Overview and Learning Objectives

This module provides an overview of long-term care (LTC) insurance. It focuses on the benefits of having insurance, who should consider buying coverage, and provides some background information on today's LTC products and the insurance companies offering coverage.

At the conclusion of this module, you will be able to:

- Explain the benefits and potential drawbacks of having LTC insurance coverage;
- Help consumers determine if it is appropriate for them to consider buying coverage;
- Explain why people buy LTC insurance and concerns they may have about making the purchase; and
- Describe the current state of the LTC insurance market, the types of coverage most people buy today, and the size and nature of the market.

Self-Assessment

- Name three reasons why an individual might consider buying LTC insurance.
- What characteristics would you associate with someone who should not think about buying LTC insurance?
- What factors should someone consider in deciding whether consumers can “afford” to buy LTC insurance?
- In addition to “affordability,” what should consumers consider in evaluating whether they should buy LTC insurance?
- How are tax-qualified (TQ) LTC insurance policies treated by the Internal Revenue Service (IRS), as compared with non-tax-qualified (NQ) plans? What type of policy is most typical today?

What is Long-Term Care Insurance?

Long-term care insurance is a relatively new type of private insurance coverage designed to protect against the potentially catastrophic costs of LTC. It helps pay for LTC expenses, up to a pre-set amount. An individual selects this amount when purchasing a policy. Typically, LTC insurance pays for care in a wide variety of settings including facility care, home care, and community-based care, although some people purchase more limited coverage that focuses only on one type of care setting.

More than 100 insurance companies currently offer this type of coverage, although about 20 companies account for about 75 percent of all the policies currently in force. While there are many basic features in common, policies differ greatly in terms of the services covered, key policy provisions, the coverage amounts, and the premium cost.

People generally buy LTC insurance while they are still relatively healthy and independent, prior to their actual need for care. If care is needed, the policy pays all or part of the cost of certain types of care for a specified period of time, or up to a pre-set dollar amount. Some policies offer “unlimited” coverage.

In some respects, LTC insurance is similar to automobile or homeowner’s insurance – it is bought in advance and hope it is never used. Long-term care insurance is there to pay for the catastrophic expenses associated with an unanticipated need, in case it should occur. It provides peace of mind and financial protection.

Unlike health insurance or term life insurance, LTC insurance is a cash accumulation insurance product that has significant pre-funding requirements. Pre-funding means that coverage is bought in advance of needing it. In the early years, individuals pay more for the coverage than the actual “term” risk faced in those earlier years. However, in the later years, individuals pay much less than what one would have paid to reflect the actual value of the risk.

It is a product that is designed to be maintained for the long-term, unlike other insurance, which is often priced and renewed on a year-to-year basis. (Of course, even if an individual needs benefits the next day after beginning coverage, the policy will pay benefits up to the full value of the coverage that was purchased. Coverage does not have to "build-up" in order to access benefits, as might occur with other cash accumulation products.

There are many different types of LTC insurance policies. When comparing policies, there are differences in terms of how much coverage is provided, the circumstances under which benefits will be paid, and the specific services that are covered. However, since the passage of the Health Insurance Portability and Accountability Act (HIPAA) in 1996, there is more standardization across policies in terms of the criteria for receiving benefits and important consumer protection provisions. (These are discussed later on in the Participant Manual.)

In general, though, most policies:

- Pay a set amount per day for covered care. This is called the Daily Benefit Amount. Individuals can choose their preferred Daily Benefit Amount, based upon their personal situation and the cost of care where it is expected to be received. (Some policies offer a weekly or monthly amount instead of a daily limit.)

- Pay benefits for a specified time period, or up to a total dollar amount. This is called the Total Coverage Amount (also referred to as the Lifetime Maximum). Individuals may choose their preferred Total Coverage Amount. Choices can range from as little as one year of benefit to unlimited coverage.

- Require individuals to complete an Elimination Period (also called a Deductible Period), during which they are eligible for and receive services before beginning to make benefit payments. Most policies allow individuals to select their Elimination Period (e.g., 0, 20, 30, 60, 90 or 100 days).

Benefits of LTC Insurance

Having LTC insurance provides financial protection, choice, control, and peace of mind. LTC insurance can:

- Help pay some or all of the cost of an individual's LTC needs;
- Help protect all or a portion of accumulated assets;
- Provide financial security for spouses, should one spouse require costly LTC;
- Enable one to pass on their home or estate to an heir;
- Provide peace of mind;
- Reduce or eliminate the reliance on Medicaid;
- Provide control over LTC choices and care options, including expanding alternatives to nursing home care (e.g., assisted living facility care, home health care, or adult day care);
- Provide an alternative to relying on family or friends to provide needed care; and
- Provide a way to "pre-pay" for future LTC needs which costs less since risks and costs are pooled with many other insured persons. This means that an individual pays much less over time than if paying for care without insurance. This can help protect income, in order to live comfortably in later years, rather than draining that income to pay for care needs.

There are some potential drawbacks to LTC insurance that should be considered. First, some people might not qualify for coverage, based on their current health status. While, on average, more than 80 percent of all applicants are generally approved for coverage, someone who currently needs LTC or has a serious, chronic degenerative condition such as Parkinson's disease will not qualify. Others have competing needs for their financial resources and delay the decision, feeling that it is not the "right time" to buy coverage, if there are other priorities for their financial resources. In addition, the premiums may not be affordable. Finally, some people worry about whether the policy will pay benefits as promised and whether they have chosen the right type and amount of coverage for their needs.

To Buy or Not to Buy?

There is no easy rule-of-thumb to guide consumers in deciding whether LTC insurance is right for them. While some "facts" are important – such as level of income and accumulated assets, age, and health – many intangibles are also important to the decision. These include how consumers feel about relying on family or friends for care, how important it is to them to be able to receive care at home, how they feel about leaving an estate, and many other issues.

