Long Term Care Insurance (LTC)

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The examples and perspective in this article **may not represent a worldwide view of the subject**..

Long-term care insurance (**LTC** or **LTCI**), an insurance product sold in the United States and United Kingdom, helps provide for the cost of long-term care beyond a predetermined period. Long-term care insurance covers care generally not covered by health insurance, Medicare, or Medicaid.

Individuals who require long-term care are generally not sick in the traditional sense, but instead, are unable to perform the basic activities of daily living (ADLs) such as dressing, bathing, eating, toileting, continence, transferring (getting in and out of a bed or chair), and walking.

Age is not a determining factor in needing long-term care. About 60 percent of individuals over age 65 will require at least some type of long-term care services during their lifetime.[1] About 40% of those receiving long-term care today are between 18 and 64. Once a change of health occurs long-term care insurance may not be available. Early onset (before age 65) Alzheimer's and Parkinson's disease are rare but do occur.

Contents

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Benefits

Long-term care insurance generally covers home care, assisted living, adult daycare, respite care, hospice care, nursing home and Alzheimer's facilities. If home care coverage is purchased, long-term care insurance can pay for home care, often from the first day it is needed. It will pay for a visiting or live-in caregiver, companion, housekeeper, therapist or private duty nurse up to 7 days a week, 24 hours a day (up to the policy benefit maximum).

Other benefits of long-term care insurance:

- Many individuals may feel uncomfortable relying on their children or family members for support, and find that long-term care insurance could help cover out-of-pocket expenses. Without long-term care insurance, the cost of providing these services may quickly deplete the savings of the individual and/or their family.
- Premiums paid on a long-term care insurance product may be eligible for an income tax deduction. The amount of the deduction depends on the age of the covered person.[2] Benefits paid from a long-term care contract are generally excluded from income.
- Business deductions of premiums are determined by the type of business. Generally corporations paying premiums for an employee are 100% deductible if not included in employee's taxable income.[3]

In the United States, Medicaid provides some of the benefits of long term care insurance. A welfare program, Medicaid does provide medically necessary services for people with limited resources who "need nursing home care but can stay at home with special community care services."[4] However, Medicaid generally does not cover long-term care provided in a home setting or for assisted living. People who need long-term care often prefer care in the home or in a private room in an assisted living facility.

Types of policies

Private long-term care (LTC) insurance is growing in popularity in the United States. Although premiums have remained relatively stable in recent years, coverage costs can be expensive, especially when consumers wait until retirement age to purchase LTC coverage.[5]

As they relate to U.S. income tax, two types of long term care policies offered are

- Tax qualified (TQ) policies are the most common policies offered. A TQ policy requires that a person 1) be expected to require care for at least 90 days, and be unable to perform 2 or more activities of daily living (eating, dressing, bathing, transferring, toileting, continence) without substantial assistance (hands on or standby); or 2) for at least 90 days, need substantial assistance due to a severe cognitive impairment. In either case a doctor must provide a plan of care. Benefits from a TQ policy are non-taxable.

- Non-tax qualified (NTQ) was formerly called traditional long term care insurance. It often includes a "trigger" called a "medical necessity" trigger. This means that the patient's own doctor, or that doctor in conjunction with someone from the insurance company, can state that the patient needs care for any medical reason and the policy will pay. NTQ policies include walking as an activity of daily living and usually only require the inability to perform 1 or more activity of daily living. The Treasury Department has not clarified the status of benefits received under a non-qualified long-term care insurance plan. Therefore, the taxability of these benefits is open to further interpretation. This means that it is possible that individuals who receive benefits under a non-qualified long-term care insurance policy risk facing a large tax bill for these benefits.

Fewer non-tax qualified policies are available for sale.[6] One reason is because consumers want to be eligible for the tax deductions available when buying a tax-qualified policy. The tax issues can be more complex than the issue of deductions alone, and it is advisable to seek good counsel on all the pros and cons of a tax-qualified policy versus a non-tax-qualified policy, since the benefit triggers on a good non-tax-qualified policy are better.[6] By law, tax-qualified policies carry restrictions on when the policy holder can receive benefits. One survey found that sixty-five percent of purchasers did not know whether or not the policy they bought was tax qualified.[5]

Once a person purchases a policy, the language cannot be changed by the insurance company, and the policy usually is guaranteed renewable for life. It can never be canceled by the insurance company for health reasons, but can be canceled for non-payment.

