

# SHIBA



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Senior

Health

Insurance

Benefits

Assistance

## Section 8

## Long-Term Care

# Section 8, Long-Term Care

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# Long-Term Care

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## Goal

Participants will acquire a basic knowledge about how to compare long-term care insurance policies along with a basic understanding of some common insurance terms. Participants will learn how to help people decide whether long-term care insurance may or may not be appropriate for them.

## Objectives

On completion of this module, the SHIBA volunteer trainee will be able to:

- ◆ Define long-term care and long-term care insurance.
- ◆ Compare long-term care insurance policies.
- ◆ Identify some of the issues that can help SHIBA beneficiaries determine whether the purchase of long-term care insurance is appropriate.
- ◆ Refer beneficiaries to the appropriate agencies for the resolution of long-term care insurance-related problems.

## What is Long-Term Care

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Long-term care (LTC) is a range of medical, personal, and social services designed to meet the needs of people with disabilities and chronic illnesses. Long-term care is primarily for people who need help with the normal activities of daily living such as dressing, bathing, cooking, and self-care. Long-term care is often provided by a family member. Other long-term care providers can supplement or replace the care provided by a family member.

Most people think of long-term care as nursing home care. However, Oregonians have access to a broad range of services, from homemaker to skilled nursing facility care.

## Levels of long-term care

The National Association of Insurance Commissioners (NAIC) defines the three levels of long-term care as follows:

- ◆ **Skilled Nursing Care** - nursing and rehabilitative services provided by skilled health personnel on a *daily basis*, under orders of a physician.
- ◆ **Intermediate Care** - the same as skilled nursing care, except that procedures may be provided on an *occasional basis*.
- ◆ **Custodial/Personal Care** - assistance in activities of daily living that can be provided by persons *without medical skills*.

## Types of LTC services

- ◆ Assisted Living
- ◆ Home health care
- ◆ Adult foster homes
- ◆ Hospice care
- ◆ Adult day care
- ◆ Nursing Home
- ◆ Respite care
- ◆ Homemaker services
- ◆ Social services
- ◆ Family caregivers

## Long-term care settings

### *Institutional care*

*Nursing home* is a broad term that has come to mean any care provided on an inpatient or residential basis. The resident lives on the premises for 24 hours a day for a short stay of just a few days up to an indefinite stay. The care associated with nursing homes ranges from acute care follow-up with skilled nursing care to custodial care providing assistance with activities of daily living (ADL) such as eating, bathing, transferring and other non-medical services.

### *Community-based services*

For those determined to maintain their independence and avoid unnecessary nursing home stays, long-term care means a combination of services designed to fit their needs

at different times. A variety of services can be provided by skilled care and unskilled service providers in the patient's home.

Community-based services include nutrition programs (such as Meals on Wheels), transportation programs, housing programs, information and referral, health services, senior centers, and other services. In Oregon, community-based care includes in-home care, home health care, adult foster care, assisted living, homemaker chore services, adult day care/hospice care, and respite care.

## Oregon Medicaid beneficiaries

When the Medicaid program pays for long-term care, a Medicaid case worker will help choose the most appropriate care setting for the beneficiary based on the beneficiary's choices, individual needs, and abilities.

In other states, Medicaid beneficiaries may have access only to nursing facility care. In Oregon, those needing long-term care may stay at home; use adult day care services; live in a foster home, assisted living facility, or residential care facility; or live in a nursing home. The individual's health, behavior, and ability to perform the activities of daily living, as well as personal community support, determine which of these settings is most appropriate.

### *Aging in place*

The state of Oregon also believes that care should be as least disruptive as possible. Every effort is made to allow individuals to *age in place* even as that person's health changes. Services available may be medical or social/personal services. *Home health care*, for example, is medical in nature, while *home care* is designed to support people in their homes with non-medical or personal services like chores.



**Oregon's Philosophy** — Oregon's legislature and senior advocates believe that beneficiaries have a right to the most independent living situation possible, even when a chronic health condition makes self-care more difficult.

