Course Objective

This course was created to teach advisors (CPAs, EAs, accountants, attorneys, financial planners, and insurance advisors) about the basics of long term care insurance including how it can and should be used in estate planning for low-medium-high income/net worth clients. In addition to the basics about Long Term Care Insurance, the material will cover “advanced” planning with Long Term Care Insurance through the use of a return-of-premium rider and paying for the policy in a tax-deductible manner through a corporation (in a discriminatory manner if possible for the owners).

While Long Term Care Insurance is not thought of as a potential malpractice or E&O problem for advisors, as expenses of Long Term Care Insurance increase, clients who do not have Long Term Care Insurance could pay hundreds of thousands of dollar for their long term care. If an advisor does not know and deal with this topic correctly for a client who ends up paying for their long term care out of their own pocket, malpractice and E&O problems could be filed by the client or ultimately the client’s estate should the client die.

Long Term Care Insurance

Introduction

Long Term Care Insurance is not a topic that most advisors have at the top of their list of important topics when helping a client with their estate or financial plan. Long Term Care Insurance is predominantly sold by insurance agents. However, as you will read in the following pages, long term care represents a huge financial risk for many clients and, increasingly, the topic is becoming more important for non-insurance advisors to learn so as to avoid malpractice or E&O claims for not recommending it to clients.

The motto of a Certified Wealth Preservation Planner (CWPP™) is to help clients protect their wealth and, when possible, to do so in a tax-favorable manner. This material will explain how Long Term Care Insurance works, the benefit to a client and his/her heirs and how, in the right circumstances, the tool can be used in a tax-favorable manner.

Is Long Term Care Insurance Right for Your Clients?

If your clients are not concerned about long term care, they should be. How do you know if Long Term Care Insurance is right for your clients? This
material was designed to help readers learn why Long Term Care Insurance is so important and how to help clients with the topic.

Long Term Care Insurance is not all about getting “coverage” for long term care benefits but about getting benefits the entire family deems appropriate for a parent who needs long term care while protecting savings and assets. If you ask a client what kind of long term care would they like to get and/or if they will need it in the future, the answer will naturally be “the best care possible.”

Many people are relying on Medicaid to take care of their long term care needs. Unfortunately, they often don’t realize that they lack control of the location where they receive this care and also the quality of the care they receive. Nursing homes that accept Medicaid recipients are only required to fill a minimum number of beds; they are not required to accept Medicaid recipients. The facility with Medicaid beds available for your client may not be close to friends or family members. Additionally, despite the fact that most of us would like to remain in our homes for as long as possible, as a general statement, there are no Medicaid benefits available for in-home care. Relying on Medicaid may also short change heirs since Medicaid benefits are recoverable from the estate of the Medicaid recipient after their death.

Is Long Term Care Insurance for the Client or the Heirs?

As a general statement, those who buy Long Term Care Insurance usually have had someone in the family who needed quality long term care but could not afford it due to the lack of Long Term Care Insurance.

While most clients would not opt for the low level of care that Medicaid affords them, most will, in fact, rely on Medicaid to take care of their long term care needs. This is a no-win situation for the client and the heirs. The client does not like the low level of service that Medicaid affords them and the heirs (typically a client’s children) are not happy to see their parent(s) live in a low-income nursing home facility.

To the extent a client does have money; that money will have to be spent to provide quality long term care. Family assets may not pass freely to heirs as intended, and any inheritance would be reduced (potentially to nothing) while the parent pays for his/her “quality” long term care. These assets can be protected by the purchase of Long Term Care Insurance. Unfortunately, many clients believe they won’t need long term care in the future, or they wrongly perceive the cost of Long Term Care Insurance to be high compared to the value of the benefits.

Again the question is whether the Long Term Care Insurance coverage is for the client or for his/her heirs? The answer is both; and with good education of
the client and the heirs, advisors can motivate clients to purchase needed long term care to round out a properly put together estate/financial plan.

What is Long Term Care?

The phrase “long term care” refers to various types of services provided for those needing assistance in order to function on a daily basis over a relatively long period of time. These services may be provided in a home environment or in nursing facilities, adult day care centers, and/or assisted living facilities (i.e., residential care facilities).

Long Term Care Insurance is available to help pay for some or all of these types of care. In addition, many Long Term Care Insurance policies pay for ancillary costs such as the cost of installing wheelchair ramps, shower grab bars, medical alert systems, durable medical equipment and/or the cost of caregiver training for a friend or relative.

Long term care services may be necessary due to physical or cognitive impairments of a client and are usually defined by the inability to perform tasks associated with day-to-day living. “Long term care” or “convalescent care” is not generally provided by hospitals and is not covered by Medicare or other medical insurance. Long Term Care Insurance will pay for convalescent care but does not pay for hospital or other medical benefits covered under health insurance policies and/or Medicare. Long term care services are typically considered custodial in nature and are associated with chronic and/or progressive conditions. The commonly accepted definition of “long term” is 90 days or longer.

Who Pays for Long Term Care?

Many people mistakenly believe that Medicare/Medicaid (Medi-Cal in California) or even health insurance will pay for long term care costs. (When discussing this issue, it is important to know the difference between “skilled care” and “custodial care”. See the Glossary for detailed definitions).

Medicare pays for skilled care only, while long term care is generally considered custodial, not skilled care. While Medicare “can cover” up to 100 days of skilled care, there are notable restrictions. The average number of days actually paid for by Medicare is currently 9, and days 21-100 require significant co-payments by the care recipient (Statistics from the Health Care Financing Association/Centers for Medicare & Medicaid Services).
In order to qualify for benefits under Medicare, certain requirements must first be satisfied including a three-day consecutive hospital stay prior to entering a Medicare approved facility. In addition, a client’s care must be rehabilitative in nature. In other words, once a condition ceases to improve and the client’s care is custodial rather than rehabilitative, the client becomes ineligible for Medicare benefits. Health insurance and Medicare supplement policies (Medigap) also exclude custodial care.

Medicaid, a Federal/State welfare program, is designed to aid the poor. In order to qualify for Medicaid, a client must have depleted most of his/her assets. If your clients are relying on Medicaid to pay for their long term care costs, they may be forced to choose from available Medicaid beds. This means that they may not be able to receive care in the facility or location of their choice. Depending on the availability of Medicaid beds in your area, your clients may end up far away from their relatives and friends. In addition, as a matter of federal law, Medicaid benefits are treated as a lien against the care recipient’s estate. In other words, Medicaid collects the “loan” from the estate after the care recipient’s death.