LTC insurance is not right for everyone. Individuals who already need LTC will probably not qualify for insurance. In addition, LTC insurance may not be appropriate for individuals who have little income, few assets, or already qualify for Medicaid.

Generally, individuals should consider buying LTC insurance if they:

- Have assets to protect. While there is no "hard and fast" number, some financial experts recommend considering insurance if one has $50,000 or more in non-housing assets. Even people who have significant wealth often choose to buy insurance rather than "self-insuring" so they can protect more of their assets.

- Are not eligible (or close to qualifying) for Medicaid.

- Can afford the premiums for the type and amount of coverage they believe best suits their needs. Again, there is no single threshold, since affordability depends on how important the protection and peace of mind is to the individual. Some financial experts recommend that the premium cost should not exceed 7 percent of income. Individuals should take into account whether their current income is expected to increase, decrease, or remain constant over time. Finally, it is also important for individuals to consider if they can afford the premium today and in the future.

- Are in reasonably good health in order to qualify for the insurance.

- Are concerned with the possibility of someday needing LTC. While no one can predict future needs, someone with a family history of longevity and/or chronic health conditions may feel more "at risk" of needing LTC in the future. Or, someone who does not want to or cannot rely on family or friends for care may believe it is more important to have insurance to cover the costs of paid care.

Counselors should emphasize that “affordability” means different things to different people. While the “7 percent of income” measure is often mentioned, in reality some people are willing to spend varying amounts on LTC insurance, based on how important the purchase is to them. Those with lower incomes may need and want to spend more than 7 percent of their income on LTC insurance as an important way to protect their assets and have freedom of choice in receiving care. About two-thirds of people who buy LTC insurance use some portion of their savings to pay for LTC insurance, so an affordability index that only looks at income is not realistic.

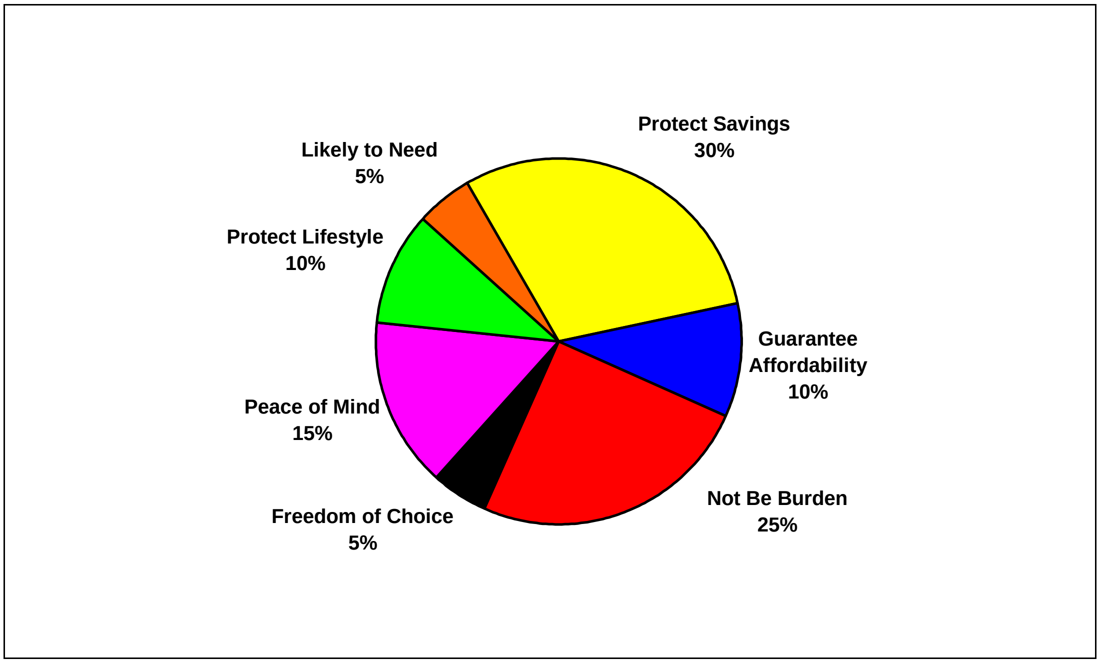
Table 1. Percent of Income Used to Buy LTC Insurance

Income Category	% of Income Used
Under $20,000	4% to 12%
$20,000 to $35,000	2% to 7%
$35,000 to $50,000	1% to 4%
Greater than $50,000	1% to 3%

Why People Buy Long-Term Care Insurance

People buy LTC insurance for a variety of reasons – to avoid relying on others, to help them pay for needed care, to preserve assets, and to protect their family's quality of life.[1]

Figure 1. Reasons Why People Buy LTC Insurance



Source: HIAA and Long Term Care Group, 2003.

There are many non-financial reasons why people consider LTC insurance. It is important to counsel consumers about their reasons and concerns. It is also important not to only focus on financial concerns. While financial concerns are important, they are not the only factors to consider.

[1] Long-Term Care Group, Inc., 2003.