# Factors Affecting LTC

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Various studies indicate that **each of us has a 25 to 45% chance** of needing some form of long-term care during our lifetimes, if we live to age 65. And, nearly half of all Americans over 65 are expected to spend some time in a nursing home or need some other type of long-term care. Some long-term care facility residents are not aged, but are there because of disabling accidents, strokes, heart disease, or other chronic diseases. As each person ages, the likelihood that he or she will need some form of long-term care increases. Other factors affecting long-term care needs are as follows.

- ◆ **Women are more likely to need long-term care services than men are.** At any given time, of those 75 and over, 30% of women, but only 17% of men, need assistance with personal care. In addition, women have more chronic diseases that impair mobility such as arthritis and osteoporosis, than men do. Men have more acute health care needs.
- ◆ **Marital status also affects the need for long-term care.** According to United Seniors Health Cooperative's *Long-term Care Insurance: A Professional's Guide to Selecting Policies*: "Being married reduces a person's chances of a long stay in a nursing home. Three times as many men over 75 years old are married as are women over 75. Therefore, women have a greater likelihood of a long stay in a nursing home because women generally live longer and outlive their husbands."
- ◆ **Mental impairment may lead to the need for long-term care**, e.g. Alzheimer's and other dementia related diseases.

Whether a person can remain at home is often **dependent on support systems**. Many older people do not live near their children; the traditional support system. They must rely on neighbors and friends who may not always be available. The trend toward smaller families also reduces the pool of children available to provide care to aging parents.

The need for long-term care services is further **affected by the changing roles of women**. Susan Palla and Barry Elridge, in their book, *The Insider's Guide to Long Term Care*, wrote that an average woman spends 17 years raising her children and an additional 18 years helping aged parents. However, more women work outside their homes now and are unavailable to provide this care.

## Paying for long-term care

Long-term care can be very expensive, especially if the duration of care is long. In 2001, the national average cost for private nursing home care was over \$50,000 a year. The cost of nursing home care is increasing by 5 to 10% per year, and the average stay in a nursing home is 90 days. This is why so many concerned Medicare beneficiaries seek ways to finance care.

Other family members may contribute toward the cost of care. Veterans may have service related care covered by the Veterans Administration. Finally, private insurance may cover some of the expenses related to LTC.



**Note:** LTC costs vary by geographic region.

### *Medicare coverage*

A small portion of long-term care costs – about 2% – are covered by Medicare, Medicare supplement policies or any other regular health insurance. **Medicare pays only for skilled nursing care following an approved hospital stay.** SHIBA volunteers should be familiar with Medicare's long-term care coverage and help their beneficiaries understand its limits. Review training information on Medicare Parts A and B for information about Medicare's long-term care benefits.

## ***Medicaid***

Medicaid pays for a large percentage of long-term care costs. Some beneficiaries may qualify for Medicaid due to high medical expenses that deplete savings and other assets or may qualify for Medicaid immediately because of low income and assets and high long-term care expenses. Review the Medicaid training materials for information about Medicaid eligibility and benefits.

## ***Personal assets***

- ◆ **Savings accounts** can be used to set aside money that would have been used to pay premiums on a long-term care policy. A careful program of savings and investments may be set up to provide financial resources for future medical expenses. A personal savings plan is subject to the risks of inflation and requires self-discipline, but allows individuals to retain use of their funds independent of the limitations and exclusions of an insurance policy.
- ◆ **Annuities** may be an option. Be sure to contact a reputable agent, banker, attorney, broker, or financial planner before entering into any agreement. Be wary of individuals or sales agents who promote investment schemes.
- ◆ **Good financial and estate planning** can help alleviate the cost of long-term care. Consult a financial planner or attorney well versed in the problems, issues, and needs of the older person.
- ◆ **Home equity conversions, reverse mortgages, or sale leasebacks** are ways to convert home equity into cash to finance long-term care. There are some reverse mortgage brokers in Oregon. Ask at your local financial institution.
- ◆ **Other types of insurance.** Some life insurance policies offer *accelerated death benefits* to policyholders who are terminally ill or who need long-term care.

## Who really pays for long-term care?

1994 payment of nursing home expenses is reflected below.

Source of payment	Oregon percentage	National percentage
Medicaid	61.1%	68.8%
Medicare	6.8%	6.0%
Private pay/other	32.2%	25.2%

1% of all long-term care is funded by private insurance (included under *other*).

