a policy provision and avoid it at all costs.*

Permanent exclusion for certain conditions. Most long-term care insurance policies permanently exclude coverage -- meaning no benefits will ever be paid -- for care that's necessitated by certain conditions, the most common being drug or alcohol abuse and HIV-related illness. But some policies also permanently exclude coverage for mental illness, Alzheimer's, certain forms of heart disease, and certain forms of cancer or diabetes. *Be very careful not to buy a policy that excludes coverage that results from any of these common conditions.*

Preexisting conditions. Many long-term care insurance policies have an exclusion period for care related to an illness or condition that a parent had before buying the policy. This means that for a certain period after long-term care has begun, the policy pays no benefits for that condition. *A relatively short exclusion period -- one to three months -- is acceptable, but avoid any exclusion period of more than six months.*

Elimination or waiting period. Elimination or waiting periods refer to a timeframe -- from ten days up to a year -- immediately after your parents qualify for benefits during which the policy doesn't pay anything. The longer the waiting period, the lower the premiums -- for example, a waiting period of six months could reduce your parents' premiums by a third. *The younger your parents are when buying a policy, the more sense it makes to trade a longer elimination period for a reduction in premiums.*

When benefits payments will kick in

To begin collecting benefits, an insured individual has to meet certain conditions, called the benefit trigger. The conditions usually have to be certified by a doctor. A good policy allows this certification to be made by your affected parent's doctor, though the insurance company may have its own doctor check this determination. There are two different ways a policy might define the benefit trigger:

Activities of daily living (ADLs). Most policies use ADLs to determine when someone qualifies for benefits. Each policy includes its own list of five to seven ADLs, and your parents must need assistance with a certain number of them to trigger benefits:

- Bathing
- Eating
- Dressing
- Using the toilet ("toileting")
- Walking
- Getting in/out of bed/chair ("transferring")
- Taking medications
- Remaining continent

Some policies require that a parent need help with two ADLs; others require three. Some have different qualifying numbers for home care than for nursing facility care.

In choosing a policy that uses ADLs as its benefit trigger, make sure of a few key points:

- Bathing and dressing must be included in a policy's list of ADLs -- these are almost always the first tasks that someone needs help with.
- Be sure that benefits are paid if a cognitive impairment (such as Alzheimer's or dementia) prevents the covered parent from performing the required number of ADLs, even if he is physically able to perform them.
- Be sure that the policy doesn't consider your parent able to perform an AOL just because *sometimes* he can manage it.

Medically necessary due to illness or injury. A few policies require a doctor to certify that the affected parent's need for care is due to an illness or injury, and that care is "medically necessary" -- meaning it's needed to prevent the illness or injury from worsening. This trigger excludes frailty or weakness and can be a very difficult standard to meet. *Avoid any policy with this benefit trigger.*

If premium payments become unaffordable

Some policies have extra provisions that provide some refund protection if, years down the road, your parents can't keep paying the higher policy premiums. A good refund provision can make one policy more attractive than a similar alternative. There are several types of refund provisions:

"Step-down" provision. This allows your parents to lower their premiums in exchange for a lower benefit amount or a shorter benefit period.

Non-forfeiture provision. The term *no forfeiture* is a bit misleading. It doesn't prevent forfeiture of the policy's benefits, but it does provide a small refund if your parents drop their coverage before collecting benefits. If your parents have paid premiums for a minimum number of years (usually 15 or 20) and then can no longer afford the premiums, this provision will refund a small percentage of the total payments.

Reduced paid-up provision. This allows your parents to drop the policy -- that is, stop paying premiums -- after a set amount of time (20 or 25 years) but still collect a reduced benefit amount if and when they qualify for benefits.

Death refund. This provides a small refund to your parents' estate if they die before a certain age (usually 65, 70, or 75).

Survivorship provision. If both your parents buy a single long-term care insurance policy, this provision allows your surviving parent to stop paying premiums a certain number of years after your other parent's death, with the policy remaining in force.