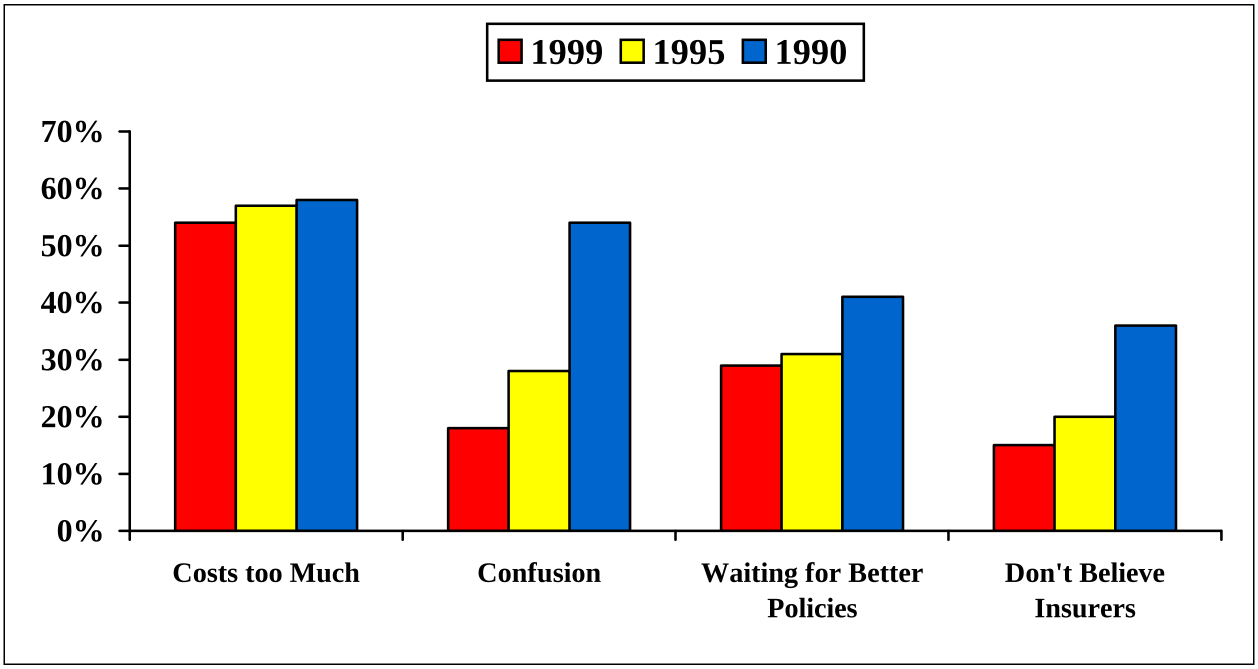
Why People Do Not Buy Long-Term Care Insurance

People also cite different reasons for why they do not buy LTC insurance. It is important to identify these reasons, since part of your role is to help people overcome the denial, confusion, or misinformation that may be a barrier to planning ahead for LTC needs and considering LTC insurance.

Cost (affordability) is one of the major reasons people do not buy LTC insurance. Confusion about which specific coverage features or type of policy is best is often encountered. Some consumers may be “waiting for better policies” and others are uncertain whether they can trust insurance companies to provide the coverage that they promise.

When someone says, “costs too much,” they might also mean that they do not yet perceive the value of coverage relative to the price. Or that they are considering coverage options that cost more than what they believe they can afford. Counselors should help people understand the value of LTC insurance and that it may be possible to find a less costly coverage option that will still provide adequate coverage appropriate to their needs.

Figure 2. Reasons People Give For Why They Did Not Buy LTC Insurance



Source: HIAA, 1990, 1995, 2000.

Buyers vs. Non-Buyers

Although many people do not "plan ahead" for how they will manage their future LTC needs, some people certainly do plan ahead by purchasing LTC insurance. Seven studies conducted since 1987 help in understanding the key differences between buyers and non-buyers. These studies identify the motivators as well as the barriers to planning ahead.

In the individual market, buyers tend to be younger than non-buyers (age 67 versus age 71) and are more likely to be female (55 percent versus 52 percent). Conversely, in the employer group market, buyers tend to be slightly older than non-buyers (age 51 versus age 49), and are more likely to be male (38 percent versus 33 percent). No consistent differences emerge with respect to marital status across these studies.

Table 2. Demographic Differences Between Buyers and Non-Buyers

Characteristic	Buyers	Non-Buyers
Individual Market - age	67 years	71 years
Employer Group Market - age	51 years	49 years
Individual Market - gender	55% female	52% female
Employer Group Market – gender	38% male	33% male

Source: Aggregate response to numerous surveys. Long Term Care Group, Inc. 2001.

With respect to education and income, buyers are more likely to be college graduates, have higher income and greater assets, and have a higher propensity to save (through IRAs, mutual funds, or annuities). Buyers are more likely than non-buyers to perceive their health as "excellent." Buyers are also less likely to have children living nearby.

While demographic differences between buyers and non-buyers exist, attitudes more consistently differentiate buying behavior. Buyers say that it is important to plan ahead for LTC needs and that, without insurance, they would pay on their own for LTC. Buyers are also much more likely to have had a personal experience with LTC and to see themselves at risk of needing LTC.

Table 3. Attitudes of Buyers vs. Non-Buyers

Attitudes	Buyers	Non-Buyers
Self will pay	67%	35%
Likely to need LTC	65%	55%
Important to plan ahead	80%	48%
Have had family experience with LTC	40%	30%

Source: Aggregate response to numerous surveys. Long Term Care Group, Inc. 2001.

Having some type of LTC experience with a family member or friend has been a consistent trend among buyers. People who buy LTC insurance are more likely to have had some family experience with LTC. This direct personal experience has illustrated for them the “facts” that LTC is expensive, may not be covered by their current health care coverage, and that LTC needs are best met when they are planned for ahead of time.

It is important to understand the attitudes that influence a consumer’s interest in planning for LTC needs. Asking consumers about their personal or family experience with LTC can help illustrate the “key facts” about LTC risks, costs, and the value of planning ahead. This is often a more effective way to educate consumers than citing statistics. Once they understand the realities of LTC risks, costs, and who pays, they may take more interest in and responsibility for exploring LTC insurance and other planning options.

Helping People Decide

While there are many different reasons people have for buying and not buying LTC insurance, counselors can help people frame their decision by asking them about their personal situations and preferences.

Two key criteria are a good place to begin – is the person in reasonably good health and likely to be “insurable” and are the premiums affordable? The section on Underwriting provides some guidelines for helping consumers determine whether they might qualify for LTC insurance. These guidelines will be reviewed in more detail in that section. Certainly, if someone needs LTC or has a chronic degenerative condition (e.g., Parkinson’s or Alzheimer’s disease), they would not qualify for LTC insurance.