The MetLife Mature Market Institute in September of 2004 stated that the national average nursing home cost is $192 per day (which is more than $5,700 a month). Further and very discouraging is that the cost is rising at nearly four times the rate of inflation. The actual cost may be higher or lower in your particular area of the country. The cost for an hour of home health care ranges from $15 to $20; an 8-hour day of care in your home can easily cost $140. Unfortunately, the care recipient or the care recipient’s loved ones usually pay for long term care expenses out of pocket. Long Term Care Insurance is specifically designed to cover these costs so that personal and family resources are protected.

In the end, most clients will either pay for long term care expenses out of their pockets or will have Medicaid pay for their expenses. To the extent the heirs want a parent to have better care than Medicaid can provide, the heir pay for the long term care expenses out of their own pockets.

**Why Do Clients Need Long Term Care Insurance?**

Before clients purchase Long Term Care Insurance, they should understand the risk of needing long term care. The following statistics indicate the potential need for long term care and the benefits of purchasing Long Term Care Insurance.

For people over age 65, 1 in 88 will file a claim on their homeowners insurance, 1 in 47 will have an auto accident and 2 in 5 will need long term care. (Source: Robert W. Dawson, “Long Term Care Insurance: A Product for Today”, Journal of the American Society of CLU & ChFC, September 1996.) Despite the
substantially lower risks to a client’s home and auto(s), it is unlikely that they would own either without also purchasing insurance to protect their property.

Phyllis Shelton in her book “Long Term Care Planning Guide” stated that over 40% of Americans receiving long term care are under 65 years old. Before you question the validity of this statistic, consider cases such as Christopher Reeve, well known for his “Superman” movies, who was paralyzed in a horseback riding accident at 43 years old. Michael J. Fox, while not receiving care or services as a result of Parkinsons now, is at high risk of needing care in the future (and, unfortunately, he is uninsurable for Long Term Care Insurance now that Parkinsons had been diagnosed).

Many people think that Long Term Care Insurance is not necessary prior to retirement because disability insurance will replace a portion of lost income. Disability insurance, however, is designed to replace income necessary to pay ongoing bills. Disability insurance does not provide dollars needed to cover the additional costs associated with long term care.

The cost of long term care goes far beyond the cost of the care itself. Without Long Term Care Insurance, who would be able to help provide care to our elder clients? A son or daughter? A recent study by the National Alliance for Caregivers and The National Center for Women and Aging found that the average lost income of caregivers (including wages, promotions, and social security income) was $659,000 per caregiver.

Long term care does not discriminate. It can strike and devastate any family. The most catastrophic of long term care situations involve cognitive impairment. The average time span from diagnosis to death for an Alzheimer’s sufferer is 8 to 20 years. This is certainly the case for a man well known by all Americans, former President Ronald Reagan who suffered with Alzheimer’s disease for 10 years. An 8 to 20 year time span can represent a long term care expense of $500,000 to well over $2 million. The Alzheimer’s Association stated in 2001 that one in ten Americans suffer from Alzheimer’s disease, and 22 million Americans are expected to have Alzheimer’s disease by the year 2025.

**What is Long Term Care Insurance?**

Long Term Care Insurance is specifically designed to help clients pay for room, board, and convalescent care costs. It is designed with specific “benefit triggers” which determine whether the insured “qualifies” for policy benefits from the policy. These are physical limitations resulting in the inability to perform essential “Activities of Daily Living,” for example, eating, bathing, dressing, and getting in and out of bed (transferring). Such assistance may also be necessary due to cognitive impairment, such as Alzheimer’s or Dementia.
How Much Does Long Term Care Insurance Cost?

The cost of Long Term Care Insurance is dependent on two sets of factors. The first set of factors involves pertinent information about the client:

- Age and Marital Status
- Smoking Status
- Health (mental and physical) History
- Prescriptions

For example, the younger the client is and the better health, the lower the annual premium. Because the client’s age at the time of purchase has the most significant impact on the premium, it is best to counsel your clients to purchase Long Term Care Insurance sooner rather than later. Most policies are available for applicants between the ages of 40 and 84, although some issue as high as 100 years old and some as low as 18 years old. Ideally, one should consider purchasing Long Term Care Insurance during their pre-retirement years (mid 40’s to early 60’s).

The second set of factors that affect premium costs involves the type of coverage that a client could purchase. In general terms:

- The higher the deductible (i.e., longer the elimination period), the lower the premium.

- The shorter the length of coverage during which benefits will be paid (length of coverage) the lower the premium.

- The smaller the daily benefit (for nursing home and home care), the lower the premium.

- The more comprehensive the coverage, the greater the premium cost. Riders (additional benefits added to your policy) will increase the premium.

Even given these variables, there can be a significant difference in pricing from one company to another. If you do not intend on becoming a long term insurance expert, then it is very important to work with an advisor when determining the difference between competitive pricing and reckless pricing for your clients. A policy that is significantly less expensive than similar policies offered by other carriers may lack important benefits and features, such as waiver of premium, once the client begins receiving care. While this material will not make you a Long Term Care Insurance expert, it will go a long way towards
educating you on how to help your clients buy the right type of policy at the lowest possible cost.

**Designing the Long Term Care Policy to Meet Your Client’s Needs**

When helping a client with purchasing Long Term Care Insurance, use a Long Term Care Insurance request form to collect relevant information on your client. You can go to [www.thewpi.org](http://www.thewpi.org) and request one from the Wealth Preservation Institute.

The following is a list of questions and answers that will help you select the appropriate benefits and policy features that best fit your client’s needs. Help your client complete a request form, and submit the completed form to a respected Long Term Care Insurance broker who can obtain an estimate of premium for the client’s requested coverage.

**What Should I Look for in a Long Term Care Insurance Company/Product?**

Make sure the company is financially sound. Several major rating organizations (A.M. Best, Standard & Poor’s, Moody’s, and Duff & Phelps) rate insurance companies based on their financial strength and claims-paying ability. You should know the financial ratings for the insurance carriers that are being recommended to your client. It is advisable to use companies with a minimum A.M. Best rating of “A-“ (Excellent). Choosing a carrier with (pricing and claims) commitment to and experience in the Long Term Care Insurance industry is crucial. An otherwise well-recognized insurer may not be your best choice for Long Term Care Insurance if the carrier only recently began offering Long Term Care Insurance.

**What Type of Coverage Should a Client Buy?**

While most policies provide comprehensive coverage, there are three types of coverage plans that you may encounter.

Comprehensive Coverage refers to Long Term Care policies that provide benefits for nursing home and home health care services. These policies also pay for care received in a Residential Care or Assisted Living Facility, Adult Day Care, and other such services.