### *How much does it cost?*

Oregon's Seniors and People with Disabilities Services (Medicaid) pays for most publicly-funded long-term care. The average private pay patient will pay more. The estimated average private-pay patient pays \$3,500 per month in Oregon.

2003 Long-Term Care Average Medicaid Monthly Costs per Beneficiary	
Type of care	Medicaid pays
Nursing Facility	\$2,820 - \$3,930
Adult Foster Home	\$917 - \$1,592
Residential Care Facility	\$917 - \$1,592
Assisted Living Facility	\$651 - \$1,840

# Long-Term Care Insurance

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Long-term care insurance is insurance designed to fund the cost of a long-term care stay. It is sold on both an **individual** and a **group basis**. Policies typically pay a flat rate for each day that the policyholder receives qualifying long-term care services. Some policies pay a percentage of the actual charges for care, up to a maximum amount per day. Long-term care insurance policies pay for a limited range of care services provided in a setting other than the acute care unit of a hospital.



Effective January 1, 1992, Oregon long-term care insurance policies are required to be comprehensive and pay for nursing home care, home care, assisted living, and adult foster care.

Provisions of the law allow companies to offer limited benefit policies that may pay only for *community-based* care settings such as foster homes or home health care. These are not considered true long-term care policies.

Long-term care insurance has evolved since 1966, when Medicare first covered nursing services. In the late 1970s, a few nursing home insurance policies provided limited custodial coverage. In the mid-1980s, long-term care insurance coverage became comprehensive and competitive. Due to the fact that people purchase LTC insurance policies well before there are any claims, the modern policies have not had a great deal of information on how well the policies pay claims. Consumers must compare and carefully review long-term care policies.

## Oregon law

Oregon's Insurance Code contains important laws governing long-term care insurance. The most significant provision requires insurance policies to pay for a comprehensive range of benefits. As of January 1992, any policy that offers a nursing facility benefit must also pay for assisted living, adult foster care, and home care.

Other important aspects of the law include the following provisions:

Effective January 1, 1990:

- ◆ Policies must pay for the treatment of Alzheimer's disease and other organic dementias such as those resulting from Parkinson's or inoperable tumors.
- ◆ Policies cannot require that a policyholder go to a hospital before benefits will be paid for other long-term care settings.
- ◆ Policies cannot require that a policyholder receive a higher level of institutional care before benefits will be paid for a lower level of care.
- ◆ Pre-existing conditions must be covered after six months.

Effective January 1, 1992:

- ◆ Benefits must be payable based on the policyholder's inability to perform the activities of daily living.
- ◆ Qualifying for home benefits must be easier than qualifying for nursing home benefits.

## SHIBA counseling on LTC

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As discussed, there are several ways to pay for long-term care should an individual need it. **The SHIBA volunteer helps consumers understand long-term care insurance and its role.**

There is a great deal of controversy surrounding the sale of long-term care insurance. Many people can't keep up with premium payments. These individuals drop their policies after having paid premiums for several years, receiving nothing for those years of premiums. That's why it's important for SHIBA volunteers to help beneficiaries make the best decisions possible.

The National Association of Insurance Commissioners (NAIC) has developed model laws and regulations for long-term care insurance. Oregon statutes and rules don't yet include all the NAIC recommendations; however, the state recognizes the importance of the work done by the NAIC. One of the most important efforts of the NAIC is the development of *suitability* standards for long-term care insurance. The NAIC provides a worksheet to help insurance companies and consumers determine whether or not an individual should buy a policy. This worksheet is included in the Appendix of this training material.

Medicare beneficiaries may not want to disclose this personal information to a volunteer. The beneficiary may make the choice to take the form home to complete. You may assure those who do share financial information with you that it will remain confidential.

## **Long-term care insurance model regulation**

### **Things you should know before you buy long-term care insurance**

#### ***Long-term care insurance***

- ◆ A long-term care 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/Medicaid***

- ◆ Medicare does not pay for most long-term care.
- ◆ Medicaid will generally pay for long-term care if you have very little income and few assets. You probably should not buy this 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 to keep your house and furniture, a living allowance, and some of your joint assets.
- ◆ Your choice of long-term care service 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 Commissioner's "*Shopper's Guide to Long-Term Care Insurance.*" Read it carefully. If you have decided to apply for long-term care insurance, you have the right to return the policy 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 long-term care 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.