While financial considerations are not the only important ones, they are a good place to begin. All tax-qualified LTC plans are required to determine the financial suitability of a sale before the insurer can accept an application. (See pages V-27 to V-31 for detailed discussion of tax-qualified plans.) Many states require insurance companies to use a “Suitability Personal Worksheet” and provide the consumer with a document called “Things You Should Know Before You Buy.” Both of these documents are intended to help the consumer assess the appropriateness of the sale and help them decide whether LTC insurance is appropriate.

Counselors should keep in mind the other reasons people buy LTC insurance. Having control over care choices and being able to receive care at home rather than in a facility are enhanced when someone pays for their LTC privately or with LTC insurance. Consumers should also think about their family situation: What impact would an extended LTC need have on the financial and emotional health of their family? Does the consumer have family living nearby who would be willing and able to provide care if needed? Remind consumers that family circumstances can change and they may not have the same family support at the time they need care as they have today.

People should understand that the insurance company is also trying to assess whether LTC insurance is appropriate for them, based on income and assets. However, the insurance company cannot refuse to sell a policy based on any of their answers on the Personal Worksheet. Consumers also have the right to refuse to provide the financial information requested on the Personal Worksheet. Consumers may not be comfortable sharing this information and they should know that their application for LTC insurance cannot be refused simply because they elect not to provide financial information to the insurer.

LTC Insurance Personal Worksheet

Things You Should Know Before You Buy LTC Insurance

SAMPLE - NAIC
Long-Term Care Insurance
Personal Worksheet

People buy LTC insurance for many reasons. Some don’t want to use their own assets to pay for long-term care. Some buy insurance to make sure they can choose the type of care they get. Others don’t want their family to have to pay for care or don’t want to go on Medicaid. But LTC insurance may be expensive, and may not be right for everyone.

By state law, the insurance company must fill out part of the information on this worksheet and **ask** you to fill out the rest to help you and the company decide if you should buy this policy.

Premium Information

Policy Form number(s)_______________

The premium for the coverage you are considering will be [$_________ per month, or $_______ per year,] [a one-time single premium of $_____________.]

Type of Policy: (noncancellable/guaranteed renewable):____________________________

The Company’s right to increase premiums:____________________________________

[The company cannot raise your rates on this policy.] [The company has a right to increase premiums on this policy form in the future, provided it raises rates for all policies in the same class in this state.] [Insurers shall use appropriate bracketed statement. Rate guarantees shall not be shown on this form].

Rate Increase History

The company has sold LTC insurance since [year] and has sold this policy since [year]. [The company has never raised its rates for any long-term care policy it has sold in this state or any other state]. [The company has not raised its rates for this policy form or similar policy forms in this state or any other state in the last 10 years.] [The company has raised its premium rates on this policy form or similar policy forms in the last 10 years. Following is a summary of the rate increase(s).]

Drafting Note: *A company may use the first bracketed sentence above only if it has never increased rates under any prior policy forms in this state or any other state. The issuer shall list each premium increase it has instituted on this or similar policy forms in this state or any other state during the last 10 years. The list shall provide the policy form, the calendar years the form was available for sale, and the calendar year and the amount (percentage) of each increase. The insurer shall provide minimum and maximum percentages if the rate increase is variable by rating characteristics. The insurer may provide, in a fair manner, additional explanatory information as appropriate.*

Questions Related to Your Income

How will you pay each year's premiums?
☐From my Income ☐From my Savings\Investments ☐My Family will pay

[☐ Have you considered whether you could afford to keep this policy if the premiums were raised, for example, by 20%?]

Drafting Note: *The issuer is not required to use the bracketed sentence if the policy is fully paid up or is a noncancellable policy.*

What is your annual income? (check one)
☐Under $10,000 ☐$[10-20,000] ☐$[20-30,000] ☐$[30-50,000] ☐Over $50,000

Drafting Note: The issuer may choose the numbers to put in the brackets to fit its suitability standards.

How do you expect your income to change over the next 10 years? (check one)
☐No change ☐Increase ☐Decrease

If you will be paying premiums with money received only from your own income, a rule of thumb is that you may not be able to afford this policy if the premiums will be more than 7% of your income.

Will you buy inflation protection? (Check one) ☐Yes ☐ No
If not, have you considered how will you pay for the difference between future costs and your daily benefit amount?
☐ *From my Income* ☐ *From my Savings\Investments* ☐ *Family will pay*

The national average annual cost of care in [insert year] was $[46,000], but this figure varies across the country. In ten years the national average annual cost would be about $[_____] if costs increase 5% annually.

Drafting Note: *The projected cost can be based on federal estimates in a current year. In the above statement, the second figure equals 163% of the first figure.*

What elimination period are you considering? Number of days______ Approximate cost $________ for that period of care

How are you planning to pay for your care during the elimination period? (Check one)
☐*From Income* ☐ *From my Savings\Investments* ☐ *Family will pay*

Questions Related to Your Savings and Investments

Not counting your home, about how much are all of your assets (your savings and investments) worth? (check one)
☐Under $20,000 ☐$20,000-$30,000 ☐$30,000-$50,000 ☐Over $50,000

How do you expect your assets to change over the next ten years? (check one)
☐Stay about the same ☐Increase ☐Decrease

If you are buying this policy to protect your assets and your assets are less than $30,000, you may wish to consider other options for financing your long-term care.

Disclosure Statement

☐	The answers to the questions above describe my financial situation. **or**
☐	I choose not to complete this information.
(Check one)	
☐	I acknowledge that the carrier and/or its agent (below) has reviewed this form with me including the premium, premium rate increase history and potential for premium increases in the future. [For direct mail situations, use the following: I acknowledge that I have reviewed this form including the premium, premium rate increase history and potential for premium increases in the future.] I understand the above disclosures. **I understand that the rates for this policy may increase in the future.** (This box must be checked).