Nursing Home or Facility Only Coverage refers to Long Term Care Insurance that provides benefits if care is received in a nursing home (and, in
some cases, assisted living or residential care facilities) but not for care received at home or in community care settings.

Home Care Only Coverage provides benefits for those receiving qualified home health care services but provides no coverage if the care is received in a facility.

Few companies offer Home Care Only or Facility Only policies. These policies are somewhat less expensive than Comprehensive Policies, but they may not be a wise choice. Consider this: A Comprehensive Policy can act as a Nursing Home Only policy (if you happen to need care in a Nursing Home) or as a Home Care Only policy (if you happen to need care only in your home). However, a Comprehensive Policy can pay for benefits in any combination of settings, including Home Care, Assisted Living, and, eventually, a Nursing Home, as your care needs progress. But Nursing Home Only and Home Health Care Only policies lack this flexibility. Comprehensive policies give the most complete coverage while protecting the greatest future financial risk related to long term care. This not only helps the client but also the advisor from a future E&O/malpractice claim for not recommending a policy with the proper coverage.

How Does the Client Receive Benefits?

Two payment methods are generally available: Indemnity and Reimbursement.

Reimbursement policies reimburse clients for qualified expenses incurred “up to” the daily benefit amount that was purchased. Generally, unused benefits remain in reserve and are used to lengthen the client’s benefit period. For example, if a client buys a policy for $150 per day but only spends $120 per day, the remaining $30 remains in the “pool” of benefits available for use at a later date. If the cost of care on any given day exceeds $150, the insured must pay for the additional costs out of pocket. Most Long Term Care Insurance policies are reimbursement policies.

Some reimbursement policies pay Home Care benefits based on a monthly rather than daily, basis. This is a notable benefit because it can ease coordination of care services in the home. Using the same $150/day example, a policy paying Home Care benefits based on a monthly maximum would provide $4,500 on a monthly basis (in this example, $150 times 30 days). Because a monthly, rather than daily, maximum is used to determine the eligible amount to be reimbursed, the insured need not worry about exceeding the $150/day limit in long term care costs. Instead, the insured may receive $350 worth of qualified care on one day and still be reimbursed in full as long as the $4,500 monthly maximum has not yet been depleted. Because it is a reimbursement policy,
dollars left over at the end of the month remain in the pool and can, again, serve to lengthen the period of coverage.

Indemnity. With this type of policy, the full daily benefit amount that a client selects is sent to regardless of expenses incurred for care. For example, if a client selected $150 per day and then received qualified LTCI benefits under the terms of the policy, he/she will receive $150 per day for care even if only $120 per day is spent. If the client receives care costing more than $150 in any given day, he/she is responsible for paying the amount in excess of $150 out of pocket. There are a few Long Term Care Insurance companies that offer “monthly indemnity” policies. These policies will pay the entire monthly, rather than daily, long term care benefit as long as the client receives at least some qualified care under the terms of the contract during the month.

Using $150/day as an example, assume a client received 8 days of care in the month of June. A monthly indemnity plan would pay the entire $4,500/month while a daily indemnity plan would only pay $1,200 ($150/day times 8 days of care) regardless of whether or not the costs that the client incurred were more or less. This type of policy certainly sounds attractive, but the premiums can be quite prohibitive and very few companies offer monthly indemnity options.

Which Daily Benefit Should a Client Select?

The “Daily Benefit” is the maximum dollar amount that will be paid each day by the policy once the client becomes claim eligible. The national average daily cost of nursing home care is $192, and the national average cost per hour of home care is $18; however, the actual price may be higher or lower in your particular area of the country. (MetLife Mature Market Institute, September 2004)

The typical long term care policy purchased today has a daily benefit of $150 per day. The client will be responsible for any daily costs over and above the maximum daily benefit that is selected. For example, assume the client selects a maximum daily benefit of $150 per day, but the actual daily cost for Nursing Home Care is $170 per day at the time of claim. The additional $20 per day is treated as a co-pay. In other words, the client is financially responsible for the additional $20 per day. Most advisors recommend a client start by considering minimum daily coverage of $150 and adjust the benefit as the geographic area and financial situation dictate. The daily (or monthly) benefit is the most important part of the policy. Your client’s premium dollars are better spent on daily benefits than length of coverage or add-ons (riders). Remember, some level of protection is better than none at all.

When and Why is Inflation Protection Appropriate?
The younger the client at the time of purchase, the more important it is to purchase inflation protection. Long term care costs are estimated to more than triple over the next 20 years. Inflation protection can help your client’s coverage keep pace with these increasing costs. Buying a policy without the appropriate inflation protection option can leave a policy owner grossly underinsured when it’s time to file a claim, particularly if a number of years are likely to pass between the time the policy is purchased and the time a claim is made. It is the benefit available at the time of claim (not at the time of purchase) that is important.

Typical inflation protection options that are available include:

5% Compound – This option increases the benefit by 5% of the previous year’s benefit. It takes about 15 years for the original benefit to double. An alternate option may be to purchase twice the initial benefit and forego inflation protection altogether. Your clients may, however, find themselves underinsured if their life expectancy is significantly longer than 15 years.

5% Simple – This option increases the benefit by 5% of the initial daily benefit. It takes about 21 years for the original benefit to double. The option is less expensive than the 5% Compound Inflation Protection Option and can be a more appropriate option for those who are likely to use their policy within the next 15 years.

Guaranteed Purchase Option – In instead of automatically increasing the benefit every year (while the premium remains level), the Guaranteed Purchase Option allows the client to choose if and when they would like an increase in benefit; however, their premium will increase as well. For example, the insurance company might offer the capability to increase the policy benefit every three years. If the client chooses to do so, the increased portion of the policy benefit is charged at the client’s new attained age and added to the previous premium amount.

The most important element of a Long Term Care Insurance policy is the policy’s daily benefit. The right inflation protection option for a client depends on the selected daily benefit and the length of time until a claim is likely to be filed. It is particularly important to add an inflation protection option if the policy’s daily benefit is equal to or less than the current average cost. Assume the current cost of care in Sarah’s area is $150/day. She buys a policy for $150/day but does not add inflation protection. In 15 years, the cost of care will have increased to almost $300/day while her policy will only cover $150/day, only 50% of the actual cost.
Although they are a critical element, inflation protection options can add substantial cost to the policy. Insurance companies are offering more inflation options in order to provide additional flexibility with respect to both benefits and premium. The average age of a Long Term Care Insurance claimant is 80. Family history can also provide important clues to help determine how long it might be until a claim is filed and to select the appropriate inflation protection option.

