

LONG TERM CARE INSURANCE – SHOULD I OR SHOULDN'T I?

In general, long term care refers to a broad range of services needed by people for an extended period because of a chronic illness or disability. Every day, counselors with the Medigap Helpline at the Board on Aging and Long-Term Care hear from consumers who wonder if they should buy long term care insurance (referred throughout this publication as LTC insurance). It is a very important question for people who want to plan for their needs should they become disabled. The decision will have significant financial consequences. A decision to buy is a decision for a lifetime. Simply put, that means to reap any benefits from such an insurance policy you must keep it in force for the rest of your life.

ISSUES TO CONSIDER BEFORE PURCHASING LONG TERM CARE INSURANCE

Unlike health insurance, everyone does not need insurance for long term care. You should weigh the value of what you want to protect against the cost of protecting it. The Board on Aging and Long-Term Care has identified the following factors to consider helping you determine if it would be wise to purchase LTC insurance:

- What are your chances of needing long term care? Your chances are greater if you have a family history of certain diseases such as stroke, heart attack, Parkinson's disease or Alzheimer's disease. Many people can avoid or delay a nursing home stay if they have family members living nearby who are able to provide care.
- What is your reason for considering LTC insurance? LTC insurance is often considered to be asset protection insurance. Do you have sufficient assets to protect that will justify the large expense of LTC insurance premiums, and is it important for you to protect your assets? Can you afford enough insurance to truly protect your assets or will you be simply delaying their depletion? A couple should have a net worth of at least \$100,000, not including their home or automobile, and a single person should have at least \$50,000 before spending money on LTC premiums. With less than this amount, you do not need LTC insurance.¹
- Can you afford to pay the premiums for LTC insurance out of your income without tapping into savings? No more than 7% of your annual adjusted gross income should be spent on LTC insurance premiums.² Be prepared to handle future premium increases. Although premium increases cannot be based on your age or health condition, insurance companies can and will increase premiums.
- Will you qualify for Medical Assistance to help pay for nursing home care? In Wisconsin, spousal impoverishment protection allows the spouse of a nursing home resident to retain the first \$52,000 of the couple's countable assets, and as much as \$128,420 if their total countable assets exceed \$252,840³ Exempt assets include the couple's home, automobile, personal belongings, and money set aside for burial expenses. On the other hand, a single person entering a nursing home can keep only \$2,000 in countable assets. These figures apply in 2019 and are indexed for inflation for future years.
- What other financial vehicles might be more appropriate for funding long term care? Mutual funds, annuities, life insurance long term care riders, reverse mortgages? You may want to consult a financial planner to help you with these decisions. What is the likelihood of ever seeing a benefit from the premiums you will pay? Weigh the value of what you want to protect against the cost of protecting it.
- Are you considering this insurance because of possible tax advantages? Many long-term care insurance salespeople are encouraging older people to consider this insurance for the possible tax advantages. There are two problems with this, however. First, the tax advantages are only a possibility for consumers who buy a policy that meets federal standards, not Wisconsin standards,

and these federal standards do not have as strong consumer protections as the Wisconsin standards. Second, payment of these premiums will result in any tax deduction on your federal income tax only if: (1) you have any tax liability; and (2) you itemize deductions; and (3) the total medical expense deduction you claim, *including the federally tax-qualified LTC insurance premium*, exceeds 7.5% of adjusted gross income (analysis developed by the Coalition of Wisconsin Aging Groups).

IDEAL FEATURES OF LONG TERM CARE INSURANCE

If you have come to the conclusion that LTC insurance will be a smart commitment, now what? To compare the various products on the market, the Board on Aging and Long-Term Care provides the following points to guide you:

- Nursing home policies cover only institutional care. Home health care policies cover only home or community-based care. Policies labeled LTC insurance include benefits for both nursing home and home health care services. To cover the broadest range of long term care services, purchase an LTC insurance policy rather than nursing home insurance or home health care insurance.
- Be sure the policy includes alternate care facility coverage. This benefit extends coverage to assisted living facilities and community-based residential facilities (CBRF's). Some policies will limit coverage to facilities with a minimum number of residents. Policies with low minimums, such as 4 residents, will allow the greatest range in choice of facilities where a benefit will be payable.
- Purchase an inflation protection rider to assure that a policy continues to have a meaningful level of protection in the future.
- Predicting future long-term care needs is very difficult. Policies which pay benefits out of a pool of money are more flexible than those that assign a maximum benefit amount to each covered long-term care service.
- An assessment of care needs will be performed when a need for long term care arises. It is best to have the assessment done by a physician, nurse, or social worker who is not employed by the insurance company.
- Consider only companies that are financially sound. Several organizations provide financial ratings of insurance companies. Because many years may pass between purchasing a policy and filing a claim, and because claim amounts could be quite high, consider only companies which are placed in the highest possible regard by the rating organizations.
- Delivery of long term care services is changing radically and many LTC insurance companies periodically revamp their products to include additional covered services. Check whether a policy gives you a written assurance that if future policy upgrades are made, you will be given an opportunity to decide whether you would like to upgrade your policy regardless of your health circumstances.
- What type of claims appeal process does the insurer use in the case of disputed claims? Does the claims appeal process involve an independent third party to arbitrate disputed claims? Or does the insurance company have the final word in disputed claims cases?

For a discussion of your personal insurance needs, the Board on Aging and Long-Term Care encourages you to contact the **Medigap Helpline, 1-800-242-1060**.

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¹ Kiplinger's Personal Finance Magazine, March 1996

² Wisconsin Administrative Code 3.46 Appendix 2

³ Wisconsin State Statutes 49.455