Signed: ________________________________ ________________________________
(Applicant) (Date)

[☐ I explained to the applicant the importance of completing this information.

Signed: ________________________________ ________________________________
(Agent) (Date)

Agent's Printed Name: ____________________________________]

[In order for us to process your application, please return this signed statement to [name of company], along with your application.]

[My agent has advised me that this policy does not seem to be suitable for me. However, I still want the company to consider my application].

Signed: ________________________________ ________________________________]
(Applicant) (Date)

Drafting Note: *Choose the appropriate sentences depending on whether this is a direct mail or agent sale.*

The company may contact you to verify your answers.

Drafting Note: *When the LTC insurance Personal Worksheet is furnished to employees and their spouses under employer group policies, the text from the heading "Disclosure Statement" to the end of the page may be removed.*

SAMPLE – NAIC
Things You Should Know Before You Buy LTC Insurance

Long-Term Care

A LTC insurance policy may pay most of the costs for your care in a nursing home. Many policies also pay for care at home or other community settings. Since policies can vary in coverage, you should read this policy and make sure you understand what it covers before you buy it.

You should not buy this insurance policy unless you can afford to pay the premiums every year. Remember that the company can increase premiums in the future.

The Personal Worksheet includes questions designed to help you and the Company determine whether this policy is suitable for your needs.

Medicare

Medicare does not pay for most long-term care.

Medicaid

Medicaid will generally pay for long-term care if you have very little income and few assets. You probably should not buy this policy if you are now eligible for Medicaid.

Many people become eligible for Medicaid after they have used up their own financial resources by paying for long-term care services.

When Medicaid pays your spouse's nursing home bills, you are allowed to keep your house and furniture, a living allowance, and some of your joint assets.

Your choice of long-term care services may be limited if you are receiving Medicaid. To learn more about Medicaid, contact your local or state Medicaid agency.

Shopper's Guide

Make sure the insurance company or agent gives you a copy of a book called the National Association of Insurance Commissioners' "Shopper's Guide to Long-Term Care Insurance." Read it carefully. If you have decided to apply for LTC insurance, you have the right to return the policy within 30 days and get back any premium you have paid if you are dissatisfied for any reason or choose not to purchase the policy.

Counseling

Free counseling and additional information about LTC insurance are available through your state's insurance counseling program. Contact your State Insurance Department or Department on Aging for more information about the senior health insurance counseling program in your state.

Types of Long-Term Care Insurance Plans

Market Segments

Most LTC insurance is sold directly to individuals age 55 and over by agents, brokers, or financial planners meeting one-on-one with consumers. This "individual market" represents 80 percent of all the LTC policies currently sold. This also includes individual LTC policies that are sold through a sponsoring association (such as the American Bar Association, Aircraft Owners' and Pilots' Association) and policies that are sponsored by a Continuing Care Retirement Community (CCRC) for sale to its residents.

A smaller but growing segment of the market is the group market, where LTC protection is sold to younger, working age adults as an "employee-pay-all" voluntary benefit through their employer. The typical buyer is a 46-year old employee. Since LTC insurance premiums are based on the age at the time of purchase and are designed to remain constant over one's lifetime, average premiums are much lower in the employer-sponsored group market than in the individual market, where buyers are older.

Only a small portion of LTC policies today (approximately five percent) is provided as a rider to a life insurance policy.

Table 4. LTC Policy Market Segments, as of December 2001

Market Segment	% of Policies Sold	Average Age of Buyer In 2001
Individual and association	80%	62 years old
Employer-sponsored	16%	46 years old
LTC insurance as part of a life insurance policy	5%	66 years old

Source: Health Insurance Association of America, 2003.

Payment Methods

Different types of LTC insurance offer different benefit programs. Some insurance companies (e.g., UNUM, Aetna, Prudential, and others) offer more than one approach.

- **Reimbursement Approach.** This is the most prevalent approach because it is also the least costly. The policy pays 100 percent of LTC expenses up to a pre-set amount chosen when coverage is purchased. If an individual has chosen a nursing home daily benefit of $150/day, and is receiving care in a nursing home that costs $100/day, the policy will pay $100/day. If the nursing home care costs $120/day, then the policy would pay $120/day. But if an individual was in a nursing home that costs more than the $150/day benefit amount selected, the policy would pay the expenses, but only up to the $150/day benefit limit.

    - **80% of all LTC policies sold today are “reimbursement policies.**”

- **Indemnity Approach.** Some policies pay a set amount per day for care, based on the amount chosen when coverage is purchased. The amount paid, in this approach, does not vary based on the costs of care. So, if an individual is in a nursing home that costs $100/day, and has chosen a policy with an indemnity benefit of $150/day, the policy would pay $150/day. However, the additional $50 can be used as the individual wishes. Most insurers who use an indemnity approach will only use that approach for facility care; the policy would use the reimbursement approach for home and community care expenses.

- **Disability Approach.** A smaller number of policies offer a “disability payment approach.” In this approach, the policy makes a cash payment for each day that an individual is disabled (i.e., need help with ADLs or have a cognitive impairment), even if the individual does not receive any paid care or LTC services on that day. The “cash” can be used to pay for non-licensed or family caregivers, or anything an individual wants. While the disability approach allows more flexibility to use the benefit payments in any way one wishes, it also costs more – about 40 percent more than the reimbursement approach.

    - These policies are also known as “cash benefit” policies.

Example: Benefit Payment Amounts

Here is an example of how benefit payment amounts would vary under each of these different payment approaches:

Marie's LTC policy has a maximum home care benefit amount of $100/day. Marie has had a disabling stroke that has left her unable to bathe, dress, or get to and from the toilet without the help of another person. Marie lives at home and receives care from a Home Health Care Agency for six hours each day from Monday through Friday. In the evenings and weekends, her husband provides the care she needs.

