About Long-Term Care

Who May Need Long-Term Care?

The need for long-term care may begin gradually as you find that you need more and more help with activities of daily living, such as bathing and dressing. Or you may suddenly need long-term care after a major illness, such as a stroke or a heart attack.

If you do need care, you may need nursing home or home health care for only a short time. Or, you may need these services for many months, years, or the rest of your life.

It is hard to know if and when you will need long-term care, but there are some studies that may help.

For example:

- One national study[5] projecting nursing home use noted: "Of the approximately 2.2 million persons who turned 65 in 1990, more than 900,000 (43%) are expected to enter a nursing home at least once before they die." The same study reported that among people who live to age 65, only 1 in 3 will spend three months or more in a nursing home. About 1 in 4 will spend one year or more in a nursing home. Only about 1 in 11 will spend five years or more in a nursing home. In other words, 2 out of 3 people who turned 65 in 1990 will either never go to a nursing home or will spend less than three months in one.
- Women are more likely to need nursing home care than men. The study discussed above projected that 13% of women will spend five or more years in a nursing home. Only 4% of men will be in a nursing home that long.
- As you grow older, your risk of needing nursing home care also goes up.

Do You Need Long-Term Care Insurance?

With the passage of the Health Insurance Portability and Accountability Act, more individuals are becoming aware of the need for long-term care insurance. Whether you should buy a long-term care insurance policy will depend on your age, health status, overall retirement goals, income, and assets. For instance, if your only source of income is a Social Security benefit or Supplemental Security Income (SSI), you probably shouldn't buy long-term care insurance.

On the other hand, if you have a large amount of assets but don't want to use them to pay for long-term care, you may want to buy a long-term care insurance policy. Many people buy a policy because they want to stay independent of government aid or the help of family. They don't want to burden anyone with having to care for them. However, you should not buy a policy if you can't afford the premium or aren't sure you can pay the premium for the rest of your life.

If you already have health problems that are likely to mean you will need long-term care (for example, Alzheimer's disease or Parkinson's disease), you probably won't be able to buy a policy. Insurance companies have medical **underwriting** standards to keep the cost of long-term care insurance affordable. Without such standards, most people would not buy coverage until they needed long-term care services.

Some states have a regulation requiring the insurance company and the agent to go through a worksheet with you to decide if long-term care insurance is right for you. The worksheet describes the premium for the policy you're thinking about buying and asks you questions about the source and amount of your income and the amount of your savings and investments. You don't have to fill out this worksheet, but it might help you decide if long-term care insurance is right for you.

Not everyone should buy a long-term care insurance policy. For some, a policy is affordable and worth the cost. For others, the cost is too great, or the policy they can afford doesn't offer enough benefits to make it worthwhile. You should not buy

Is Long-Term Care Insurance Right For You?

You should NOT buy Long-Term Care Insurance if:

- You can't afford the premiums
- You have limited 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 should CONSIDER buying Long-Term Care Insurance if:

- You have significant assets and income
- You want to protect some of your assets and income
- You want to pay for your own care
- You want to stay independent of the support of others

long-term care insurance if the only way you can afford to pay for it is by not paying other important bills. Look closely at your needs and resources, and discuss it with a family member to decide if long-term care insurance is right for you.

Insurance companies must be licensed in your state to sell long-term care insurance. If you decide to buy a policy, be sure the company and the agent, if one is involved, is licensed in your state. If you're not sure, contact your state insurance department.

What Is a Federally Tax-Qualified Long-Term Care Insurance Policy?

You may be asked to choose between a "tax-qualified" long-term care insurance policy and one that is "non tax-qualified." There are important differences between the two types of policies. These differences were created by the Health Insurance Portability and Accountability Act (HIPAA). A federally tax-qualified long-term care insurance policy, or a qualified policy, offers certain federal income tax advantages. If you have a qualified long-term care policy, and you itemize your deductions, you may be able to deduct part or all of the premium you pay for the policy. You may be able to add the premium to your other deductible medical expenses. You may then be able to deduct the amount that is more than 7.5% of your adjusted gross income on your federal income tax return. The amount depends on your age, as shown in the table. Check with your personal tax advisor to find out how much you can deduct.

