

## Module 5 Leader's Notes

This module provides an overview of long-term care (LTC) insurance. The purpose of the module is to inform counselors on the benefits of insurance and who should consider buying coverage. It provides background information on available LTC products and the insurance companies offering them.

At the conclusion of this module, participants 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.

**Estimated Total Training Time:** 60 minutes

10 minutes for Training Activity

45 minutes for Presentation

5 minutes for Discussion

### References

LTC Insurance Personal Worksheet

Page V-17 to V-20

Things You Should Know

Page V-21 to V-22

## **Training Exercise**

Before beginning the lecture portion of the training, ask participants to name some of the benefits or advantages of having LTC insurance. Most people readily identify advantages regarding choice and control, peace of mind, financial protection, and other reasons. Make a list on a white board or flip chart and see how well this list compares with the training content to follow.

Next, ask participants to list some disadvantages of LTC insurance. Cost and uncertainty about appropriate levels of coverage are likely to be named.

Ask participants if they know anyone who has purchased or looked into LTC insurance. If so, ask what motivated that person's interest. They might mention that the person experienced LTC needs with an aging parent and "learned" the value of coverage. They may describe difficult choices and a negative financial impact when one does not have coverage.

Finally, ask participants to indicate their interest in researching LTC insurance. Ask them to write down a number from 0 (no interest) to 10 (great interest). Then ask them to write a brief sentence giving the reason for that rating and at least one question about LTC insurance that they would like answered to form an opinion. Save these "interest ratings" for use later in the training.

## What is Long-Term Care (LTC) Insurance?

- Private insurance bought in advance of LTC need
- Pays some or all LTC expenses
- Covers variety of care settings
- Policies differ in terms of covered services, provisions and coverage amounts
- Newer products greatly improved over earlier ones

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### Talking Points for Slide 2:

- LTC covers care in a broad range of settings including both facility care and home and community-based LTC.
- It is important to buy insurance in advance of when it is needed.
- Trainers should make analogy to homeowner/fire insurance. One cannot buy insurance on the house if it is already on fire. This seems obvious but most people worry about buying LTC insurance and not needing it, so they want to wait for a “sign” that they will really need it. By then, it is too late.
- Statistics indicates that 6 out of 10 of people will need some type and amount of LTC in their lives.

## Benefits of LTC Insurance

- Helps protect assets from LTC expenses
- Financial security for your family
- More care choice and options
- Helps maintain independence
- Reduces or eliminates reliance on Medicaid
- Alternative to relying on family/friends for all your care needs
- Peace of mind and control

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### Talking Points for Slide 3:

- It is important to remember that LTC insurance has financial and “emotional” benefits.
- Financial benefits are important and include preserving income and assets.
- The emotional benefits (e.g., peace of mind, control over care choices, independence, and staying at home for care) are often more critical to people than the financial benefits.
- For most people, the decision of whether or not to buy LTC insurance is not only about whether it makes good financial sense.

## Potential Drawbacks

- Policy may not cover entire cost of care
- Concern whether the policy will pay benefits as you expect and need
- May not qualify for insurance due to health reasons
- Premiums may not be affordable
- Competing priorities for financial resources

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### Talking Points for Slide 4:

- LTC insurance coverage is not appropriate for people unable to afford the premiums for the type and amount of coverage to meet their needs.
- Similarly, purchasing coverage would not be an option for an individual who may not qualify for health reasons.
- It is important to learn how LTC insurance companies determine whether someone is “insurable” before deciding whether one would qualify based on health. (See the section on Underwriting). The type of health conditions that might preclude someone from obtaining health or life insurance may not apply to LTC insurance. The best way to find out is to apply for coverage – individuals should not assume they would not qualify.
- It is also important to remember that, while insurance pays for many LTC costs, individuals might have costs that exceed the amount of insurance coverage purchased, or that they might incur expenses that are not covered. So, it is important to plan ahead for these expenses as well.