Marie's care costs $84 per day, with a total for one week of care of $420.

- The **reimbursement policy** pays 100 percent of her $84/day expenses, up to the home care benefit amount she has selected of $100/day. Since Marie's expenses are less than $100/day, her policy pays her $84/day – exactly the amount of her expenses. The weekly benefit total she receives is $420/week. Her weekly expenses for care are $420.

- The **indemnity policy** pays $100/day for each day that Marie receives paid services. Her policy pays $100/day for each of the five days in the week that Marie receives paid care. The weekly benefit total she receives is $500. Her weekly expenses for care are $420.

- The **disability policy** pays $100/day for each day that Marie is disabled, whether or not she receives paid care or family care. Her policy pays $100/day for seven days of the week. The weekly benefit total she receives is $700. Her weekly expenses for care are $420.

Payment Method	Weekly Care Expenses	Weekly Benefit Payment	Difference (Net Payment To Marie)
Reimbursement	$420	$420	$0
Indemnity	$420	$500	$80
Disability	$420	$700	$280

Because most policies use a "pool of dollars" approach (discussed later), in this example, Marie's coverage will last longer under the reimbursement approach than the other payment methods since her total lifetime "pool of dollars" is only being reduced by the actual amount of expenses she incurs, not by the full benefit amount paid under the other approaches. This is because her actual expenses are less than the daily benefit amount. This concept is described more fully in the section on Total Coverage Amount and how long the "pool of dollars" will last.

Tax Treatment of LTC Insurance

The Health Insurance Portability and Accountability Act (HIPAA) of 1996 clarified the favorable tax treatment for LTC insurance plans meeting certain requirements. Most companies selling LTC insurance today offer a policy that qualifies for certain federal tax advantages. (A growing number of states also offer deductions or credits on state income tax.) These tax-qualified LTC plans include some important consumer protection features. Over 80 percent of all the LTC policies sold currently are tax-qualified plans.

With a tax-qualified LTC policy, the benefit payments received are tax-free and the premiums paid may be tax-deductible under certain circumstances. Specifically, the cost of premiums can be combined with other itemized medical expenses. A portion of the premium can be deducted if an individual's itemized medical expenses exceed 7.5 percent of the adjusted gross income.

Most people do not qualify for the medical expense deduction because their total health and medical expenses generally do not exceed 7.5 percent of their income. However, for someone with a lower income and/or extremely high medical expenses, they can qualify for this tax deduction. For example, someone who is undergoing costly experimental treatments for cancer and taking unpaid leave from their employment to do so, might well incur extreme medical costs at the same time that their income is reduced. So for that year, they may qualify for the medical expense deduction and, if so, could include the cost of their LTC insurance in that amount as well. Some married couples file separately if one of them has extreme medical expenses that would qualify them for the deduction if they did not file jointly.

If an individual qualifies for the deduction, the amount of the premium that can be deducted depends on one's age.

Table 5. Maximum Deduction for Qualified LTC Insurance Premiums

Maximum Deduction for Qualified LTC Insurance Premiums Under Code § 213(d)(10)		
Attained Age Before Close of Year	**2004**	**2005**
40 or Less	$260	
More Than 40 But No More Than 50	$490	
More Than 50 But No More Than 60	$ 980	
More Than 60 But No More Than 70	$2,600	
More Than 70	$3,250	

These dollar limits are indexed for increases in the Consumer Price Index (CPI) and change each year. For the tax year 2002, self-employed individuals were allowed to deduct 70 percent of the premiums for tax-qualified LTC plans, up to these age-specific amounts. The percentage of premium cost that a self-employed individual could deduct was increased from 70 percent for the year 2002, to 100 percent for 2003 and thereafter.

Twenty-three (23) states also have tax incentives for individuals who purchase private LTC insurance. These are Alabama, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Maine, Maryland, Minnesota, Missouri, Montana, New York, North Carolina, North Dakota, Ohio, Oregon, Utah, Virginia, West Virginia, and Wisconsin. Among these states, seven (7) of them promote the purchase of LTC by offering a tax credit. The credit ranges from 15 percent of premium paid in Oregon to 100 percent of premium paid in Utah. Some states impose a cap on the credit (e.g., $500 in Maryland and $100 in Minnesota). The remaining states offer a tax deduction. Most states follow rules similar to the federal tax deduction provisions provided by HIPAA, although some states are more generous (e.g., Kentucky allows deduction of the full cost of the premiums.) Many other states are currently considering credits or deductions to encourage LTC insurance purchase.

There are allowable differences between tax-qualified (TQ) and non-tax qualified (NQ) LTC plans (Table 6). These differences may only impact access to short-term, recuperative, or skilled-type LTC but are not especially relevant for extended care needs, which typify LTC. While some insurance companies still sell both TQ and NQ LTC plans, the vast majority of companies today only sell TQ plans. Also, NQ LTC plans do not have to differ from TQ plans in all these ways; they can use the same definition of benefit triggers and other provisions. But if they do not completely conform to the TQ requirements, they cannot claim the tax-favored treatment that TQ plans have.

<u>Texas Law Note:</u>

It is worth noting that under Texas law, TQ policies **must** use the six (6) ADLs and cannot require loss of more than two (2) ADLs as a basis for paying benefits. Further, severe cognitive loss is a basis for receiving benefits under a TQ plan. On the other hand, NQ plans do not have to base benefits on ADL loss. Further, NQ plans do not have to use cognitive loss as a basis for benefits and there is no prescribed definition of cognitive loss.

The LTC insurance policy must state prominently on the policy face page (and the Outline of Coverage) whether it meets the requirements to be a federally tax-qualified LTC policy, or if it is not a tax-qualified plan.