The longer the policy owner is likely to own the policy, the more important it is to make the right inflation protection choice. For example, a 75 year old buying a policy today with 5% Simple Inflation Protection may be making a wiser and more affordable choice than if she purchased 5% Compound Inflation Protection. In just a five years, when she is 80, the difference in daily benefit wouldn’t be substantial enough to warrant the additional premium she would pay for the 5% Compound Inflation Protection Option. However, if her family history indicates a high rate of cognitive impairment combined with significant longevity, she may be wise to purchase 5% Compound Inflation Protection instead.

Do not trade a higher daily benefit or inflation protection for a longer benefit period. Long term care costs are increasing an average of 5% annually. A policy with adequate coverage today can quickly leave your clients underprotected if inflation protection has not been addressed appropriately. Remember, if the policy’s daily benefit is more than is needed at the time of claim, excess benefits remain in the benefit pool and can be accessed at a later date. Two policies with the same total benefit pool can provide very different claim experiences. Consider this: a two-year policy worth $400/day will last for more than four years if the insured only needs $200/day. On the other hand, a four-year policy worth $200/day cannot pay for care in excess of $200 on any given day even if care is only needed for two years.

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<th>Policy Design</th>
<th>Daily Benefit</th>
<th>Length of Coverage</th>
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<td>B</td>
<td>$200</td>
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The benefit accessibility for a policy owner needing $300/day in care for three years would be far greater with plan A, then with plan B. Think carefully about the daily benefit and the inflation protection option (they go hand in hand) and advise your clients to spend their premium dollars there before spending them on longer lengths of coverage or extra bells and whistles.

What Length of Coverage Should a Client Buy?
The “length of coverage” is the policy’s benefit period or benefit maximum. For example, a 5-year (1,825 days) policy worth $100/day can provide benefits for up to five years or a maximum of $182,500 ($100 multiplied by 1,825 days) once the client starts receiving benefits.

Consider this: The Journal of Financial Services Professionals ran an article in 2000 stating that the average nursing home stay is roughly three years, but only 15% of long term care occurs in a facility while 85% of care is received in the home and other community care settings. A care recipient entering a nursing facility today may have already received care in a home or community care setting for several years. One out of five people over 65 are expected to need care for longer than five years.

Perhaps the best way to tell how long the average person is likely to need long term care coverage is to use the insurance companies’ claim statistics which tell us that only about 9% of claims are expected to exceed 5 years. Coverage should be as comprehensive as possible without making the client uncomfortable with the premium. Have clients start with 5 years of coverage and scale back if it proves to be more than they can reasonably afford. Add coverage if the family history indicates a greater risk due to longevity.

The “rule of thumb” is—clients should not spend more than 7% of their annual income on Long Term Care Insurance premiums and they should be able to absorb a 40% increase in premium without having to terminate their policy. If you convey all this advice to your client and they are still uncertain of the length of coverage, remember, it is more important to have a higher daily benefit for a shorter length of coverage (for example, two years) than an inadequate daily benefit for a longer period of time.

Most policies are reimbursement policies. Remember, reimbursement policies pay the client back for actual expenses up to a daily limit. If the client doesn’t need or spend the entire daily benefit, the excess carries over to another day and can lengthen the period of coverage. If a client’s policy is $140/day for 2 years and the client only uses $70/day, the policy will last 4 years. On the other hand, if the policy is $70/day for 4 years, the client cannot get $140/day from the policy for 2 years. A reimbursement policy with a higher daily benefit, therefore, can be significantly more flexible than one with a lower daily benefit, even if it means sacrificing length of coverage.

What Elimination Period Should a Client Select?

The elimination period is simply the number of days (like a deductible) until the insurance company begins paying a benefit. The longer the elimination period, the less expensive Long Term Care Insurance premium,
but the **greater the potential out-of-pocket costs** when long term care is needed. There is a substantial premium difference between 20-day and 100-day elimination periods, but also consider the difference in “out-of-pocket” expenses when care is needed. At $200 per day for Nursing Home care, for example, a 20-day elimination period would cost a client $4,000 while a 100-day elimination period could mean a deductible of $20,000!

Generally a paid day of professional care (a “service day”) in the home is counted as one day towards the elimination period. If a client receives care from a home care agency on Mondays, Wednesdays and Fridays and receives help from friends and family members on Tuesdays, Thursdays and weekends, most companies will credit three days per calendar week towards the client’s elimination period. If the client owns a policy with a 90-day elimination period, it could take up to 6 months to satisfy the elimination period before the client begins receiving policy benefits.

Several long term care companies have “enhanced elimination periods.” An enhanced elimination period may work several different ways. It might mean that the company will credit the entire 7 calendar days towards the elimination period in any given week that the client receives at least one day of professional/paid care. Using the same 90-day elimination period example as above, a client could meet the elimination period in 90 calendar days while receiving only three days of care per calendar week. Some companies will waive the elimination period for home health care altogether, requiring that the client meet the elimination period only if he/she becomes confined to a facility. Make sure you know how the elimination period works on the policy or policies that you are considering for your clients as it can make a substantial difference in how quickly they qualify for the policy’s benefits.

The most frequently selected elimination periods are between 60 and 100 days. If you want the most complete coverage for a client, select a shorter elimination period. If the goal is to protect the client from the most catastrophic expense associated with a long term care event, select a longer elimination period. Regardless of the clients’ assets, suggest that they purchase no more than they can reasonably afford and a “deductible” that they can likely cover with their own income and assets.

**How Important is a Non-Forfeiture Option?**

A non-forfeiture option (if purchased) can guarantee a minimum benefit or return a portion of premiums paid if the policy terminates or the policy owner dies. In other words, for an extra cost, the client can be guaranteed to get “something back” from the policy no matter what happens in the future. Typically, the policy must be in force for a minimum period of time, 3 to 10 years, for example, before a benefit can be received. A non-forfeiture option, if chosen,
can increase the premium 15% to 40%. This increase in premium may be better spent on more important policy features such as an increased daily benefit, inflation protection, or a longer period of coverage. Consider carefully the potential benefits against the cost of adding the benefit to your client’s policy.

**Long Term Care Insurance Premiums**

Although Long Term Care Insurance policies are priced with the intention of maintaining level premiums, companies typically do not guarantee that premiums will remain level over time (called “non-cancellable” policies). In fact, some states will not approve such policies for sale because of concerns that future claims for Long Term Care Insurance will be higher than anticipated. Without the option of raising premiums as necessitated by higher than expected claims, a company could find itself without reserves to pay future claims.