## Who Should Consider LTC Insurance?

- Have assets to protect (\$50,000+)
- Not eligible (or close to qualifying) for Medicaid
- Can afford premiums (<7% of income)
- Reasonably good health to qualify for insurance
- Premiums more affordable at younger ages (<79 years)

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### Talking Points for Slide 5:

- The major reasons not to buy LTC insurance are related to consumers' health and financial circumstances.
- If consumers have few assets to protect, already qualify for Medicaid or are close to qualifying, purchasing LTC insurance may not make sense.
- Consumers should also make sure that they can afford the cost of premiums today and in the future (in case the rates increase or a change in their financial situation).
- While the numbers shown here are general "rules of thumb," many consumers may spend more than 7 percent of their income on LTC insurance and sometimes those with fewer assets to protect still want LTC insurance for other reasons (e.g., choice or control).
- Younger, more affluent consumers tend to spend a smaller share of their income on LTC insurance those who are older and less affluent tend to spend more. Each consumer has to decide what is right for him or her.

## Who Should Not Buy?

- Already needs LTC
- Limited income and assets
- Qualifies (or near qualifying) for Medicaid
- Age makes premium not affordable
- Has family willing and able to provide care (considering “unknowns” of the future)
- Current health condition makes them not insurable

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### Talking Points for Slide 6:

- Someone who already needs LTC or has a chronic degenerative condition, such as Alzheimer’s, MS or Parkinson’s is not likely to qualify for insurance.
- Some people may have discussed potential future needs with their family, who subsequently agreed to provide care when the need arises. However, it is important to remember that the family’s circumstances are susceptible to change.

## Helping People Decide

- Use suitability personal worksheet
- Addresses financial considerations
- LTC insurance is more than just financial protection
- Keep in mind other factors: health, family situation, and care options

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### Talking Points for Slide 7:

- The “Personal Worksheet” is a good tool to use to begin thinking about whether LTC insurance is appropriate.
- The worksheet addresses financial conditions, but does not help consumers to think about risk, family situation, care options, and other reasons to buy. Therefore, it is important to consider these other factors when discussing the findings from the worksheet.
- The “Things You Should Know Before You Buy” sheet is helpful and it reminds counselors that the Medicare and Medicaid programs do not pay for most LTC.
- Remind counselors that financial considerations are only a portion of the factors that consumers think about in deciding whether to purchase LTC insurance.

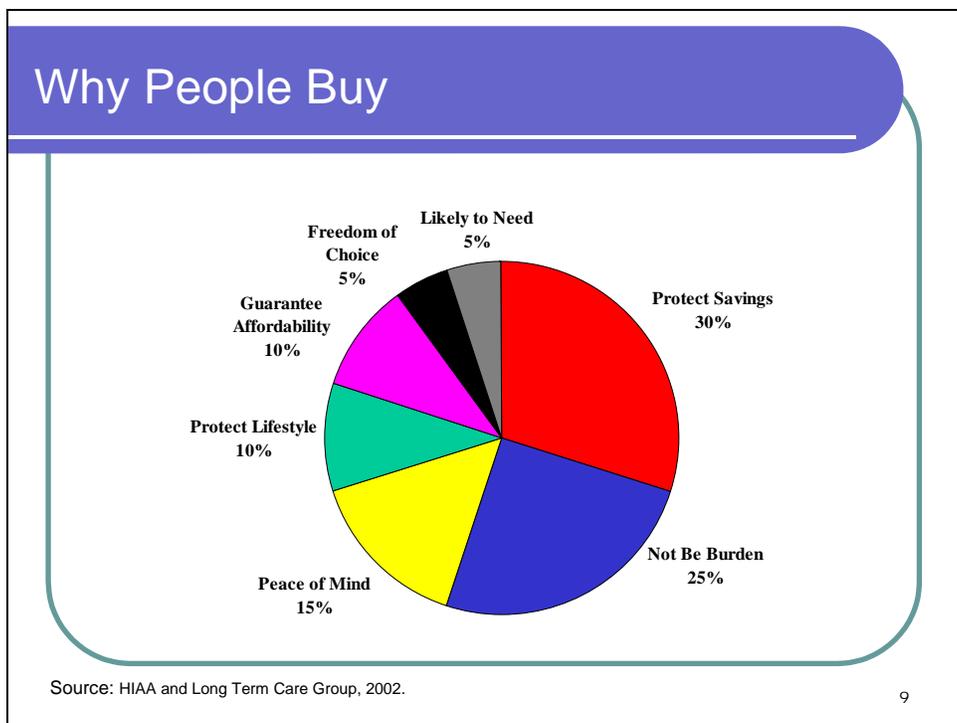
## Suitability – Personal Worksheet

- Tax qualified LTC insurance must determine suitability of sale
- Some states require “suitability” determination of all LTC insurance
- Many states require insurer to use “Personal Worksheet” and “Things You Should Know”
- Sale cannot proceed without signed Personal Worksheet
- State variations in forms and process