YOUR AGE	MAXIMUM AMOUNT THAT YOU CAN CLAIM
40 years old or younger	$210
More than 40 but not more than 50	$400
More than 50 but not more than 60	$800
More than 60 but not more than 70	$2120
More than 70	$2660

1999 figures. These amounts will increase annually by the Medical Consumer Price Index.

Regardless of which policy you choose, make sure the benefits and triggers will meet your needs. For example, benefits paid by a qualified long-term care insurance policy are generally not taxable as income. Benefits from a long-term care insurance policy that is not qualified may be taxable as income.

If you bought a long-term care insurance policy before January 1, 1997, that policy is probably qualified. HIPAA allowed these policies to be "grandfathered," or considered qualified, even though they may not meet all of the standards that new policies must meet to be qualified. The tax advantages are the same whether the policy was sold before or after 1997. You should carefully examine the advantages and disadvantages of trading a grandfathered policy for a new policy. In most cases, it will be to your advantage to keep your old policy.

Long-term care insurance policies that are sold on or after January 1, 1997, as tax-qualified must meet certain federal standards. To be qualified, policies must be labeled as tax-qualified, must be **guaranteed renewable**, include a number of consumer protection provisions, cover only qualified long-term care services, and generally can't have a **cash surrender value**. (See **Benefit Triggers**, pages 16-17.)

Qualified long-term care services are those generally given by long-term care providers. These services must be required by chronically ill individuals and must be given according to a plan of care prescribed by a licensed health care practitioner.

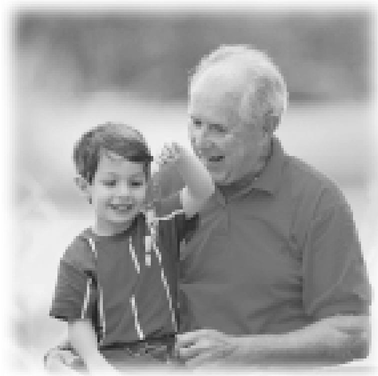
You are considered **chronically ill** if you are expected to be unable to do at least two of five (out of six) activities of daily living without substantial help from another person for at least 90 days. Another way you may be considered to be chronically ill is if you need **substantial supervision** to protect your health and safety because you have a cognitive impairment. A policy issued to you before January 1, 1997, doesn't have to define chronically ill this way. (See Benefit Triggers, pages 16-17.)

Some life insurance policies with long-term care benefits may be tax-qualified. You may be able to deduct the premium you pay for the long-term care benefits that a life insurance policy provides. However, be sure to check with your personal tax advisor to learn how much of the premium can be deducted as a medical expense.

The long-term care benefits paid from a tax-qualified life insurance policy with long-term care benefits are generally not taxable as income. Tax-qualified life insurance policies with long-term care benefits must meet the same federal standards as other tax-qualified policies, including the requirement that you must be chronically ill to receive benefits.

TAX-QUALIFIED POLICIES	NON TAX-QUALIFIED POLICIES
1. Premiums can be included with other annual uncompensated medical expenses for deductions from your income in excess of 7.5% of adjusted gross income up to a maximum amount adjusted for inflation.	1. You can't deduct any part of your annual premiums.
2. Benefits that you may receive will not be counted as income.	2. Benefits that you may receive may or may not count as income. The U.S. Department of the Treasury has not yet ruled on this issue.
3. Benefit triggers may be more restrictive than those which may be allowed in non tax-qualified policies. The federal law requires you be unable to do 2 of 5 out of 6 possible ADLs without **substantial assistance**.	3. Policies can offer a different combination of benefit triggers. Benefit triggers may not be restricted to 2 of 6 ADLs.
4. "Medical necessity" can't be used as a trigger for benefits.	4. "Medical necessity" and/or other measures of disability can be offered as benefit triggers.
5. Disability must be expected to last for at least 90 days.	5. Policies don't have to require that the disability be expected to last for at least 90 days.
6. For cognitive impairment to be covered, a person must require "substantial supervision."	6. Policies don't have to require "substantial supervision" to trigger benefits for cognitive impairments.