Almost all policies, however, “lock in” the premium at the time of purchase based on age. Premiums cannot be increased, unless all policyholders in a certain class receive the same increase and the policy cannot be cancelled as long as the client pays the premium. This is known as “guaranteed renewable.” Some policies do guarantee level premiums for a minimum period of time, for example, for the first five policy years. It is important, however, to consider all elements of the company and the product. A ten-year rate guarantee from a company with a history of rate increases cannot necessarily be recommended over a policy without a rate guarantee offered by a company with no history of rate increases. In addition, a ten-year rate guarantee is of no benefit to a client if the premium is suddenly increased 40% in the eleventh policy year. In this case, the increase has not been avoided, only delayed.

It is not always advisable to have a client purchase a long term care policy from the company with the lowest initial premium; future premium increases could make it a more expensive policy in the long run. Buying Long Term Care Insurance from a reputable, established company with experience in the Long Term Care Insurance industry is a wise decision. Companies should be chosen for their responsible pricing, financial ratings, and experience in the industry.

A number of companies allow applicants to choose abbreviated payment options, for instance a 10-pay. The policyholder pays a higher premium for 10 years in order to have a fully “paid up” policy in a short period of time and, effectively, limit their exposure to future rate increases (rather than a lower premium to be paid every year indefinitely). After 10 years, the company cannot increase rates or require additional premium in order to keep the policy in force. Regardless of the premium payment option that is chosen, almost all policies will waive future premiums once the client begins receiving policy benefits. These abbreviated payment options are particularly attractive for
younger applicants and for those purchasing Long Term Care Insurance as a deductible expense within a corporation.

**What Special Benefits are Available for Married Couples?**

There can be substantial benefits for couples who apply for Long Term Care Insurance at the same time with the same company. Most Long Term Care Insurance companies offer a spousal discount for married couples who apply for (and are issued) coverage at the same time. This can make a significant difference in the affordability of the premium. Some companies will allow the discount to be applied if a spouse applies at a later date and some companies will allow the “spousal” discount for unmarried and/or same-sex partners who apply together.

Other available options, usually for an additional cost, include “Spousal Survivorship” and “Spousal Waiver of Premium” and “Shared Benefit” (not all companies offer these features). If you add the “Spousal Waiver of Premium” rider to a policy, future premiums will be waived for both insureds when one of them starts receiving benefits. If you add the “Spousal Survivorship” rider, all future premium payments are waived for the surviving spouse after the death of the first spouse. Usually the policy must be in force a minimum number of years (for example, 10 years) before the benefit is guaranteed and the benefit might not be available if claims have been paid.

Some policies allow couples to share benefits or access the each others policy benefits once they have first exhausted their own policy benefits. Shared benefits are an attractive way to leverage policy benefits while saving premium dollars. A couple wishing to buy six years of coverage apiece may find the premiums to be higher than they are comfortable with. As an alternative, they might choose to buy eight years of combined coverage. Both spouses can collect benefits at the same time or separately until the entire benefit pool is exhausted. At the death of the first spouse, typically any unused benefits continue to be available to the survivor.

**Sample Policy**

With so many different benefit options, choosing a long term care policy can be confusing. How do you know if you have an adequate benefit? After all, there can be any combination of benefits and features. Often the type of policy that best fits your client’s needs is the one with greatest coverage that can be comfortably afforded. The typical comprehensive long term care policy purchased today is:
• Daily Benefit $150
• Length of Coverage 5 Years
• Elimination Period 90 Days
• Inflation Protection Ages 40-69 - 5% Compound
  Ages 70-74 - 5% Simple

Look at the chart below for an estimate of the premium cost for this particular long term care policy. These premiums reflect a range for couples (discounts applied) as well as single applicants. The cost of a policy will depend on the client’s age, health, and the policy benefits that are selected. A client may also qualify for a preferred health discount.

<table>
<thead>
<tr>
<th>Age</th>
<th>Annual Premium</th>
<th>Age</th>
<th>Annual Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>40-45</td>
<td>$1,200-$2,500</td>
<td>65</td>
<td>$2,400-$4,100</td>
</tr>
<tr>
<td>50-55</td>
<td>$1,400-$2,700</td>
<td>70</td>
<td>$3,200-$5,300</td>
</tr>
<tr>
<td>60</td>
<td>$1,800-$3,200</td>
<td>75</td>
<td>$5,500-$8,900</td>
</tr>
</tbody>
</table>

The economic logic of these premiums compared to the cost of long term care services can be easily seen in the following example. Assume Ed, a 65-year old, buys a policy (as illustrated above) for $3,000 in annual premium. He pays premiums for 10 years before going on claim. He has paid $30,000 in cumulative premiums and is now 75 years old. Ed’s initial daily benefit of $150/day has now increased to $233/day because he selected the 5% compound inflation protection option. After suffering from a stroke, Ed enters an Assisted Living Facility that charges $250/day. Since this amount is in excess of his maximum daily benefit, Ed has out-of-pocket expenses of $17/day while his Long Term Care policy pays the rest. With a daily benefit of $233/day, Ed recoups his entire $30,000 in cumulative premiums in less than 5 months on claim.

What is painfully obvious about the above examples is that the longer a client waits to purchase Long Term Care Insurance the more expensive it will be.

Help Your Clients Reduce Their Taxes Today AND Provide for Potential Long Term Care Costs Tomorrow

None of us likes paying any more in taxes than necessary. The CWPP™ course was created in part to help advisors learn tax advantageous ways to help their high income/net worth clients. The key to successful tax planning is finding the section of the Internal Revenue Code that offers the largest deductions and provides the client and his/her family the greatest benefits. The purpose of this section of the material is to introduce you to a way to reduce income taxes today and enhance a client’s retirement and estate plans along the way. While there is no such thing as “free” Long Term Care Insurance, the solution discussed below is as close as a client can get.
Won’t the Government cover these Long Term Care Costs?

No. Not the way you would like them to. Did you know that in California an individual does not qualify for LTC coverage until his/her available resources are worth LESS THAN $2,500? In addition, once that individual begins receiving LTC benefits, the state takes all but $35/week of income from the patient. In a nutshell, clients will have to spend the vast majority of their savings before they get any help. Though clients may have more than enough saved to pay for these types of expenses, their potential health problem could wipe out their entire inheritance, which they hoped would go to their children or grandchildren.

I Do Not Think I Will Need It

Most clients often do not want to bear the risk of self-insuring their Long Term Care costs. So why haven’t more clients purchased LTCI? In a word—Education. We see clients insure their lives, homes, cars, and income but not an event (disability) that has the second highest probability of occurring in one’s lifetime (second only to death). Why? Part of it is the “it is not going to happen to me” mentality and part of it is the thought of having to pay LTCI premiums for the next 20-40 years with only a chance that you will ever use the insurance.