Most benefits are paid on a reimbursement basis and a few companies offer per-diem benefits at a higher rate. Most policies cover care only in the continental United States. Policies that cover care in select foreign countries usually only cover nursing care and do so at a rated benefit.

Group policies may have provisions for non-restricted or open enrollment periods and underwriting may be required. Group plans may or may not be guaranteed renewable or tax qualified. Some group plans include language allowing the insurance company to replace the policy with a similar policy and to change the premiums at that time. Some group plans can be canceled by the insurance company. To compensate for the higher insurance risk group plans may have higher deductibles and lower benefits than individual plans.[*citation needed*] Some group plans have a 3 ADL (activities of daily living) requirement for nursing care.

The Consolidated Omnibus Budget Reconciliation Act (COBRA) provides certain former employees, retirees, spouses, former spouses, and dependent children the right to temporary continuation of health coverage at group rates. [7]

Retirement systems such as CalPERS may offer long-term care insurance similar to a group plan. These organizations are not regulated by the state insurance departments. They can increase rates and make changes to policies without state scrutiny and approval.

Long-term care insurance rates are determined by six main factors: the person's age, the daily (or monthly) benefit, how long the benefits pay, the elimination period, inflation protection, and the health rating (preferred, standard, sub-standard). Most companies will give couple's and multi-life discounts on individual policies. Some companies define “couples” not only to spouses, but also to two people who meet criteria for living together in a committed relationship and sharing basic living expenses. The average age of purchasers has dropped from 68 years in 1990 to 61 years in 2005, and the number of purchasers who are under age 65 has increased significantly.[5]

Most companies offer multiple premium payment modes: annual, semi-annual, quarterly, and monthly. Companies add a percentage for more frequent payment than annual. Options such as spousal survivorship, non-forfeiture, restoration of benefits and return of premium are available with most plans.

The Deficit Reduction Act of 2005 makes the Partnership for Long Term Care available to all states.[8] Partnership provides "lifetime asset protection" from the Medicaid spend-down requirement. Originally four states had Partnership plans New York, Indiana, Connecticut and California[9]

You should not purchase any long term care insurance if you currently receive or may soon receive Medicaid benefits, if you have limited assets and can’t afford the premiums over the lifetime of your policy, or if your only source of income is a social security benefit or supplemental security income. [10]

Benefit eligibility and deductibles

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You qualify for covered benefits with most plans when you need help with activities of daily living or when you need help because you have a severe cognitive impairment.

Most policies have an elimination period or waiting period similar to a deductible. This is the period of time that you pay for care before your benefits are paid. Elimination days may be from 20 to 120 days. The higher deductible period the lower the premium. Some policies require intended claimants to provide proof of 20 to 120 service days of paid care before any benefits will be paid. In some cases the option may be available to select zero elimination days when covered services are provided in the home in accordance with a Plan of Care. Some policies require that the policy for long-term care be paid up to one year before becoming eligible to collect benefits.

See also

- Health insurance in the United States
- Activities of daily living

References

1. ^ http://www.cms.hhs.gov/partnerships/downloads/LTCdropin.pdf
2. ^ IRC Sec. 213(d)(10)(A)
3. ^ IRC Sec. 162(I0(1)(B)
4. ^ Are You Eligible?
5. ^ a b c "Who buys long-term care insurance? A 15-year study of buyers and non-buyers, 1990-2005", America’s Health Insurance Plans, April 2007
6. ^ a b "Insurance to Fund All or Part of Long-Term Care Costs", January 2008
7. ^ FAQs About COBRA continuation health coverage from DOL
8. ^ Deficit Reduction Act from CMS
9. ^ California Partnership for Long Term Care

10. ^ Who Should Not Buy Long Term Care Insurance

External links

- Do you need long-term-care insurance? from Consumer Reports (November 2003)
- US Medicare long term care information

Categories: Types of insurance | Medicare and Medicaid (United States)
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