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Long-Term Care Insurance: The Basics

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Questions arise when people consider their long-term care needs in the event of a chronic medical condition, disability or disorder. Close to the top of the list is "How do I pay for the medical assistance I will need?" One solution is to purchase a long-term care insurance policy.

What Is Long-Term Care Insurance?

A long-term care insurance policy helps to cover costs of care that a policyholder requires when they have a medical condition mentioned above. The policy can help pay for services provided in the policyholder's home, an assisted living facility or a nursing home. Regular health insurance will not cover long-term care and Medicare will only cover limited amounts of skilled nursing care. A long-term care policy will help the insured pay when no other insurance plan covers the needed services. The alternative is to privately pay for the needed services until the person reaches the eligibility point for Medicaid. However, this will be after the vast majority of available assets have been exhausted by medical bills.

Application and Qualifications

In order to buy a long-term care policy, one must fill out an application that will ask many questions related to the applicant's health both currently and in the past. The insurance company may request additional steps including face-to-face interviews or seeking out health records. The applicant can request the amount of coverage they seek; however, the policy will usually place a cap per day and per lifetime that it will pay for the applicant's benefit. If approved, the applicant will begin to pay policy premiums.

Most long-term care insurance policies will be begin to pay once an applicant cannot do at least two out of six "activities of daily living" on their own, or the applicant is suffering from cognitive impairment and a claim for benefits is made. Activities of daily living are bathing, dressing, eating, toileting, transferring and caring for incontinence.

The insurance company will review medical records and doctor's recommendations along with possibly sending a nurse to perform an evaluation. Additionally, the insurance company needs to approve the "plan of care" for its insured. If the claim is approved, most policies include an "elimination period" where the insured is responsible to privately pay until the benefits start covering care. The elimination period is typically 30, 60 or 90 days long. The policy will pay up to the daily limit for care until the insured has exhausted the lifetime maximum amount.

Costs

The cost of long-term care insurance policies can be prohibitive. The insurance company considers age, health, gender, marital status and amount of coverage requested when quoting a rate. The rate could go up after the policy is purchased, as the historic cost of claims were higher than insurance companies originally projected. To ensure insurance companies continue to have funds to pay claims, state regulators have allowed insurance companies to increase their premiums.

When long-term care policies were being offered in the 1990s, there were over 100 insurance companies writing policies. However, the amount of claims was not predicted accurately and the majority of insurance companies stopped offering long-term care policies. Today, there are a limited amount of insurance companies still selling traditional long-term care policies. The current low interest rates hurt the insurance companies' ability to invest the collected premiums and receive enough financial return in order to pay claims and still make a profit.

Timing

Prospects looking to purchase a long-term care policy are faced with both timing and financial issues. People who have medical conditions or are more advanced in age will likely not be approved for a long-term care policy. If the prospect is applying for the policy while they are over 65, there is a strong likelihood that a policy will not be approved. So, one must purchase a policy well before any of the benefits are anticipated to be used. Financially, the prospect will see great variation between the costs of policies offered by different insurance companies. Due to the uncertain need of benefits and low rate of return on the insurance company's investments, the prospect faces paying larger premiums for less benefit than in past years.

To this end, insurance companies have created alternatives to traditional long-term care policies called long-term care combination policies. These hybrid policies, which incorporate a death benefit,will be discussed further in our next article.

See a more detailed discussion here: How Long-Term Care Enhances Asset Protection

Elder Law FAQs

If you have questions about long-term care insurance, Medicaid, or other elder law issues, contact one of our Elder Law Attorneys or call 814-459-2800 for a consultation and to learn more about how we help families preserve assets and gain peace of mind.