## ***Who is a good candidate for a long-term care policy?***

A long-term care insurance policy may be right for a person who:

- ◆ Has assets to protect or leave to others.
- ◆ Is able to afford monthly premiums.
- ◆ Would be unable to pay out-of-pocket for a long duration of long-term care if the need arose.
- ◆ Has a family health history of disabling disease, e.g. heart disease or arthritis.
- ◆ Wants to protect family members from the burdens of caregiving.
- ◆ Doesn't wish to use the Medicaid system.



**Tip:** The beneficiary who is a good candidate for long-term care policy will pay less by buying the policy sooner rather than later, and may avoid being denied due to underwriting.

## ***Who should not buy a LTC policy?***

A policy is probably not the right option for a person who:

- ◆ Has few or no assets to protect.
- ◆ Is unable to afford the premiums.
- ◆ Is already disabled or has a serious health problem.
- ◆ May meet Medicaid eligibility requirements.

## ***Other factors to consider***

For the beneficiary who appears to want to explore these issues in greater depth, here are some additional things to consider:

- ◆ **Age.** The older people are, the more likely they are to need some form of long-term care services.
- ◆ **Living circumstances.** People who live alone are more likely to need some form of *formal* long-term care services. In married couples, a husband typically predeceases his wife.

- ◆ **General health.** Most long-term care is related to a chronic illness like heart disease or arthritis.
- ◆ **Medications.** The more medications an individual uses, the more likely that long-term care services will be needed in the future.
- ◆ **Type of home.** Does the floor plan allow a mobility- impaired individual to get around? Some homes present a lot of barriers; however, a person can live independently in a well-designed barrier-free home even when severely impaired. Also, in some housing situations (apartments or mobile home courts), neighbors are more likely to keep an eye on a frail person, assuring their safety and health.
- ◆ **Age of parents and other relatives.** Long-lived parents generally have long-lived children.
- ◆ **Length of stay.** According to the United Seniors Health Cooperative’s publication, *Long-term Care Insurance: A Professional’s Guide to Selecting Policies*, “The lifetime risk of entering a nursing home is often misleading because almost half of the nursing home residents either enter a nursing home for a short recuperative stay following hospitalization or die within three months. It is more useful to consider a person’s risk for a long stay in a nursing home.”

**Questions to ask:**

- ◆ What is your attitude about your adult children or other relatives caring for you?
- ◆ What is your attitude about living with your adult children or other relatives?
- ◆ What is your attitude about receiving financial assistance from your children or other relatives?
- ◆ What is the availability of your adult children or others to provide care for you?
- ◆ What is your attitude about receiving Medicaid?
- ◆ What is your attitude about leaving your estate to your children or others?
- ◆ Are you comfortable with the state or others making decisions regarding your health care? If so, who? Have you given someone power of attorney for your healthcare? Have you completed an Advance Directive?

- ◆ You have the right to control your health care. You can state your wishes for care by completing an Advance Directive form on which you write down what medical treatments you would want if you became unable to speak for yourself.

## *Expectations*

Many long-term care insurance beneficiaries have unrealistic expectations of insurance products. Some believe that by purchasing it, they will never have to go to a nursing home. Somehow they believe that owning a long-term care insurance policy will mean that they can stay at home forever. The important thing to remember is that **individuals' health determines** what kind of long-term care they may need. The insurance policy does not determine what kind of care a policyholder needs!

While some people are frightened into buying a policy, others believe that the government will adopt a national long-term care insurance program similar to Medicare. SHIBA volunteers should advise their beneficiaries not to base their decisions on proposals that may be before Congress.

## **LTC insurance benefits and features**

Long-term care insurance is usually indemnity insurance, meaning that it pays a fixed dollar amount of the costs as in other health insurance. Daily benefits typically range from \$10 to \$150 per day or more. The higher the daily benefit, the higher the premium. Other policies pay based on actual expenses up to a daily or monthly limit.