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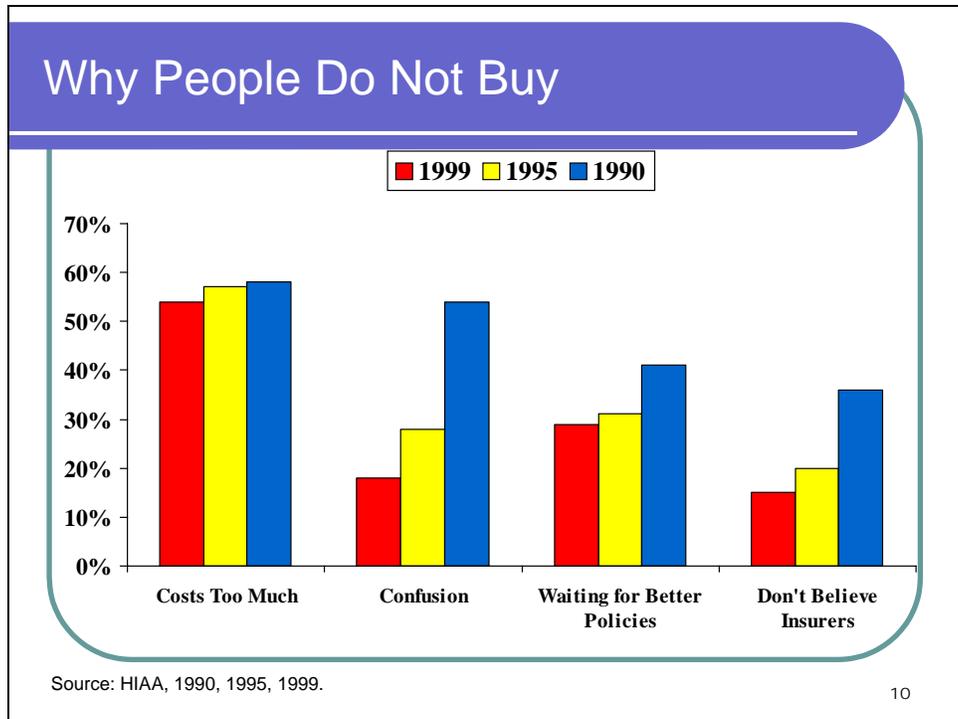
### Talking Points for Slide 8:

- Tax qualified plans must use the Suitability Personal Worksheet as part of the application process.
- Consumers do not have to provide confidential or financial information.
- Consumers cannot be declined for coverage based on the answers in the worksheet.
- This is a guide for consumers to decide if the purchase makes sense for them.
- Different states have different requirements for form’s appearance and how it is used.