Would a client consider paying for LTCI if they could do so in a tax deductible manner and do so in a finite period like ten years? Would clients consider paying for LTCI if they knew that their heirs would receive every dollar of that premium at a later date Income Tax Free?

The IRS Gives Us a Break

What the federal government did with regard to a business being able to deduct the premiums for LTCI was significant. Under HIPAA (Health Insurance Portability and Accountability Act of 1996), LTCI premiums are treated like health insurance premiums for the self-employed. That means a C-Corporation, S-Corporation, P.C., or LLC can now take a tax deduction for 100% of the LTCI premium for employees (including owners).

For an individual to deduct any premiums, they must itemize their tax returns. The maximum deductible for an individual follows an age-based table. The following table illustrates the maximum deductible for the 2004 and 2005 tax year.
2004 Maximum Deductible
40 or under $260
41-50 $490
51-60 $980
61-70 $2,600
71+ $3,250

2005 Maximum Deductible
40 or under $270
41-50 $510
51-60 $1,020
61-70 $2,720
71+ $3,400

Premiums for individuals are treated like other health insurance and medical expenses and must total more than 7.5% of adjusted gross income to write off as a personal expense.

Self-employed business owners (or more than 2% owner in an S-Corporation (or LLC treated as an S-Corporation), sole proprietor or partnership) may deduct a percentage of the premium paid for Long Term Care Insurance for themselves, spouse, or dependents. Technically, the business would still take a 100% deduction for the insurance and the employee/owner would recapture the premium paid as income subject to the deductibility limits of the above table.

C-Corporations

The IRS has determined that Long Term Care, as an employee benefit, does not have to follow ERISA guidelines/discrimination rules. **This means that the employer can discriminate when deciding when purchasing Long Term Care Insurance benefits on the employees or owners (IRS Section 105(b)).** This benefit can create “Golden Handcuffs” for key employees and a “Golden Parachute” for business owners. This benefit allows the business to move business dollars into the hands of key executives.

If the client is an owner/employee/spouse or dependant of any kind in a C-Corporation and the corporation pays for the policy, the corporation can write off 100% of the Long Term Care Insurance premium and the premium is not recaptured by the owner/employee/spouse or dependant. Also, at the time of claim, the benefits paid from the LTCI policy are received by the client income tax free.

The benefits to the client will be income tax free in an unlimited manner so long as the policy is a reimbursement policy and the payments from the LTCI company are for real expenses incurred by the client. If, however, the client has an indemnity policy, the benefits could be taxable if they are in excess of $240 a day (indexed for inflation) and are over and above the actual expenses incurred by the client.
If you have clients with C-Corporations, there is no excuse for them to pay for their Long Term Care Insurance premiums without a 100% tax deduction.

**Would Your Clients Purchase Long Term Care Insurance if it were Free?**

If set up correctly, LTCI can literally be free to the client. How? With a return of premium rider. An example is the best way to illustrate the point.

**Problem:**

Doctor Smith, age 55, has an estate of $2,000,000 and an income of $400,000 a year. Dr. Smith is worried about possibly paying over $250,000 over his lifetime for LTC coverage for him and his wife. Dr. Smith also does not like buying insurance and does not want to pay LTCI for the next 30 years while he waits to become sick. Dr. Smith's solution to his problem is through a (1) limited pay LTCI policy paid for through his medical office (C-Corporation) on a (2) tax deductible manner with a (3) return of premium rider.

**Solution:**

1) Client's corporation pays a deductible premium of $12,000 a year for ten years (out-of-pocket cost for the physician: $7,200 a year);
2) Dr. Smith gets disabled at age 75 and needs home health care ($200 a day) until death at age 85. (Total LTC benefit for ten years = $730,000).

3) Dr. Smith dies at age 85 and his heirs (via payment to the client’s estate) receive the entire premium paid because of the return of premium rider. This amount = $120,000 which will pass income tax free (not estate tax free) to the heirs.*

*Some companies have a setoff on the return of premium rider for benefits paid.

**Bottom line for Dr. Smith**

The LTCI cost Dr. Smith $72,000 out of pocket over the ten-year pay period. His heirs receive $120,000 in cash (income tax free) from the LTCI company because of the return of premium rider, and his estate did not have to pay for the $730,000 in LTC costs incurred from age 75-85. Total Cost = $120,000; total Benefit $850,000.

By purchasing LTCI through the corporation with pre-tax dollars, Dr. Smith was able to protect his estate from LTC costs and was also able to return the entire premium to his heirs income tax free at death (not estate tax free).

In this example (assuming that Dr. Smith’s estate was worth $4,000,000 prior to needing LTC), Dr. Smith’s estate would have been depleted by 25% without LTCI in place to protect the estate. Those clients, who are serious about asset protection and would rather leave assets to their children than to the IRS, should look closely at this option as a way to shield family assets from the devastating effects of LTC costs.

**State Incentives**

**State Tax Incentives** - In addition to federal tax incentives for Long Term Care Insurance, many states have established their own tax initiatives. For example, Kansas (beginning in tax year 2004) allows a $500 state tax deduction for Long Term Care Insurance premiums. The deduction can be increased by $100 each year, with a maximum deduction of $1,000. Available deductions can vary greatly from state to state; make sure to verify tax rules for your state.

**Partnership Policies** - In addition to federal and state tax incentives, some states provide additional incentives to purchase Long Term Care Insurance. At this writing, four states (California, Connecticut, Illinois and New York) have established Partnership Programs; but it is expected that more states will be offering similar programs in the very near future. Essentially, a
Partnership program is a cooperative between the State, Medicaid (Medi-Cal in California), and various insurance companies that sell Long Term Care Insurance. Since Partnership policies must meet additional requirements mandated by the state, not all insurance companies offer them.

These policies provide extra benefits to the insured that are not available with standard non-Partnership policies or in states that do not have established Partnership programs. The benefits associated with a Partnership policy differ from state to state; however, they may include additional checks and measures involving future potential rate increases. In addition, should a Partnership policyholder exhaust their policy benefits and be forced to pay for ongoing care out of pocket, they are allowed a partial or, in some cases, a full credit against otherwise non-exempt assets when applying for benefits under Medicaid. In other words, Partnership policy owners can qualify for Medicaid benefits while retaining assets that would otherwise have to be exhausted first. Typically, these assets are also protected against estate recovery after the care recipient’s death so they can pass freely to heirs, rather than to the State. States with Partnership programs may require financial advisors to meet particular education requirements before they are authorized to sell a Partnership policy.

Summary on Tax Favorable Planning with Long Term Care Insurance

Many of the advisors who read this material will have clients who are concerned about both tax planning and asset protection. By having clients purchase Long Term Care Insurance through a corporation as a tax deductible expense is a way to “kill two birds with one stone.”

