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LONG-TERM CARE INSURANCE

Quick Guide

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Table of Contents

An Overview of Long-Term Care Insurance

Long-term care insurance helps cover the cost of a nursing home or (with some policies) services provided at home. Long-term care is gaining in popularity. We'll help you decide whether you should purchase a policy and how to shop for one, but it is important to first understand what we mean by long-term care (LTC).

Long-term care typically begins when you need help with one or more activities of daily living, usually as a result of an illness or disability (for example, a stroke or Alzheimer's disease). Activities of daily living (ADLs) are defined for LTC purposes as dressing, eating, bathing, walking, transferring between a bed and a chair, toileting, and maintaining continence. Along with assistance in ADL, you may require acute medical care, otherwise known as skilled nursing care, or intermediate nursing care, which requires some skilled nursing care combined with personal care.

But it is the long-term personal care, more commonly referred to as custodial care, that can be quite costly. While studies have shown that a majority of people will either never enter a nursing a home or will spend less than three months in one, many elderly people will need some daily assistance at home to care for themselves. This care may be provided by a home health aide or may require a skilled nurse, or a physical, occupational, or speech therapist.

For those who do enter a nursing home, the average length of stay is about two years. Contrary to popular belief, nursing home costs are not eligible for Medicare coverage unless certain qualifications are met.

Tax-qualified LTC insurance premiums (LTC premiums) are considered a medical expense. For an individual who itemizes tax deductions, medical expenses are deductible to the extent that they exceed 10% (7.5% for age 65 or older) of the individual's Adjusted Gross Income (AGI). The amount of the LTC premium treated as a medical expense is limited to the eligible LTC premiums, and is based on the age of the insured individual. That portion of the LTC premium that exceeds the eligible LTC premium is not included as a medical expense.

Individual taxpayers can treat premiums paid for tax-qualified LTC insurance for themselves, their spouse, or any tax dependents (such as parents), as a personal medical expense.

The yearly maximum deductible amount for each individual depends on the insured's attained age at the close of the taxable year; for example, if the taxpayer is age 50 in 2016 the maximum deduction is $730 ($710 in 2015) before application of the 10% AGI limitation. If the taxpayer is over age 70 in 2016, the maximum deduction is $4,870 ($4,750 in 2015) and before application of the 7.5% AGI limitation. These deductible maximums are indexed and increase each year for inflation.

Should You Buy a Long-Term Care Policy?

A good long-term care policy helps you pay the cost of nursing home care, adult day care, assisted living arrangements, and home-based care. So, should you buy a long-term care policy? Here are some general factors to consider:

Are You Single or Are You Married?

Generally, married people are in greater need of an LTC policy since the cost of nursing home care can exhaust your savings and make it difficult for the spouse to maintain his or her standard of living. While most states will allow the non-institutionalized spouse to keep a home, a car, and some assets while the institutionalized spouse collects Medicaid, the drain may drastically change your lifestyle. If you're also concerned that your children will get your assets, you'll want to make sure you have adequate insurance (and good estate planning) to cover possible nursing home care costs.

On the other hand, if you're single, and you don't have to worry about children or other heirs or charitable organizations getting your money, you're probably better off without the insurance and paying the bills out of your savings.

How Old Are You?

A good time to buy an LTC policy is in your early 60s (60–65). If you're in your 50s, the cost of the insurance will be lower, but you'll most likely be paying it for a longer time. If you decide to wait until you're in your 70s, the policy can be quite costly and you also run the risk of not being insurable.

How Is Your Financial Situation?

If you have very little savings or income in retirement, there's no need to purchase an LTC policy. You'll end up spending more than you could afford, and Medicaid will most likely pay your nursing home bills. If you have cash and investments, other than your house, and these assets exceed the maximum resource amount per person allowed by Medicaid, an LTC policy is worth considering.

What is your family history related to diseases such as Alzheimer's, arthritis, stroke, etc.? If these or other debilitating diseases run in your family, you should strongly consider purchasing LTC insurance.