How Can You Buy Insurance to Pay for Long-Term Care?



Private insurance companies sell long-term care insurance policies. You can buy an individual policy from an agent or through the mail. Or, you can buy a group policy through an employer or through membership in an association. You can also get long-term care benefits through a life insurance policy.

Individual Policies

Today, most long-term care insurance policies are sold to individuals. Insurance agents sell many of these policies but companies also sell policies through the mail or by telephone. You will find that individual policies can be very different from one company to the next. Each company may also offer policies with different combinations of benefits. Be sure to shop among policies, companies, and agents to get the coverage that best fits your needs.

Policies From Your Employer

Your employer may offer a group long-term care insurance plan. The employer-group plan may be similar to what you could buy in an individual policy. One advantage of an employer-group plan is you may not have to meet any medical requirements to get a policy. Many employers also let retirees, spouses, parents, and parents-in-law apply for this coverage. Relatives must usually pass the company's medical screening to qualify for coverage and must pay the premium.

Insurance companies may let you keep your coverage after your employment ends or your employer cancels the group plan. You may be able to continue your coverage or convert it to another long-term care insurance policy. Your premiums and benefits may change, however.

If an employer offers long-term care insurance, be sure to think about it carefully. An employer-group policy may offer you options you can't find if you buy a policy on your own.

Association Policies

Many associations let insurance companies and agents offer long-term care insurance to their members. These policies are like other types of long-term care insurance. Like employer-group policies, association policies usually give their members a choice of benefit options. Policies sold through associations usually let members keep their coverage after leaving the association. Be careful about joining an association just to buy any insurance coverage. Review your rights if the policy is terminated or canceled.

Policies Sponsored by Continuing Care Retirement Communities

Many continuing care retirement communities (CCRC) offer or require you to buy long-term care insurance. A CCRC is a retirement complex that offers a broad range of services and levels of care. You must be a resident or on the waiting list of a CCRC and meet the insurance company's medical requirements to buy its long-term care insurance policy. The coverage will be similar to other group or individual policies.

Partnership Programs

Some states have long-term care insurance programs designed to help people with the financial impact of spending down to meet Medicaid eligibility standards. These programs, usually called "partnerships," let you buy certain long-term care insurance policies from insurance companies. You then have full or partial protection against the normal Medicaid requirement to spend down your assets to become eligible.

Check with your state insurance department or counseling program to see if partnership policies are available in your state. Please keep in mind that partnership programs have specific requirements in each state in which they are offered.

Life Insurance Policies

Some companies let you use your life insurance death benefit and cash value to pay for specific conditions such as terminal illness, for permanent confinement in a nursing home, or for long-term care expenses. A life insurance death benefit you use while you are alive is known as an **accelerated death benefit**. A life insurance policy that uses an accelerated death benefit to pay for long-term care expenses may also be known as a "life long-term care" policy. It may be an individual or a group life insurance policy. The company pays you the actual charges for care when you receive long-term care services, but no more than a certain percent of the policy's death benefit. Policies may pay part or all of the death benefit for long-term care expenses. Some companies let you buy more long-term care coverage than the amount of your death benefit in the form of a **rider**.

It is important to remember that if you use money from your life insurance policy to pay for long-term care, it will reduce the death benefit the beneficiary will get. For example, if you buy a policy with a $100,000 death benefit, using $60,000 for long-term care will cut the death benefit of your policy to $40,000. It may also affect the cash value of your policy. Ask your agent how this may affect other aspects of your life insurance policy. If you bought life insurance to meet a specific need after your death, your survivors may not be able to meet that need if you use your policy to pay for long-term care. If you never use the long-term care benefit, the policy will pay the full death benefit to your beneficiary.