

Long-Term Care Insurance

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Costs of Long-Term Care Add Up

- \$82,125 per year for a semi-private room in a nursing home
- \$92,345 per year for a private room in a nursing home
- \$43,435 per year for care in an assisted living facility (for a one-bedroom unit)
- \$29,930 – \$179,580 per year for a home health aide (depending on how much time the aide spends in your home)
- \$14,600 – \$36,500 per year for homemaker services (depending on how much time the aide spends in your home)
- \$24,820 per year for services in an adult day health care center

Basic Functions of Insurance

- Risk transfer
 - Two types of parties: (1) Risk-averse and (2) Risk-neutral
 - When encountering risks, individuals choose to either retain or transfer the risk
- Risk pooling
 - When risk-averse parties pool their risk together, a large number of similar risks is created, which creates a data set for insurers.
- Risk allocation
 - Insurers use the data set to understand what their payouts will be, allowing them to offset costs through allocating risks for policyholders (e.g., premiums).

General Overview of Long-Term Care Insurance

- Long-term care insurance covers care not covered by health insurance, Medicare, or Medicaid.
 - Note: Medicaid does cover long-term care, but only for those who fall under certain financial and medical eligibility requirements.
- Policies can cover a wide-variety of the services, so sales agents must provide an outline of what the policy covers prior to selling a policy.
- Premiums vary with the age and health of the applicant.
- Consumers are entitled to a “free look” for 30 days, and a right to return the policy within that time.
- Most policy premiums are tax-deductible.

Typical Insurance Policy Clauses Associated with Long-Term Care

- **Benefit triggers**
 - **Tax-deductible policies:** To trigger the benefits under your policy, the federal law requires you to be unable to do two activities of daily living (ADLs) without substantial assistance.
 - ADLs: bathing, eating, dressing, toileting, continence, and transferring from bed to chair.
 - Tax-deductible policies cannot use “medical necessity” as a benefit trigger, but non-tax-deductible policies may, along with other benefit triggers.
- **Maximum benefit limit**
 - Most policies limit the total benefit they’ll pay over the life of the policy. Policies often use words like “total lifetime benefit,” “maximum lifetime benefit,” or “total plan benefit” to describe their maximum benefit limit.
 - When you look at a policy or certificate, be sure to check the total amount of coverage.
 - Policies normally pay benefits by the day, week, or month.
- **Inflation protection**
 - Increases premiums 25%-40%. Two ways to purchase: (1) automatic annual inflation protection and (2) special offer inflation protection (such as every 2-3 years).
 - Cost of nursing home care increases by about 7% annually, so this might factor into your decision whether to add such coverage to your policy.
 - Most states require insurers to offer inflation protection. If you decline inflation protection for your policy, insurers might require you to sign a document acknowledging that you declined the coverage.

Factors to Consider When Purchasing Long-Term Care Insurance

- Your age and health
- Your income and ability to pay insurance premiums
- Your support system
 - If family and friends are able to provide the care that you may one day need, it is less likely that you need long-term care insurance.
- Savings & Investments
 - Financial planners can be really helpful in looking into how you might pay for future long-term care expenses and whether long-term care insurance is something that would be beneficial, given your financial situation.
- Taxes
 - Many plans have tax deduction benefits.

Sources of Long-Term Care Insurance

- Private marketplace of providers of individual plans
 - Many private insurers, like Mutual of Omaha and New York Life, offer individual policies.
- Employer-sponsored plans
 - Some employers offer this benefit and you can enroll in it. If you leave the employer, there are laws that allow you to take the policy with you after you leave.
- Group/organization offered plans
 - Groups and organizations can also offer this benefit and it would be important to know your rights and options in regards to that policy if you decided to leave the organization.
- State partnership programs
 - If you purchase a long-term care insurance policy that qualifies for the Tennessee State Partnership Program you can keep a specified amount of assets and still qualify for Medicaid.

Recap

- Costs can get expensive for long term care and insurance is an option to consider for those who are concerned about costs.
- Insurance helps spread the risk around and lower your costs.
- Policies vary depending on your needs, but there are many factors that you may want to take into account.
- There are many options on where to get these policies. It is important to consider what options fits your situation best.
- For more information, a helpful resource to review is “*A Shopper’s Guide to Long-Term Care Insurance*” published by the National Association of Insurance Commissioners.