Older policies pay when care is medically necessary. However, Oregon law requires new policies to pay when the policyholder is unable to perform certain activities of daily living, or when care is functionally necessary.

## ***Length of benefit***

Most plans are purchased for a specific period of time. For example, policies can be purchased for one, two, five, or ten years of coverage. This means that the insurance company will pay its daily benefits for up to the number of years the individual chooses for any period of confinement. Some policies provide *lifetime* benefits. **In Oregon, true long-term care insurance must pay for at least two years of benefits.** Often a policy's benefits are also limited by a total dollar amount payable, known as a *lifetime maximum*.

Some policies also offer a ***restoration of benefits*** clause which allows total benefits payable to be restored once the policyholder has not been receiving benefits for a stated *period of time*.

## ***Elimination/waiting period***

This term applies to the number of days an individual must be receiving eligible care before the policy will pay benefits. Plans offer specific **elimination or waiting periods**, including zero days, 20 days or 100 days. A plan with a zero-day elimination period will begin paying benefits on the first day of eligible care. A plan with a 20-day elimination period will begin paying on the twenty-first day of eligible care. A plan with a 100-day elimination period will begin paying the one-hundred-first day of eligible care.



**Note:** The elimination period amounts to the same as a deductible and must be met before the plan will pay. This is important to understand because the policyholder will need to have resources available to cover the costs of the care received during the elimination period.

Remember, more than half of nursing home residents stay in a nursing home less than 90 days. If a consumer buys a plan with a 100-day elimination period, he or she may be out of the nursing home before the insurance company has to pay benefits. The policyholder will have to pay the entire costs of that care.

## ***Underwriting and health questions***

Because long-term care poses a potential for great expense, insurance companies rely on answers to health questions when underwriting policies. Before a policy will be issued, the applicant must be in relatively good health. Companies look for conditions like heart disease, forgetfulness, arthritis, Parkinson's disease, and Alzheimer's. People with such health problems will probably be denied a policy.

Insurance companies use the underwriting process to avoid policyholders who present a great risk of needing long-term care. It's important that applicants complete health questionnaires accurately. If a questionnaire is falsified, the policy can be cancelled - leaving the policyholder without coverage.

## ***Policy exclusions***

Long-term care insurance policies may not cover non-organic mental or nervous conditions. Many will not pay for losses associated with drug or alcohol use or abuse (not including prescription drugs taken according to a doctor's orders) or losses covered by other insurance (like Workers' Compensation). Read the exclusions section of the policy carefully.



**Note:** Even though long-term care insurance is guaranteed renewable, premiums may still increase.

## ***Renewability***

Individual long-term care insurance policies sold in Oregon must be **guaranteed renewable**. As long as the policyholder pays the premium, the coverage cannot be cancelled.

Group plans are subject to different requirements. Employer-provided group long-term care insurance may be cancelled, depending on the contract provisions.

## ***Waiver of premium***

Most long-term care policies include a ***waiver of premium*** feature. Typically, after the policyholder is confined to a nursing facility (or other covered facility) for 90 days, no additional premium is payable until the policyholder is discharged from the facility.

## ***Inflation protection***

A policy that pays \$50 a day will not go very far in ten years. Some policies offer inflation protection to protect the policyholder from the rising cost of care. In many cases, the option must be chosen at the time the policy is purchased and the cost is included in the premium. In other cases, inflation protection can be purchased at stated intervals during the life of the policy. The right to purchase more benefits in the future, however, may actually cost more than buying a larger daily benefit today. For example, an \$80 daily benefit that increases by a simple 5% a year will provide \$160 a day in 20 years, but if it's compounded, it will provide \$212 a day.

## ***Portability***

Consumers should inquire about the portability of a policy if planning to move to another state. Individual states have differing regulations therefore it should be determined whether you will have coverage if you move and what that coverage includes.

## **Covered services**

It is very difficult to compare the many long-term care insurance policies available today because the specific coverage and the exact use of terms varies considerably between policies and insurance companies. It is very important to read the **actual policy** for coverage definitions and benefits. Even the outline of coverage provided by the company can be incomplete.