Some Guidelines

Review the following table to help you make your decisions:*

If You Are Over Age 50, and ...	Should You Consider Long-Term Care Insurance?*
You expect to have no assets other than a home, car, clothing, and a burial plot.	**No**—You will probably qualify for Medicaid.
You cannot afford the premiums.	**No**—If you fall behind on the premium payments, you will lose coverage. Devote the premium amounts to retirement savings.
You have a life-threatening illness, and strongly feel that you will not live past age 70.	**No**—If it is not likely that you will live past age 70, the odds of having a long stay in a nursing home are small. Check to make sure that you have adequate medical insurance.
Your family has a history of diabetes, Alzheimer's disease, arthritis, stroke, etc.**	**Strongly Consider**—These illnesses can result in long nursing home stays and tend to run in families. To help prevent you from using your own assets, LTC insurance can be a good investment.
You have over the Medicaid maximum resource amount in assets, other than a house but you don't have enough to self-insure.	**Yes**—You have significant assets and are unlikely to qualify for Medicaid.
You want your house to go to family or friends and not to be used for unpaid LTC expenses after you (and your spouse) die.	**Yes**—Although the house is protected from Medicaid, many states can seize the property after you and your spouse die.
You strongly object to being on Medicaid.	**Strongly Consider**—You will need to either self-insure or have insurance to assist you.
You want choices when selecting a nursing home.	**Yes**—Some nursing homes do not accept Medicaid patients in their facilities. If you can pay with insurance, you will have more options.
You do not expect relatives or friends to be available to help take care of you.	**Yes**—Without having a network of family or friends to assist you, the chances of needing home-based or nursing home custodial care increase.
You are over the age of 79.	**Maybe**—It may not be available or may be too expensive.

**These guidelines are general. The appropriateness of purchasing LTC insurance depends on the specific facts and circumstances of each individual.*
***If you have an existing health problem that is likely to result in the need for long-term care, you will probably not be able to buy a policy due to medical underwriting standards.*

Shopping for a Long-Term Care Policy

Today's long-term care policies can be quite comprehensive. If you bought a policy more than five years ago, it is important to know if it has been (or can be) updated; it may even be worth doing some comparison-shopping. While the premiums for a new policy may be more expensive, you don't want to hold on to a policy that is so restrictive that it may never pay off.

Here are some things you need to consider:

Level of Care. The policy should cover skilled, intermediate, and custodial care in a nursing home as well as home-based care. This will provide you with the broadest level of coverage. The policy should also cover assisted living facilities and respite care.

Daily Benefit. Most policies pay you a daily benefit for nursing home care. The higher the daily benefit, the higher the premium. Benefits for home-based care can be equal to or less than the nursing home benefit. To help you determine the daily amount, consider the cost of nursing home care in the area where you plan to reside.

Benefit Period. Benefit periods can be measured in years or total dollars, e.g., nursing home care at $125 a day for three years, or $136,875. Benefit periods typically range from two to five years; some policies offer a lifetime benefit. Unless there is a family medical history of a long-term debilitating disease, the additional cost to receive a lifetime benefit is usually unnecessary. The benefit periods may be selected separately for nursing home and home-based care. Consider policies that allow you to dip into either benefit if you run out of money in one.

Waiting Period. This is the number of days you have to receive care in a nursing home or at home before the policy pays benefits. Typical waiting periods (sometimes referred to as an elimination period) range from 20 to 100 days. The longer the waiting period, the lower the premium. Waiting periods may be shorter for home-care benefits. In most cases, we do not recommend a waiting period longer than 100 days (the maximum Medicare payment period for skilled care if you qualify).

Eligibility. Consider policies that do not require prior hospitalization or skilled care prior to paying benefits. Some older policies may have required this. Better policies will typically require doctor certification of a physical or cognitive impairment (including Alzheimer's), or that you require help with two out of six ADLs. Make sure that the bathing ADL is included in the policy since bathing is usually the first ADL a person is unable to perform.

Waiver of Premium. You don't want to be paying premiums while you're receiving benefits. Some policies limit waiver of premium only to nursing home care.

Inflation Riders. There's no doubt the cost of care will increase. Most good policies will offer you a choice of inflation riders, typically simple or compounded. Compounded riders will substantially increase the daily benefit over time. But if money is tight, keep it simple. Simple yearly inflation increases may be built into the policy, while compounded inflation may add substantially to your premium.

Non forfeiture of Benefits. If you stop paying premiums in 10 or 20 years, will you lose all your benefits? Some companies offer you a reduced paid-up policy that will provide partial benefits; other companies will offer you a return of premium benefit. The latter typically comes in the form of a rider and can add substantially to your premium. If you have no reason to believe you will be unable to pay premiums in the future, consider putting those extra premium dollars into a good long-term investment.

Consider these two key points:

1. Make sure you buy from a highly rated life insurance company that does a sizable business in this market. The company should receive an A or better rating from one of the major rating services, such as AM Best, Moody's, or Standard & Poor's.
2. Make sure the policy is guaranteed renewable, which means the company cannot cancel your policy as long as you pay the premium. However, your premium can be increased as long as premiums are increased for your age group as a whole. ♦