

# Long term care insurance considerations



Michael W. Reagor, Esq.

Dymond ● Reagor, PLLC

The Edward Building

Suite 1040

Greenwood Village, CO 80111

[mreagor@drc-law.com](mailto:mreagor@drc-law.com)

Drc-law.com

# Understanding Long Term Care Insurance

## *Medicaid*

**Medicaid** is the government-funded program that pays for nursing home care only for individuals who are low income and have spent most of their assets. Medicaid pays for nearly a third of all nursing home care in the U.S., but many people who need long-term care never qualify for Medicaid assistance.<sup>7</sup> Medicaid also pays for some home- and **community-based services**. To get Medicaid help, you must meet federal and state guidelines for income and assets. Many people start paying for nursing home care out of their own money and “**spend down**” their income and assets until they are eligible for Medicaid. Medicaid then may pay part or all of their nursing home costs. You may have to use up most of your assets paying for your long-term care before Medicaid is able to help. You may be able to keep some assets and income for a spouse who stays at home. Also, you may be able to keep some of your assets if your long-term care insurance is approved by a state as a long-term care insurance **partnership policy** (see section on “Long-Term Care Insurance Partnership Policies” on page 12.)

## Is Long-Term Care Insurance Right For You?

You should NOT buy long-term care insurance if:

- You can't afford the premiums.
- You don't have many assets.
- Your only source of income is a Social Security benefit or Supplemental Security Income (SSI).
- You often have trouble paying for utilities, food, medicine, or other important needs.
- You're on Medicaid.

You SHOULD consider buying long-term care insurance if:

- You have many assets and/or a good income.
- You don't want to use most or all of your assets and income to pay for long-term care.
- You can pay the insurance premiums, including possible premium increases, without a problem.
- You don't want to depend on support from others.
- You want to be able to choose where you receive care.

# Types of LTCI policies

Individual

Employer policies (HIPAA tax benefit)

Federal (e.g., Postal Service) and State

Association policies

Continuing Care Retirement Communities (CCRS):  
many offer or require purchase of LTCI

Life insurance or Annuity policies: some have built  
in LTCI benefit (home health care, accelerated death  
benefit)

# Tax qualified policies

<u>Attained Age Before the Close of the Taxable Year</u>	<u>Limitation on Premiums</u>
40 or less	\$420
More than 40 but not more than 50	\$790
More than 50 but not more than 60	\$1,580
More than 60 but not more than 70	\$4,220
More than 70	\$5,270

## Tax-Qualified and Non-Tax-Qualified Policies

Federally Tax-Qualified Policies	Federally Non-Tax-Qualified Policies
1. You can include premiums with other uncompensated medical expenses as income tax deductions if the total is greater than 7.5% of your adjusted gross income (10% in 2013). There's a cap on how much you can claim for long-term care insurance premiums.	1. You may or may not be able to deduct any part of your annual premiums. Congress and the U.S. Department of the Treasury haven't clarified this area of the law.
2. <b>Benefits</b> you receive and use to pay for long-term care services generally aren't counted as income. Benefits you receive from policies that use the <b>expense-incurred method</b> may be taxable if the benefits are greater than the costs of long-term care services. All <b>benefit</b> payments up to the federally approved per diem (daily) rate are tax-free from policies that use the <b>indemnity or disability methods</b> , even if the benefits are greater than your expenses.	2. The <b>benefits</b> you receive may or may not count as income. Congress and the U.S. Department of the Treasury haven't clarified this area of the law.
3. To trigger the <b>benefits</b> under your policy, the federal law requires you to be unable to do two ADLs without <b>substantial assistance</b> .	3. Policies can offer a different combination of <b>benefit triggers</b> . Benefit triggers are not restricted to two ADLs.
4. Policies cannot use "medical necessity" as a <b>benefit trigger</b> .	4. The <b>benefit triggers</b> can be "medical necessity" and/or other measures of disability.
5. Policies can require that a person be <b>chronically ill</b> or have disability lasting at least 90 days.	5. Policies don't have to require the disability to last at least 90 days.
6. Policies that cover <b>cognitive impairment</b> must require " <b>substantial supervision</b> " as a <b>benefit trigger</b> .	6. Policies don't have to require " <b>substantial supervision</b> " to trigger benefits for <b>cognitive impairments</b> .