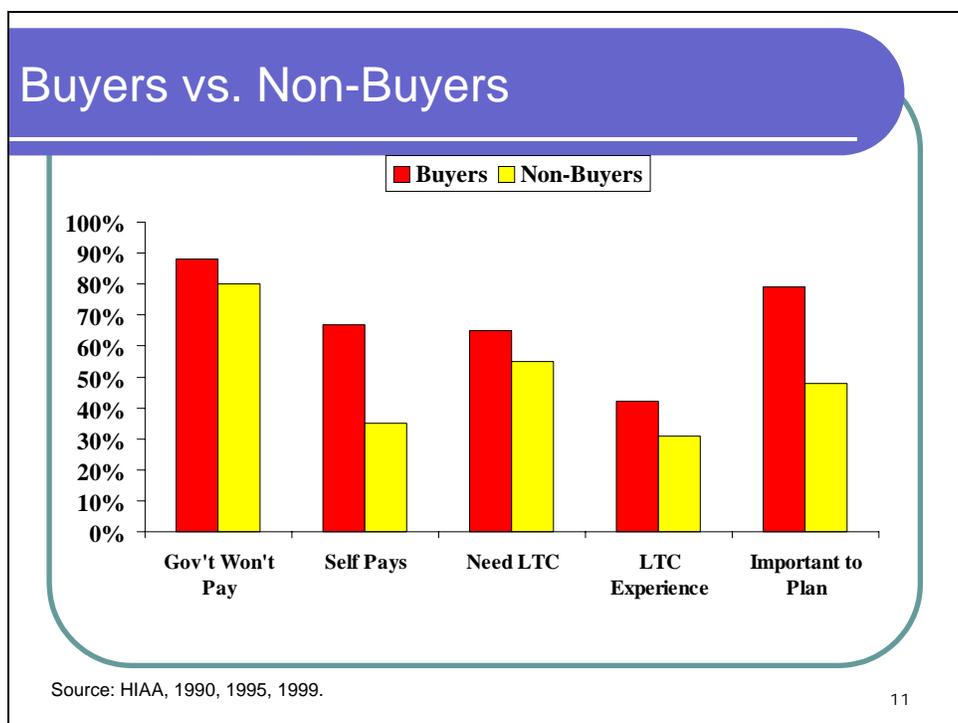
### Talking Points for Slide 9:

- The most significant reasons for purchasing LTC insurance are fiscally related.
- Research shows that other important reasons include not wanting to burden loved ones and peace of mind.



#### Talking Points for Slide 10:

- The leading reason people do not buy LTC insurance (when they are actively considering it) is cost.
- Keep in mind that “costs too much” sometimes means, “I don’t see the value of this product relative to its price.” Consumers may need to better understand how LTC insurance works and what it can provide.
- Consumers sometimes also consider policies that provide more coverage than they need – so it costs too much. Considering other, less costly, coverage options is a good idea when “shopping around.”
- “Confusion” about what to buy and not feeling confident about the promises that insurers make are declining as obstacles to buying. This is because there are more consumer protections and more uniformity in today’s products.
- Helping consumers understand what they can afford, how to purchase a policy, and whether they can afford insurance is still the priority, based on research related to the reasons people do not buy insurance today.



#### Talking Points for Slide 11:

- Lack of knowledge of risk of requiring LTC at some point in the future, of the costs of purchasing a policy, and of who pays for LTC is the most important reason people do not buy.
- This slide compares buyers and non-buyers on these key attitudes.
- Buyers understand that the government (Medicare or Medicaid) is unlikely to pay, that the individuals must pay, and that needing LTC is likely. They also believe it is important to plan ahead and are likely to have had some family or personal experience with LTC.
- Personal LTC experience helps people “learn” these critical facts that then motivate interest in planning ahead.
- Non-buyers differ from buyers on each of these factors.

## Counseling Exercise – Suitability

- David and Leslie Phillips, 62 years old
- Two grown children living out of state
- David's income = \$65,000
- Assets not counting property = \$270,000
- Have 401K, IRAs and mutual funds for financial support in retirement
- Mother-in-law in nursing home after disabling stroke

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### Talking Points for Slide 12:

- For this scenario, discuss with participants the suitability of LTC insurance for this married couple.
- Ask participants: What do you recognize about their personal and financial situation that signals whether or not it would make sense for them to consider LTC insurance?
- Possible Answer: This couple has adequate income and assets to protect; has a “planning and saving” mentality, which fits well with LTC insurance; has experience with LTC in the family, thus are sensitive and receptive to the issue. In addition, David is likely to need care first, so they might want to have insurance to be sure that the cost of his care needs does not limit the financial resources available to Leslie, as she will likely outlive him.