An example of the "tax disclosure statement" is found below. LTC policies that were issued prior to January 1, 1997 are automatically granted TQ status, even though they do not have to meet the current requirements for TQ policies.

IMPORTANT NOTICE: This Policy is intended to be a tax qualified LTC insurance contract under Section 7702B (b) of the Internal Revenue Code of 1986 (as amended by the Health Insurance Portability and Accountability Act of 1996 – Public Law 104-191).

Table 6. Tax Qualified Vs. Non-Tax Qualified LTC Policies

Criteria	Tax Qualified	Non-Tax Qualified
Premiums	Tax deductible in certain circumstances.	Premiums are not tax deductible.
Benefits	Benefits generally do not count as taxable income.	No IRS decision on whether benefits are taxable.
Duration of Disability	Expected to last at least 90 days.	Can cover short-term disability (lasting less than 90 days).
Criteria for Receiving Benefits	Loss in Activities of Daily Living (ADLs), based on standardized definitions. Severe Cognitive Impairment.	Can use “medical necessity” or other criteria as an additional basis for paying benefits.

“Medical necessity” does not mean “your physician says you need LTC.” Some people think that a “medical necessity” provision will allow them to receive LTC benefits simply based on their own personal physician’s “say so.” But the LTC policy often defines “medical necessity” and has the right to assess whether the definition and criteria have been met. Because “medical need” has little to do with needing LTC, a “medical necessity” criterion may actually make it more difficult to receive benefits under a LTC policy, not easier.

Tax Treatment Q&As

Here are some illustrative Q&As on this topic that might be helpful.

Should I buy a tax-qualified plan or a non-tax qualified policy?

Many companies only offer tax-qualified plans. But if you are considering buying from a company that offers both options, here are some things to think about. In the long run, it is probably best to buy a TQ plan. If you buy an NQ plan, you are taking a chance that you may be required to pay taxes on the benefit payments you receive. You also would not be able to deduct premium payments (even if you otherwise qualify for the 7.5 percent medical expense deduction.) There are small differences between a TQ and NQ plans, but the potential tax advantages outweigh these differences.

Besides tax treatment, how are tax-qualified and non-tax qualified plans different?

There are small differences in the criteria for when you can receive benefits. (1) A TQ plan may not pay benefits if you only need care for a short time and are expected to recover from your current condition (e.g., if your disability or illness is not expected to last more than 90 days). This is an IRS requirement of all tax-qualified plans. A NQ plan does not have this requirement. However, remember, that your Medicare, health plan or Medicare supplement may pay for short-term, recuperative care. Most LTC needs are not short-term. (2) Non-tax qualified plans can include "medical necessity" as an additional criteria for receiving benefits, but LTC is not really "medically" related. There are not many situations where someone would have a "medical need" for LTC yet still be able to perform their ADLs, which is the standard used for TQ plans. (3) Finally, TQ plans must meet a greater number of additional consumer protection standards than those required of NQ plans.

See also: Texas Law Note (above) for differences between TQ & NQ LTC policies.

About the Long-Term Care Insurance Market

The number of LTC insurance policies sold has grown at an average rate of approximately 18 percent annually between 1987 and 2001.[2] Today, 137 insurance companies offer LTC insurance to a rapidly growing marketplace. Still, only 14 companies represent over 80 percent of all the policies in force. These leading players in the marketplace, based on policies in force as of December 2002, are listed below:

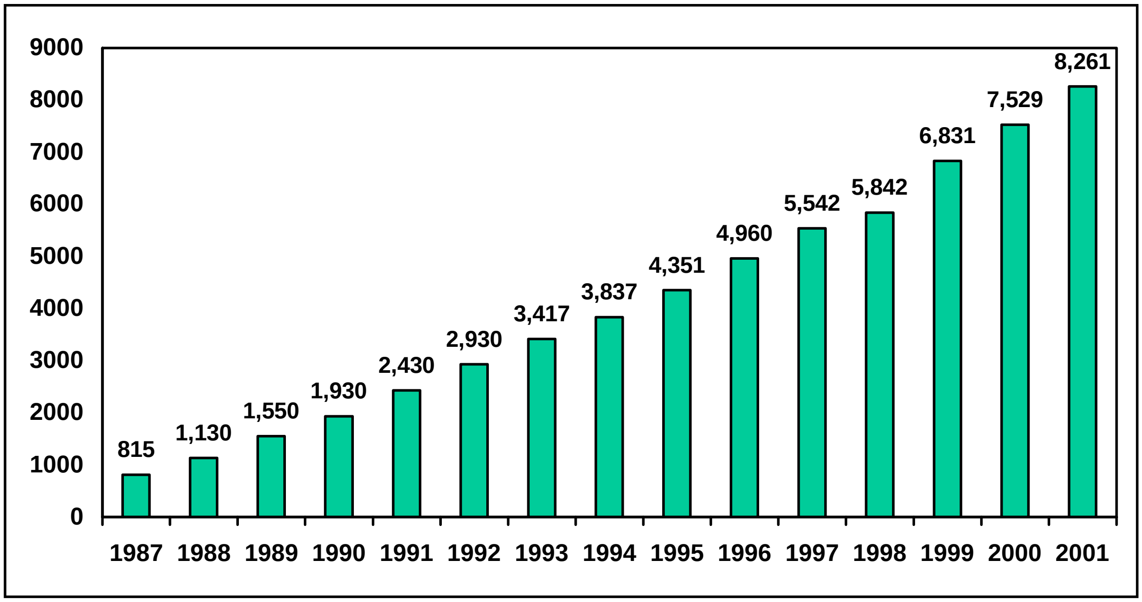
Table 7. Top Writers in the LTC Insurance Market, December 2002

Insuring Entity	Policies in Force	Premiums in Force (000s)
General Electric Capital Assurance	884,000	$1,488,000
John Hancock	599,000	$ 623,000
UNUM	545,000	$ 375,000
C.N.A.	520,000	$ 590,373
Bankers Life	346,000	$ 441,000
Aegon	317,000	$ 430,687
IDS	203,000	$ 249,000
Aetna	180,000	$ 70,000
Metropolitan Life	175,000	$ 103,000
CalPERS LTC Program	172,000	$ 205,000
Thrivent Financial for Lutherans	170,000	$ 205,000
Allianz	82,000	$ 156,000
Federal LTC Insurance Program	79,000	$ 114,000

Source: LIMRA International. LTC Insurance and Medicare Supplement, Annual 2002 and LIMRA International. U.S. Group Long-Term Care Insurance, Annual 2002. Numbers are rounded to the nearest thousand.