*Whether you buy a tax-qualified or a non-tax-qualified policy, consult with your tax consultant or legal advisor about the tax consequences for you.*

# How do LTCI policies work?

How benefits are paid (3 methods):

Expense-incurred method: pays benefits when you receive eligible services

Indemnity method: set dollar amount (if eligible and if policy covers the services)

Disability method: must meet benefit eligibility requirement

**Policies may cover the following:**

- **Nursing home care**
- **Home health care**
- **Respite care**
- **Hospice care**
- **Personal care in your home**
- **Services in assisted living facilities**
- **Services in adult day care centers**
- **Services in other community facilities**



But, policies may only cover services in specific facilities

# Some services are often not covered (exclusions and limitations)

## What Services Aren't Covered (Exclusions and Limitations)

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Most long-term care insurance policies usually don't pay **benefits** for:

- A mental or nervous disorder or disease, other than **Alzheimer's disease** or other **dementia**.
- Alcohol or drug addiction.
- Illness or injury caused by an act of war.
- Treatment in a government facility or that the government has already paid for.
- Attempted suicide or intentionally self-inflicted injuries.

**NOTE:** Many policies do not cover or limit their coverage for care outside the United States.

# Coverage amounts

Maximum benefit limit

Daily/weekly/monthly benefit limit

# When will I be eligible?

## Benefit triggers:

Unable to do activities of daily living

Cognitive impairment (Alzheimer's or dementia)

Doctor certification of medical necessity

# When do benefits start (elimination period)?

20-100 days for most policies

Periods for home health care and nursing home may be different

Calculate cost of period: nursing home cost x days in elimination period

Are recurring admissions included? (repeat nursing home stays)

Automatic inflation increases in some policies  
(compound vs. simple interest provisions):

### Compound Interest

Rate of Inflation	2015	2020	2025	2030	2035
5%	\$200	\$255	\$326	\$416	\$531
6%	\$200	\$268	\$358	\$479	\$641
7%	\$200	\$281	\$393	\$552	\$774
8%	\$200	\$294	\$432	\$634	\$932

# Other benefits

Can name a third party to receive notice if premiums not paid

Waiver of premium benefit

Premium refund at death

Downgrades (lower coverage if premiums too high)

# Pre-existing conditions

Sometimes excluded under LTCI policies

Most states require LTCI policies to have  
“guaranteed renewal”



# Policy cost

Increases premiums:

Inflation protection (add 25-40% on premium)

Nonforfeiture provisions (add 10-100% on premium)

**Average Annual Premium for Basic Long-Term Insurance  
\$200 Daily Benefit**

<b>Age When Buy</b>	<b>With Inflation Protection 5% Compounded Per Year</b>		
	<i>4 Years of Benefits</i>	<i>6 Years of Benefits</i>	<i>Lifetime Benefits</i>
50	\$4,349	\$5,083	\$7,347
60	\$5,331	\$6,269	\$8,927
70	\$9,206	\$10,549	\$15,070
75	\$13,500	\$15,157	\$20,930
	<b>With No Inflation Protection—Benefit Stays at \$200 per Day</b>		
	<i>4 Years of Benefits</i>	<i>6 Years of Benefits</i>	<i>Lifetime Benefits</i>
50	\$1,294	\$1,514	\$1,997
60	\$2,057	\$2,426	\$3,307
70	\$4,914	\$5,834	\$7,777
75	\$8,146	\$8,291	\$12,337

# Paying for premiums

Continuous payment option (monthly, quarterly or annually)

Limited payment option

Single pay:

Lump sum payment

10 pay and 20 pay: 10 or 20 years

Pay to 65

# Recommendations

Ask questions

Check with several companies and agents

Check out companies' premium increase histories

Take time and compare policies and coverage

Understand the options/policies

# Recommendations

Don't be misled by advertising

Correctly complete applications

Never pay in cash

Get contact info for agent and company

# Recommendations

If you don't receive policy in 60 days, contact company or agent

Examine policy upon receipt

Understand coverage rules in the policy, before trigger

Consider auto premium payments

Check insurer financial stability

Contact us at [mail@drc-law.com](mailto:mail@drc-law.com) if you have questions, or want to discuss your long term care insurance options or planning.



Michael W. Reagor, Esq.  
Dymond ● Reagor, PLLC  
The Edward Building  
Suite 1040  
Greenwood Village, CO 80111  
[mreagor@drc-law.com](mailto:mreagor@drc-law.com)  
Drc-law.com