**Note:** Beneficiaries should check into the cost of care in their own community to determine if a daily benefit will be adequate. You may use the NAIC *A Shopper's Guide to LTC Insurance* worksheet to compare costs.

An important aspect of the design of most long-term care policies is that the daily benefit amount for nursing facility care is often greater than the daily benefit for community-based care settings.

### ***Qualifying for benefits: Functional impairment***

Oregon law requires insurers to pay when an individual has an inability to perform three of the five Activities of Daily Living (ADL). The standard is needing assistance with:

1. Eating and prescription drugs
2. Dressing
3. Personal hygiene
4. Mobility or transferring
5. Bowel and bladder control

It must be easier for the policyholder to qualify for home care benefits. Therefore, the state has adopted rules that require insurers to use a less restrictive standard for home care.

Each company may develop its own definitions, which can be no more stringent than the state's definition. That's why consumers must compare policies very carefully.

### ***Nursing home services***

Skilled, intermediate, and *custodial* care in a licensed nursing facility is covered by all long-term care policies. Most policies require that institutional care be under the direction of a physician or nurse. As long as the policyholder qualifies for benefits by being functionally impaired, benefits may be payable while the policyholder is in a nursing facility.

## *Assisted living services*

For qualifying beneficiaries, assisted living services provided by a licensed facility are covered. An assisted living facility provides home and community services in a more homelike and comfortable environment than the typical nursing home setting. Services are designed around the resident's needs. They encourage decision-making and social interaction, and provide more privacy than other types of institutions. Residents have their own apartments with their own personal belongings. Medical staff in assisted living facilities provide medical services, thus allowing individuals to age in place.

## *Adult foster care*

Policies must pay for adult foster care when provided by a licensed foster home and when the policyholder is functionally impaired. Adult foster homes provide care for elderly and disabled persons in a homelike environment. They can be any licensed family home or other facility in which residential care is provided for compensation to five or fewer elderly or physically-disabled adults who are not related to facility owner by blood or marriage.



**Note:** Group policies, such as Metropolitan/AARP, may be more restrictive than Oregon's adult foster care licensing requirements. Please refer to your policy coverage documentation to determine your coverage.

## *Home care and home health care services*

Home care, which includes home health care, must also be covered by long-term care insurance policies issued in Oregon. Home care services can help seniors to stay in the most independent of all long-term care settings. At the same time, advances in medical technology mean that very ill and frail people can receive skilled medical care at home.

Home care may include:

- ◆ Personal hygiene/bathing
- ◆ Personal care
- ◆ Housekeeping
- ◆ In-home skilled nursing care
- ◆ Meal preparation
- ◆ Nutrition and feeding
- ◆ Dressing
- ◆ Assistance with self-administered medication
- ◆ Social/emotional support
- ◆ Shopping
- ◆ Laundry
- ◆ Mobility and activity assistance
- ◆ Money management

Personal care is care provided by a certified nurse assistant under a plan prescribed by a doctor. Personal care services may include bowel and bladder care, first aid, emergency care, and assistance with feeding, bathing, and dressing.

## *Other possible services*

- ◆ **Adult day care.** These facilities provide temporary daytime care for frail and isolated people who seldom leave their homes. Day care includes social contact and health monitoring.
- ◆ **Respite care.** Respite care provides a needed break to assure that care will continue to be of high quality. Respite care can mean admitting the patient to a hospital or other institutional setting or sending caregivers into the patient's home for a specified period of time. Respite care allows caregivers personal business and relaxation time. Full or part-time caregivers can become emotionally and physically exhausted.

# Evaluating and Buying LTC Insurance

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SHIBA volunteers may be asked to help consumers compare long-term care insurance policies. The best method for comparing most policies is outlining their benefits on a comparison chart like the one found in the NAIC brochure, *A Shopper's Guide to Long-Term Care Insurance*. However, long-term care policies are diverse and difficult to compare.

As with any insurance policy, the evaluation of a LTC policy should proceed in the context of these questions: **How much coverage does the beneficiary need and how much can he or she afford?** A SHIBA volunteer can help a consumer recognize critical differences between policies by assessing policy definition and other features and requirements with the beneficiary's needs in mind.