## Counseling Exercise

- Pauline Watson, age 77, widowed
- Grown daughter lives nearby
- Assets (CDs and savings) = \$47,000
- Monthly income after rent and other expenses = \$750/month
- Does not expect income to increase
- Reasonably good health

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### Talking Points for Slide 13:

- Now consider the suitability of LTC insurance for this person.
- Ask participants: What aspects of her situation raise concerns about whether she should buy LTC insurance?
- Possible Answer: Pauline could move in with daughter for care if needed, or get help from daughter. She does not have much income or assets to protect. She is older so premiums are less affordable.
- Ask participants: What reasons might this person have for buying insurance?
- Possible answer: Pauline may not want to rely on her daughter. She may have a desire to “pass on estate,” even if modest. She is still in good health. An option may be to purchase facility care only coverage to pay most catastrophic expenses and her daughter could provide home care if needed.

## Benefit Payment Method

- Reimbursement – Policy pays 100% of LTC expenses up to a pre-set amount you choose
- Indemnity – Policy pays a pre-set amount each day you have LTC expenses even if your expenses are less than that
- Disability – Some policies pay “cash” for each day you are disabled, even if you do not incur any LTC expenses
  - You decide how to spend that money

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### Talking Points for Slide 14:

- Most policies today use reimbursement approach, which is less costly and more efficient for insured. The policy only pays as much as incurred in expenses – not more.
- Most indemnity policies only pay flat amount for facility care and do not pay for home care. These policies are intended to cover the “extra charges” beyond room and board.
- But many reimbursement plans include “extras” in the expenses that can accumulate for reimbursement.
- The disability model is more expensive (about 40 percent more). It is less critical today than in prior years because policies today now cover a broad range of care settings and provider types. When disability products first emerged in 1980s, that was not the case – so having a cash payment made more sense then than it does today. Still, it is simpler to understand and to administer. It provides advantages to a younger person, because there is more uncertainty regarding what LTC services and providers may exist in the future than today.

This approach gives more flexibility to pay for care without everything having to be defined in the policy contract.

## Example

Marie is in nursing home that costs \$120/day

- Reimbursement policy pays her actual expenses up to \$150/day
  - Policy pays \$120 for Marie's nursing home care
- Indemnity policy pays \$150/day.
  - Policy pays fixed amount, so pays Marie \$150/day
- Disability policy pays Marie \$150 per day
  - Marie decides to move out of the nursing home and live with her daughter
  - Marie continues to receive \$150 per day from her policy even though she is not incurring any LTC expenses and is receiving care from her family

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### Talking Points for Slide 15:

- Trainers should use this example to clarify the differences in these policy types.
- Keep in mind that with all of these policy types, if Marie's expenses are \$170/day, the most that she will get from any of these policies is \$150/day.
- This slide helps explain why the indemnity and disability policy approach costs more than the reimbursement policy – products that use the Indemnity and Disability approach pay out a higher amount on any day when care costs are less than the “full” benefit amount.

## Payment Method Example

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

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### Talking Points for Slide 16:

- This table summarizes the “net payment” to the consumer with each of these types of policies.
- The reimbursement policy pays all of Marie’s expenses, but does not pay more than that, so there is no net payment to her.
- In contrast, the disability model provides Marie with \$280 additional cash in excess of the LTC costs she incurs.
- This is just one example. The net payment will obviously differ if the type and amount of LTC someone receives is different than what is shown here.

## Things to Consider

- Reimbursement approach is most cost-effective (and most common)
- Indemnity approach gives more additional flexibility to pay for some “extras” that might not otherwise be covered
- Disability approach gives the most flexibility, but costs about 40% more in premiums

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### Talking Points for Slide 17:

- Trainers should summarize the pros and cons of each option.
- Least costly is the reimbursement approach. Most costly is the disability model. Indemnity is in the middle.
- The flexibility of the disability model is its biggest advantage, but less critical today where policies already cover a wide range of services.
- Companies that offer the disability model also offer one or both of the other approaches.
- Most of what is bought today is the reimbursement approach.

