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Understanding Long-Term Care Insurance

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It's a fact: People today are living longer. Although that's good news, the odds of requiring some sort of long-term care increase as you get older. And as the costs of home care, nursing homes, and assisted living escalate, you probably wonder how you're ever going to be able to afford long-term care. One solution that is gaining in popularity is long-term care insurance (LTCI).

What is long-term care?

Most people associate long-term care with the elderly. But it applies to the ongoing care of individuals of all ages who can no longer independently perform basic activities of daily living (ADLs)--such as bathing, dressing, or eating--due to an illness, injury, or cognitive disorder. This care can be provided in a number of settings, including private homes, assisted-living facilities, adult day-care centers, hospices, and nursing homes.

Why you need long-term care insurance (LTCI)

Even though you may never need long-term care, you'll want to be prepared in case you ever do, because long-term care is often very expensive. Although Medicaid does cover some of the costs of long-term care, it has strict financial eligibility requirements--you would have to exhaust a large portion of your life savings to become eligible for it. And since HMOs, Medicare, and Medigap don't pay for most long-term care expenses, you're going to need to find alternative ways to pay for long-term care. One option you have is to purchase an LTCI policy.

However, LTCI is not for everyone. Whether or not you should buy it depends on a number of factors, such as your age and financial circumstances. Consider purchasing an LTCI policy if some or all of the following apply:

- You are between the ages of 40 and 84
- You have significant assets that you would like to protect
- You can afford to pay the premiums now and in the future
- You are in good health and are insurable

How does LTCI work?

Typically, an LTCI policy works like this: You pay a premium, and when benefits are triggered, the policy pays a selected dollar amount per day (for a set period of time) for the type of long-term care outlined in the policy.

Most policies provide that certain physical and/or mental impairments trigger benefits. The most common method for determining when benefits are payable is based on your inability to perform certain activities of daily living (ADLs), such as eating, bathing,

dressing, continence, toileting (moving on and off the toilet), and transferring (moving in and out of bed). Typically, benefits are payable when you're unable to perform a certain number of ADLs (e.g., two or three).

Some policies, however, will begin paying benefits only if your doctor certifies that the care is medically necessary. Others will also offer benefits for cognitive or mental incapacity, demonstrated by your inability to pass certain tests.

Comparing LTCI policies

Before you buy LTCI, it's important to shop around and compare several policies. Read the Outline of Coverage portion of each policy carefully, and make sure you understand all of the benefits, exclusions, and provisions. Once you find a policy you like, be sure to check insurance company ratings from services such as A. M. Best, Moody's, and Standard & Poor's to make sure that the company is financially stable.

When comparing policies, you'll want to pay close attention to these common features and provisions:

- **Elimination period:** The period of time before the insurance policy will begin paying benefits (typical options range from 20 to 100 days). Also known as the waiting period.
- **Duration of benefits:** The limitations placed on the benefits you can receive (e.g., a dollar amount such as \$150,000 or a time limit such as two years).
- **Daily benefit:** The amount of coverage you select as your daily benefit (typical options range from \$50 to \$350).
- **Optional inflation rider:** Protection against inflation.
- **Range of care:** Coverage for different levels of care (skilled, intermediate, and/or custodial) in care settings specified in policy (e.g., nursing home, assisted living facility, at home).
- **Pre-existing conditions:** The waiting period (e.g., six months) imposed before coverage will go into effect regarding treatment for pre-existing conditions.
- **Other exclusions:** Whether or not certain conditions are covered (e.g., Alzheimer's or Parkinson's disease).
- **Premium increases:** Whether or not your premiums will increase during the policy period.
- **Guaranteed renewability:** The opportunity for you to renew the policy and maintain your coverage despite any changes in your health.
- **Grace period for late payment:** The period during which the policy will remain in effect if you are late paying the premium.
- **Return of premium:** Return of premium or nonforfeiture benefits if you cancel your policy after paying premiums for a number of years.
- **Prior hospitalization:** Whether or not a hospital stay is required before you can qualify for LTCI benefits.