## Premium

Unfortunately, most consumers base their decision on the premium alone. However, many factors affect the amount of the premium. A consumer should not buy a policy simply because it's affordable. The consumer's age and health can influence the prices he or she pays. More importantly, the provisions of the policy itself determine the premium.

The type of policy, the deductible period, inflation protection, the daily benefit amount, and the maximum benefit all affect the premium. Insurance consumers should consider the following issues when thinking about premiums:

- ◆ **Insurers do not have perfect information.** Insurers base their premiums on their experience. A company which has a lot of losses will have higher premiums than a company that has paid few claims. Because long-term care insurance is a relatively new product, insurers do not have a lot of experience. More over, statistics on the usage of community-based care settings are still imperfect. Therefore, there is no guarantee that long-term care insurance premiums will remain stable until insurance companies have more experience and information.

- ◆ **The laws and insurance contracts are changing.** Long-term care insurance laws are changing all the time. Benefits available today were not on the market last year. As a result, premiums are unstable.
- ◆ **Affordability.** If purchasing long-term care insurance straps your beneficiary's budget, it should not be considered.
- ◆ **Age affects the premium.** The younger an individual is at the time a policy is purchased, the lower the premium.
- ◆ **Coverage options.** The longer the benefit period, the larger the daily benefits, and the shorter the elimination period, the higher the premium.

## Outline of coverage

At the time of application for long-term care insurance, the consumer must be given an **outline of coverage**. The outline should include:

- ◆ A description of the principal benefits.
- ◆ A statement of the principal exclusions, reductions, and limitations.
- ◆ A statement of the terms under which the policy may be discontinued or the premiums modified (renewability).

### *Replacement*

Because long-term care insurance is rapidly evolving, new policies are on the market every year. Some insurance agents may contact their beneficiaries every year to *update* their coverage. The factors affecting premiums come into play here. The better the benefits and the older the applicant, the higher the premium.



**Caution:** In many cases, the agent will also be receiving a new sales commission for *updating* a policy. For this reason, replacing a long-term care insurance policy may not always be in the policyholder's best interest.

If a policy is replaced, the consumer will not face a new pre-existing condition waiting period. However, because long-term care insurance is subject to strict underwriting, **the applicant should make sure a new policy has been issued before canceling the old one.**

## **Type of policy**

LTC insurance is sold through employers, through certain associations, and on an individual basis.

LTC insurance is most frequently sold on an individual basis. These types of policies offer a great deal of flexibility and must be guaranteed renewable under Oregon law. The policies are filed with the Oregon Department of Consumer and Business Services and are subject to review and approval by the Insurance Division's Rates and Forms Section. A list of the policies currently approved for sale is available at the SHIBA central office. Call **1-800-722-4134** to request a current copy.

## **Tax incentives**

In January of 1997, new federal health insurance legislation was passed giving certain long-term care expenses tax-preferred or tax-exempt status. The Health Insurance Portability and Accountability Act (HIPAA) provides for annual tax deductions for individuals and employers on the purchase of qualified long-term care insurance. These deductions are subject to limitations. Please refer to your tax consultant or [www.irs.gov](http://www.irs.gov) for the most up to date information.

The 1999 Oregon Legislature passed a law effective for tax years 2000 and after that provides an Oregon tax credit for Long-term care insurance premiums paid. Policyholders may qualify to claim a tax credit for qualified long-term care premiums. Employers also may qualify for a credit if they provide this insurance for their Oregon employee's. For more information see <http://www.oregon.gov/DOR/> or ask your tax consultant.

In addition, benefits may be excluded from taxable income subject to limitations. Finally, qualified LTC expenses not covered by insurance may be deductible for those taxpayers who itemize.



**Tip:** Before choosing a qualified plan over a non-qualified plan, it's a good idea to calculate how much would actually be saved. Are the savings worth potential lost value due to the stricter more limited benefit triggers of qualified plans? For many people, it may not amount to much. LTC insurance premiums may be deductible as a medical expense for those who itemize, but often times the limitations are too restrictive to allow for the deduction. Please see your tax consultant to determine your possible tax benefits.