## Types of LTC Insurance Policies

- Individual (about 80% of all LTC policies)
- Association-sponsored group (small segment of the market)
- Employer-sponsored group (about 15%)
- Sponsored by Continuing Care Retirement Community (small segment of the market)

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### Talking Points for Slide 18:

- An agent sells the majority of LTC policies one-on-one.
- A small segment of the group market is policies sold to association members (e.g., American Medical Association or American Bar Association) that offer a group discount of usually between 10 and 15 percent. The offering may be more limited choices than if the policy was bought directly from an agent. However, the same underwriting process is used as if bought from an agent.
- Employer-sponsored plans are the fastest growing segment, but currently only comprise about 15 percent of all policies. Employers usually do not pay any part of the premium, but make the coverage available and premiums are paid through payroll deductions. Underwriting is often simplified for employees who are actively at work (i.e., not on leave).
- Partnership policies available are in all of these markets. This type of policy is appropriate for a small segment of the market and is designed specifically for a more moderate-income population. These policies offer limited coverage (1 to 3 years) and are approved for additional “spend down protection” from Medicaid asset spend down rules.

## Tax Treatment of LTC Insurance

- Most policies are federally-tax qualified (85%+)
- Premiums tax deductible under certain circumstances
- Benefits received tax-free
- Certain consumer protection features required
- Criteria for receiving benefits are uniformly defined and mandated

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### Talking Points for Slide 19:

- A vast majority of LTC insurance sold today is federally-tax qualified (TQ).
- It offers more standardized policy terms and consumer protection features.
- TQ requirements “codified” prevailing “best practices” in LTC insurance at the time the law was passed. This did not change the number of insurance companies operating, but did bring companies up to that level.
- Premiums are tax deductible if medical deductions are itemized.
- Benefits are received tax-free.

## Specifics on Premium Deduction

- Deductible if premium and other health/medical expenses exceed 7.5% of adjusted gross income
- Up to limits by age (adjusted yearly for inflation)

<u>Age</u>	<u>Maximum Deduction (2003)</u>
<40	\$250
41-50	\$470
51-60	\$940
61-70	\$2,510
71+	\$3,130

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### Talking Points for Slide 20:

- Trainers should review the specific rules for when an individual can take a tax deduction for their LTC insurance premium.
- First, an individual must have medical expenses, including the premium that exceeds 7.5 percent of adjusted gross income.
- If so, the amount of the premium that one can deduct depends on their age.
- These amounts increase with inflation each year.
- An insurance company can provide the maximum deduction for current year.

## 2004 Premium Deduction Amounts

- 2004 amounts
- Up to limits by age (adjusted yearly for inflation)

<u>Age</u>	<u>Maximum Deduction (2004)</u>
<40	\$260
41-50	\$490
51-60	\$980
61-70	\$2,600
71+	\$3,250

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### Talking Points for Slide 21:

- This slide presents the tax deduction for tax year 2004.

## Tax-Qualified vs. Non-Qualified

### Tax Qualified (TQ)

- Premiums deductible, in certain circumstances
- Benefits tax free
- Disability expected to last at least 90 days
- Cannot use “medical necessity” as basis for paying benefits

### Non-Qualified (NQ)

- Premiums not tax deductible
- No IRS decision on whether benefits are taxable as income
- Can cover short-term disability (< 90 days)
- Can use “medical necessity” as basis for benefits

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### Talking Points for Slide 22:

- Often there is not much difference between TQ and NQ plans.
- TQ plans have added advantage that one can be certain that benefits are tax-free and premiums may be deductible if one qualifies.
- The differences between these plans are minimal, but some difference in access to benefits.
- Some short-term disabilities (lasting less than 90 days) may be covered under NQ but not TQ.
- “Medical necessity” benefit condition does not really add much, if anything, to benefit access since LTC is not about “medical” need.
- Few companies sell NQ coverage these days. Many who do offer NQ coverage, charge the same premium for TQ and NQ, which is often a sign that there are really no coverage differences.

## Tax-Qualified vs. Non-Qualified (continued)

### Tax Qualified (TQ)

- Must use at least 5 of the 6 ADLs and cannot require loss of more than 3 ADLs as basis for paying benefits
- Severe cognitive loss as basis for benefits

### Non-Qualified (NQ)

- Does not have to base benefits on ADL loss
- Does not have to use cognitive loss as basis for benefits and no prescribed definition of cognitive loss

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### Talking Points for Slide 23:

- TQ policies must use at least five of the six ADLs and cannot require loss of more than three ADLs as basis for paying benefits.
- Severe cognitive loss is a basis for receiving benefits in a TQ plan.

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