The client will be implementing a two-fold asset protection plan. First, the client is taking money from a corporation (that would otherwise be taken home after tax and invested in items that are typically not asset protected) and paying it to an insurance company where creditors will not have access to the money. Second, the client is protecting his/her estate net worth from the devastating costs of long term care by purchasing Long Term Care Insurance.

Many clients complain that their CPA/accountant or attorney never give any meaningful advice when it comes to tax planning. By bringing up to clients the ability to deduct premiums that sometimes could be in excess of $100,000 (for a one-time pay Long Term Care Insurance policy), advisors who are otherwise seen as not being pro-active can show a tremendous tax benefit to high income business owners.

Asset Based Long Term Care
The traditional sales strategies for Long Term Care Insurance (LTCI) involve conventional long term care policies. Now, however, there are product alternatives – the next generation of asset-based LTCI products.

Advisors should stop thinking about product-focused sales strategies and start thinking in terms of client-focused, asset-based strategies. The model of the CWPP™ program is the client always comes first and for many clients using an asset based LTCI policy will be the preferred way to go. The problem right now is that few advisors know asset based LTCI policies exist.

It is critical that the consumer and the agent agree that planning for long term care is appropriate and then find the right strategy. The objective should be to provide as much money as possible at the time of need to affect their lives positively. This focus takes us away from a narrow “product sales” focus into a real client-focused and asset-based strategy.

Asset-Based Strategy

The goal of the asset-based strategy is to position the client’s savings properly for the most possible leverage. Many clients who are concerned about potential long term needs plan to “self-insure” and create a “just-in-case” stash of money to pay for their care. The cash often is sitting idle in savings accounts, money market accounts, certificates of deposit, or annuities, and often will be the payment source for long term care.

Additionally, the mentality of the client is that they will not need Long Term Care Insurance; and it is a painful thought for the client to pay sizable premiums for several years with the belief that the premium will end up being a waste of money due to a lack of need for the coverage (this is contrary to the statistics, but perception of the client creates their own reality).

Asset-based LTCI revolves around the concept of creating a much larger benefit from idle money that is laying around (via a death benefit or long term care coverage) while at the same time creating a scenario where the funds are available should the client need the money for other needs. By moving this money into a properly designed life insurance policy, the clients retain control over these funds in case an emergency arises.

Asset-based long term care funding strategies are called such because, unlike conventional Long Term Care Insurance, they hold cash value. These policies are typically universal life insurance policies that include benefits for long term care. While the benefit can differ substantially from carrier to carrier, most of these contracts will prepay the policy’s death benefit if and when the insured needs long term care. Benefit triggers are similar to those required by conventional long term care policies, and some of these asset-based policies
also allow the applicant to add a Long Term Care Insurance rider to the policy. If, for example, the entire death benefit has been exhausted for long term care and the insured continues to need care, the Long Term Care Insurance rider will continue to pay the benefit.

Asset-based long term care is a great way to reposition existing assets so that, not only is an income tax free death benefit (at a value that is likely much larger than the original investment) passed on to heirs, but the dollars amount available for long term care, should it be needed, is much larger as well. This approach is ideal for clients who dislike the ‘use it or lose it’ aspect of conventional long term care policies’. After all, the death benefit will be paid (either to the insured or to the insured’s heirs) regardless of what happens to that client. A client who dies without using their conventional long term care policy loses any unused benefits and typically there is no benefit for heirs.

The following are features to look for in an Asset-Based LTC product:

**Money-Back Guarantee**

This is the most emotionally significant feature for the client. Even if the client never wants to pull all his or her money out, the fact that he could helps bring peace of mind. The client relaxes knowing that it is not an irrevocable decision. Without immediate access to the cash value of the life insurance policy, the client would think twice about purchasing this type of policy with money that is earmarked as emergency money (which might or might not be used for long term care expenses).

With some products, if the client pays the premium in on single deposit, the client will have access to the entire premium paid without the typical surrender charges associated with most life insurance policies. This creates, in essence, a tax deferred savings account where if the client never needs the money a much larger death benefit will pay to the heirs (verses the amount of money that would have paid to the heirs if the money would have grown in a taxable investment vehicle).

**Qualified-LTCI Benefit**

Part of the purpose of putting money in this kind of product is covering potential long term care costs. Advisors should be sure to offer a product that has qualified LTCI benefits that are tax free when paid to the client.

**Complete-LTCI Benefit**
The advisor should make sure the LTCI benefits are complete – they should cover a wide range of long term care situations, such as nursing homes, adult day care, and home health care. The goal is to help the client have as many options as possible.

**Highly Rated Carrier**

We are discussing life insurance and LTC. The product must be offered by a highly rated company. Guarantees must be based on the issuer's financial strength. The client needs to feel confident about the company’s commitment to this kind of coverage.

Advisors can expand the number of clients they help when they change their mindset about this kind of product. Advisors should think beyond the conventional long term care sale and consider what the asset-based LTCI product offers. The main focus is not scary statistics or trying to convince clients of the many reasons Long Term Care Insurance is something they need. It really is about finding the most appropriate strategy for the clients and finding the best way for their funds to meet their overall needs now and in the future. Using an asset-based LTCI product with the features mentioned can help provide the clients the control and tax benefits they want and the protection and asset leverage they need.

**Conclusion on LTCI**

Every advisor (CPA/accountant, attorney, financial planner, and insurance agent) should be familiar with the importance of helping clients protect themselves and their heirs from what happens when clients ultimately need long term care. Besides death, the one type of insurance coverage a client will use is LTCI. If clients do not have LTCI, many will have to spend down their estate in order to qualify for Medicaid and then will be forced to live in the lower grade nursing homes.

Long term care of an elderly client affects the whole family and proper long term care planning is as much for the client as the client’s heirs. If an advisor is doing an estate or financial plan for a client and the issue of long term care is not brought up, we believe the advisor is setting him/herself up for a potential E&O or malpractice claim from the client or the heirs of the client.

With the information learned in this educational module, advisors will be armed with enough knowledge to be able to help clients plan for their long term care needs and, in turn, make their lives and their heirs’ lives more enjoyable when and if the time comes for the client to require the assistance of an outside caregiver.
Glossary of Terms

Activities of Daily Living (ADLs) – Long term care may become necessary during or following a progressive, chronic illness or due to a sudden illness or accident. In general, coverage is triggered as a result of the insured’s inability to perform 2 or more ADLs. These ADLs include Bathing, Dressing, Toileting, Continence, Transferring (getting in or out of a chair or bed), and Eating. In addition to these, non-tax qualified policies will usually include Ambulating (“moving about”) as an ADL. The coverage may also be triggered by the insured’s cognitive impairment (confusion or disorientation of certain types, such as dementia and Alzheimer’s disease).