## ***Qualified plans***

The special tax treatment outline above applies only to expenses and premiums from *qualified* LTC insurance policies. The benefit triggers that qualify an LTC plan for this tax treatment are:

- ◆ Certification by a licensed health care practitioner that the patient is unable to perform at least two activities of daily living for a period of at least 90 days due to a loss of functional capacity, *or*
- ◆ Certification by a licensed health care practitioner that the patient requires *substantial supervision* for protection from threats to health and safety, due to severe cognitive impairment. The U.S. Treasury's interim definition for *substantial supervision* is: continual supervision by another person that is necessary to protect the insured from threats to his or her health or safety.

Under the new law, LTC insurance plans must coordinate benefits with Medicare (in those limited instances in which Medicare covers LTC). In such cases, Medicare would be primary and LTC insurance would be secondary.



**Note:** The effect of HIPAA on LTC is based on tax law, not insurance law. It will be enforced by the U.S. Treasury Department, which will ultimately clarify much of the information contained in this section.

## Dealing with agents and companies

Consumers should always compare several policies before deciding to buy. Use the comparison form in the NAIC brochure, *A Shopper's Guide to Long-Term Care Insurance*, to compare policies. SHIBA volunteers should provide the following advice:

- ◆ Do not submit to high pressure. Ask the agent to leave anytime, maybe with the promise to call the agent to reschedule.
- ◆ Do not rely solely on information the agent tells you. All promises should be in writing.
- ◆ If you decide to cancel the policy, return it to the company, not the agent. Do it in writing and send it certified mail. Keep a copy of policy name, number and address for reference.
- ◆ Pay with a check to the company, not to the agent.
- ◆ Always write down the agent's name, phone number, and address, or keep the agent's business card.
- ◆ Make sure the policy is approved for sale in Oregon. *Oregon Long-Term Care: Insurance Companies and Consumer Tips* is available from the SHIBA central office.
- ◆ Find out about the company's complaint record. Oregon Insurance Complaints is also available from the SHIBA central office. The complaint report addresses how to investigate the financial health of an insurance company.

For copies of the above brochure call or write:

**Department of Consumer & Business Services**  
Insurance Division-2  
PO Box 14480  
Salem, OR 97309-0405  
1-888-877-4894 or (503) 947-7984 (press option 2)  
Visit our Web site: [www.oregoninsurance.org](http://www.oregoninsurance.org)

# LTC resources

## *Approved policies*

SHIBA central office ..... 1-800-722-4134  
www.oregonshiba.org

## *Complaints about insurance companies and their agents*

Oregon Insurance Division ..... (503) 947-7984 or 1-888-877-4894 (option 1)  
www.oregoninsurance.org

## *Complaints about long-term care facilities*

Long-term Care Ombudsman..... 1-800-522-2602

## *Complaint record of insurance companies*

Consumer Protection Section.....(503) 947-7984 or 1-888-877-4894

## *Licensed insurance agents*

Agent Licensing, Insurance Division ..... (503) 947-7981

## *Licensed nursing facilities and community-based care providers*

Seniors and People with Disabilities Services  
or call your local Area Agency on Aging..... 1-800-232-3020

## *Medicaid*

Seniors and People with Disabilities Services  
or call your local Area Agency on Aging..... 1-800-232-3020

## *Nursing home comparison*

Medicare..... www.medicare.gov

# Appendix A

## Long-term care insurance personal worksheet

### What is your annual income?

- Under \$10,000       \$10,000 to \$20,000       \$20,000 to \$30,000  
 \$30,000 to \$50,000       Over \$50,000

**It may not be a good idea to buy a policy if the premiums will be more than seven percent of your income.**

### How do you expect your income to change over the next 10 years?

- No change       Increase       Decrease

### Where will you get the money to pay each year's premium?

- Income       Savings       Other family members will help pay

### Could you afford to keep this policy if the company raised your premiums by 25 percent?

- Yes       No       Don't know

### Not counting your home, what is the approximate value of all of your assets (savings and investments)?

- \$0 to \$20,000       \$20,000 to \$30,000       \$30,000 to \$50,000  
 Over \$50,000

**It may not be a good idea to buy this policy if your assets are less than \$30,000.**

### How do you expect your assets to change over the next 10 years?

- Increase       Decrease       Stay about the same