[2] Health Insurance Association of America, 2003.

**Figure 3. Number of LTC Insurance Policies Sold
Cumulative 1987 – 2001**



Source: HIAA LTC Survey, 2003.

Typical Policy Features

The charts below show the typical type and amount of LTC insurance coverage that people purchase today. There is still a great deal of variety in the type and amount of coverage people select, but it is helpful to think about the "typical" coverage being bought today.

Each of these policy features is discussed in detail in the sections that follow. Counselors may want to refer to these charts after reviewing the next section, which takes a closer look at the benefits and features of LTC insurance today.

Table 8. Characteristics of Individual LTC Insurance Policies Purchased in 1999, 1994 and 1990

Policy Feature	1999	1994	1990
Comprehensive Policy	77%	61%	37%
Nursing Home Only Policy	14%	33%	63%
Nursing Home Daily Benefit	$109	$85	$72
Home Care Daily Benefit	$106	$78	$36
Elimination Period	47 days	46 days	--
Nursing Home Benefit Duration	5.5 years	5.1 years	5.6 years
Percent with Compound Inflation Protection	22%	15%	n.a.
Average Premium	$1,677	$1,505	$1,071

Source: HIAA, 1999.

Table 9. Characteristics of Employer Group Policies Purchased in 1999

Policy Feature	Category	Buyers in the Group Market
Policy Type	Comprehensive	97%
	Facility Care Only	3%
	Nursing Home Care	$124
(Averages)	Home Care	$79
Elimination Period	Average	63 days
	0 days	5%
	30 days	36%
	60 days	3%
	90 days	56%
Benefit Maximum	Average	6.3 years
Nursing Home Duration	1-2 years	10%
	3-5 years	51%
	6-9 years	--
	10 years - lifetime	39%
Home Care Duration	1-2 years	6%
	3-5 years	21%
	6-9 years	21%
	10 years - lifetime	52%
Inflation Protection	Any kind	88%
	Simple	--
	Compound	40%
	Future Purchase Option	48%
Average Annual Premium	$722	

Source: HIAA, October 2003.

Module Exercise

1. There are many reasons why someone should <u>not</u> buy LTC insurance. Which one of the following items does <u>not</u> belong on this list?

   a. It is difficult to know which products are the best and you could make a wrong decision if you buy.
   b. You do not have sufficient income to pay premiums for insurance.
   c. You do not have sufficient assets to protect with insurance.
   d. Your health condition will not qualify you for insurance.

2. Which of the following best describes how financial considerations should be taken into account in deciding whether to buy LTC insurance?

   a. There are no “hard and fast” rules and each person should consider their own individual financial circumstances as well as other factors that are important (e.g., preferred care options, availability of family supports, etc.).
   b. No one should buy LTC insurance if they have less than $50,000 or more than $1 million in assets.
   c. No one should buy LTC insurance if they have less than $200,000 or more than $1 million in assets.
   d. You should never buy a policy if the one you are considering costs more than 7% of your income.

3. Which of the following statements about the “affordability” of LTC insurance is true?

   a. You should never buy a policy if it costs more than 7% of your income.
   b. Affordability is in the eye of the beholder and means different things to different people.
   c. LTC insurance is not affordable for most seniors.
   d. You only need to consider the initial cost since premiums for LTC insurance cannot increase for any reason.

4. Most LTC insurance today is sold in which segment of the market?

    a. Employer-group
    b. Offered by a continuing care retirement community
    c. Through the mail (direct response)
    d. Individual coverage (purchased directly from an insurance agent)

There are 3 different payment models under which LTC insurance pays benefits.

5. Which type best describes a policy that pays your actual expenses when you received covered services, up to a daily benefit amount that you purchased?

    a. Indemnity approach
    b. Reimbursement approach
    c. Disability approach

6. Which type best describes a policy that pays a set amount based on the amount you purchased when you received covered services? If the benefit amount exceeds the costs of your care, you can keep the difference.

    a. Indemnity approach
    b. Reimbursement approach
    c. Disability approach

7. Which type best describes a policy that pays a set amount for each day you are disabled, based on the daily benefit amount you purchased, even if you have not received covered services? If the benefit amount exceeds the costs of your care, or if you do not receive paid care that day, you still receive the full benefit payment.

    a. Indemnity approach
    b. Reimbursement approach
    c. Disability approach

8. Which of the following is <u>not</u> an advantage of the disability payment approach?

    a. You can purchase services and pay for care not defined in the policy contract.
    b. This type of coverage costs less than other approaches.
    c. This type of policy is more flexible to adapt to changing LTC service delivery types in the future.
    d. All of the above.

9. Which of the following statements is <u>not</u> true about the tax advantages of LTC insurance?

    a. Premium expenses for LTC insurance are deductible if you itemize deductions and all your health and medical expenses (including the LTC insurance) exceed 7.5% of adjusted gross income.
    b. Benefits can be received tax-free.
    c. There are limits on the premium deduction amounts allowed, based on your age.
    d. All LTC policies qualify for these federal tax deductions.