Adult Day Care – Multipurpose programs for elderly people that, on a daily basis, provide recreation and social services, hot meals and, in many adult day care centers, therapeutic activities. It may also include preventative health, medical, nursing and rehabilitation services. Care is provided on a less than 24-hour basis. Some adult day care centers provide transportation to and from their location. This may be a lower cost alternative to full-time home health care.

Assisted Living Facility (known as Residential Care facilities in California) – Retirement Community that provides senior citizens with housing and some level of care. The housing may be private, semi-private or efficiency apartments, with or without kitchenettes. “Common areas” are typically shared by all residents. The care may be minimal (meal preparation and housekeeping) or more advanced (bathing and medication distribution) but not to the extent provided by a nursing home. The cost for care may be included in the monthly fee or charged separately based on the number of hours and level of care provided.

Bed Reservation – The reservation (by means of continued payment) of a nursing home bed during times when a resident is either temporarily hospitalized or on leave (spending a holiday with family members, for example). Without this benefit, the bed may be given to another patient during an absence. Some policies pay bed reservation benefits for hospital stays only, while others pay regardless of the reason for absenteeism. Benefit lengths range, in general, from 15 to 50 days.

Custodial Care – Personal care that supplements or replaces a person’s self-care and does not require formal medical training. The level of care includes, for example, assisting a patient in activities of daily living or administering routine medication, meal preparation, personal hygiene, etc. Custodial care is expressly excluded by statute from Medicare coverage.

Dementia – A brain disorder that disrupts and impairs cognitive functions, such as thinking, memory, judgment, mood, personality and social functioning.
Elimination Period – The number of days (during which the insured is receiving services) until the insurance company begins paying benefits (for example, 0, 30, 60, 90 or 180 days). More desirable policies require the elimination period to be met only once during the insured’s lifetime. Some more restrictive policies require that the days be consecutive. Most people choose elimination periods of 100 days or less.

Guaranteed Renewable – Term used to describe LTCI policies that cannot be cancelled or denied renewal (regardless of health) except for nonpayment of premiums. Such policies cannot be subjected to arbitrary premium increases (unless the premium for an entire class of the policies is increased).

Health Insurance Portability and Accountability Act (HIPAA) - 1996 Federal legislation that reformed the United States health care system. Although the act’s primary purpose was to make insurance more available (especially for employees who change jobs or become unemployed), it also established criteria and tax benefits for qualified Long Term Care policies.

Home Care – Part-time skilled nursing care, such as occasional visits by registered nurses or licensed practical nurses. It may include speech, physical or occupational therapy. In addition, home care includes custodial care, such as help with ADLs and assistance with meal preparation, personal hygiene, and other services that are non-medical in nature.

Homemaker Services – Non-medical services that may include cleaning, cooking, grocery shopping, and laundry. Not all Long Term Care Insurance policies pay for homemaker services.

Home Modification – Adaptation and renovation of a home in order to allow a care recipient to stay in their home, including widening doorways to accommodate a wheel chair, lowering counters or installing shower grab bar. Not all policies provide benefits for home modification.

Hospice Care – Services designed to alleviate the physical, emotional, social, and spiritual discomforts of an individual who is experiencing the last phases of life due to a terminal disease and to provide supportive care to the primary caregiver and the family. A skilled or unskilled person may provide hospice care under medical direction. Hospice care can be offered in a facility or in the patient’s home where nurses and social workers visit the patient on a regular basis.

Inflation Protection – A provision that allows a policy’s benefit amount to keep pace with inflation. The General Accounting Office projects that nursing home costs grow at a compound rate of 5.8% each year. The two typical inflation
protection options that are offered are 5% simple (which increases the daily benefit each year by 5% of the original benefit purchased) and 5% compound (which increases the daily benefit each year by 5% of the previous year's benefit).

Instrumental Activities of Daily Living – Functions (other than ADLs) with which persons may require assistance, in order to maintain their overall independence outside a nursing facility. These include cooking, cleaning, and doing laundry, household maintenance, transporting themselves, reading, and writing, managing money, using the telephone, comprehending and carrying out instructions.

Non-Forfeiture Option - A feature (for an additional cost) that guarantees the return of a specified percentage of premiums or retains a partial benefit (i.e., a lower daily benefit or shortened benefit period). This feature is typically triggered if the policy was “not used” (no claim was filed) after being in force for a certain length of time (for example, 10 years). Adding this feature can increase the premiums by 30% or more.

Non Tax-Qualified Policy – A Long Term Care Insurance policy not intended to qualify under HIPAA for tax benefits.

Nursing Home – Full-time residence, including room and board, monitoring, personal assistance, nursing and other health care for people who are physically or mentally unable to attend to all of their own needs.

Outline of Coverage – Summary of how and when benefits will be paid. It is important to read the Outline of Coverage for the LTCI product you are considering before you make your purchase. Agents selling Long Term Care Insurance are required to give you an Outline of Coverage.

Personal Care – Non-medical services to assist with necessities of daily living, such as bathing, dressing, etc.

Residential Care Facility – See Assisted Living Facility.

Respite Care – Short-term care provided in order to give regular caregivers a break.

Skilled Care – Intensive nursing and rehabilitative care furnished by or under direct supervision of licensed nursing personnel and under the general direction of a physician. For the purposes of receiving Medicare coverage, skilled care is also defined as requiring a three-day minimum hospital stay, and the patient must be admitted to the facility within 30 days of leaving the hospital. The care
must be received for the same condition (or resulting from the one) for which they were treated during their hospital stay.

**Survivor or Survivorship Benefit** – Often a husband and wife will each buy a policy from the same company and may receive a discount. Some companies, for an additional cost, waive future premiums for an insured after the death of his or her spouse (if death occurs after the policy has been in force for a certain period of time, for example, 10 years). If the spouse’s death occurs prior to the 10th policy anniversary, the surviving spouse may be only required to continue paying premiums through the 10th policy year, after which future premiums will be waived.

**Tax-Qualified Policy** – A Long Term Care Insurance policy intended to qualify for tax benefits under HIPAA.

**Waiver of Premium** – Many policies include a feature called Waiver of Premium. The feature allows premiums to be waived while benefits are being received (either for Nursing Home Care or both Nursing Home and Home Health Care). Typically, care must be received for a certain number of days (for example, a number of days equal to the policy’s elimination period) before the Waiver of Premium feature takes affect. Some policies require the number of days to be consecutive and others require only that the cumulative total number of days be met.