When comparing LTCI policies, you may wish to seek assistance. Consult a financial professional, attorney, or accountant for more information.

What's it going to cost?

There's no doubt about it: LTCI is often expensive. Still, the cost of LTCI depends on many factors, including the type of policy that you purchase (e.g., size of benefit, length of benefit period, care options, optional riders). Premium cost is also based in large part on your age at the time you purchase the policy. The younger you are when you purchase a policy, the lower your premiums will be.

Long-Term Care Insurance: How Does It Work?



Whether you've had a long-term care insurance (LTCI) policy for years or you're thinking of buying one, it's critical to understand exactly what set of conditions will trigger coverage. This information is the bread and butter of any LTCI policy. In addition, you should know how to file a claim, preferably before you're on the verge of needing care.

What determines if you're entitled to benefits?

LTCI policies differ on how benefits are triggered, so it's crucial to examine your individual policy. Here are some typical ways you can become eligible for benefits:

- You're unable to perform a certain number of activities of daily living (ADLs) without assistance, such as eating, bathing, dressing, continence, toileting (moving on and off the toilet), and transferring (moving in and out of bed). Look in your policy to see what ADLs are included, the number you must be unable to perform, and how your policy defines "unable to perform" for each ADL, as criteria can vary from one company to another (e.g., does the definition require someone to physically assist with the activity or simply to supervise the activity?).
- Your doctor has ordered specific care.
- Your care is medically necessary.
- Your mental or cognitive function is impaired.
- You've had a prior hospitalization of at least three days (this is rare with newer policies).

An LTCI policy may contain one or more of these provisions. The more specific the language in the provision, the less room for disagreements about coverage.

Who determines if you're entitled to benefits?

Just as important as what triggers benefits is the question of who decides if you've triggered them. These gatekeepers are an integral part of any LTCI policy--after all, they're the ones whom insurance companies rely on before paying out claims. In some cases, a policy may have more than one gatekeeper.

The best policies let you qualify for benefits if your own doctor orders specific care, rather than require that you be examined by an insurance company physician. Similarly, it's insurance companies that define performance criteria for ADLs, as well as create and administer tests to see if you satisfy the mental impairment threshold. Make sure you know who the ultimate decision maker is under your policy.

When will benefits start?

Most LTCI policies have a waiting period, commonly known as an elimination period, before you can start receiving benefits after you're judged medically eligible. Common waiting periods are 20, 30, 60, 90, or 100 days. During any waiting period, you're responsible for paying for your care, whether it's in a nursing home, an assisted-living facility, or in your home.

Some LTCI policies have no waiting period--you can start receiving benefits on the first day you need care. However, this type of policy is more expensive than a policy with a waiting period. Generally speaking, the longer the waiting period, the less expensive the policy.

Keep in mind that the calculation of the waiting period can vary from company to company. Some companies may count the days cumulatively (e.g., adding up the total number of days you spend in a nursing home, even with gaps), while others may count the days consecutively (e.g., adding the total number of days you spend in a nursing home without interruption). Also, some companies require only one waiting period for the life of the policy, while others require a waiting period every time you apply for benefits (unless you become eligible for benefits again within a certain period of time, such as six months or a year, in which case only one waiting period will need to be satisfied).

The mechanics of filing a claim

Ideally, you should know how to file a claim before you actually need benefits--you don't want to lose coverage on a technicality. Typically, filing a claim means submitting a written notice to the insurance company, along with a proof-of-loss form (supplied by the insurance company) and relevant medical records.

Most policies require you to give written notice of a claim within a specific time after needing care (e.g., 30 or 60 days). In addition, you may need to verify your condition in writing every 30 to 90 days. The company may also require you to submit to an independent medical evaluation by a physician of its choosing to verify your claim.

Follow the instructions in your policy carefully. If you don't, your insurance company can deny you benefits, in which case your only recourse will be to make a complaint with your state insurance department or file a lawsuit (and most companies limit the period of time in which you can file a lawsuit). Don't let all those premium payments go to waste--take the time now to understand the claims-filing process for your policy.

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