Long-Term Care Insurance (LTCI) Provisions
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Introduction

In general

In return for your payment of premiums, a long-term care insurance (LTCI) policy will pay a selected dollar amount per day (for a set period of time) for skilled, intermediate, or custodial care in nursing homes and, sometimes, in alternative settings (such as home health care). Because Medicare and other forms of health insurance do not pay for custodial care, many nursing home residents have only three alternatives for paying their nursing home bills: cash, Medicaid, and LTCI.

When do benefits under the policy commence?

Most policies provide that benefits will be “triggered” by certain physical and/or mental impairments. The most common method for determining when benefits are payable is based on your inability to perform certain activities of daily living (ADLs). The primary ADLs are eating, bathing, dressing, continence, toileting, and transferring. Typically, benefits are payable when you’re unable to perform a certain number of the ADLs, such as two or three out of the six.

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

The most common LTCI provisions

Waiting period

Since many LTCI policies contain a waiting period (“deductible period”) before the insurance policy will begin paying benefits, be aware that your benefits may not begin the first day you enter a nursing home. You may first have to satisfy a preselected deductible. These deductibles can range from a zero-day deductible up to a 365-day deductible. Naturally, a longer deductible means a lower premium. However, it also means you'll have to pay nursing home bills out of your own pocket for a longer period of time.

Example(s): Assume Rob and Laura are a married couple considering the purchase of an LTCI policy for Laura. Given that nursing homes in their area charge approximately $200 per day, a 30-day deductible period will require them to pay $6,000 before their insurance policy kicks in, whereas a 90-day deductible will require them to pay $18,000 before the policy kicks in.

In the above example, Rob and Laura are comparing a policy offering a 30-day deductible (which charges a $3,500 annual premium) with another offering a 90-day deductible (charging an annual premium of $2,000). An element of risk is always involved in this decision-making process. Rob and Laura need to consider whether entering a nursing home is a substantial likelihood and, if so, approximately how many years will pass before entry is necessary. They must also consider how much extra cash they have to spend on premiums now and whether they'll be able to continue those payments well into the future. And finally, they need to consider whether they'll have the necessary savings in the future to subsidize the nursing home bills before the policy kicks in.

Duration of benefits

While some long-term care policies offer unlimited lifetime benefits, most place limitations on the benefits you can receive. Although some policies will measure lifetime maximum benefits in terms of a dollar amount (like $150,000), others will express a time limit, such as one, three, or five years of benefits. After the applicable limit has been reached, no further benefits will be paid. If you're concerned about coordinating your LTCI benefits with Medicaid, consider choosing a benefit period that is at least as long as the Medicaid look-back period (60 months). For more information about Medicaid, see Medicaid (Overview).
**Nursing home daily benefit**

Most policies will let you select the amount of your coverage, typically running anywhere from $40 to $150 or more per day. Of course, the greater the daily benefit and the longer the benefit period, the more the policy will cost. It's important for you to research the cost of nursing homes in your area. Certainly, it wouldn't make sense to purchase a policy with a daily benefit of $50 if the average daily cost of nursing homes in your area is $150 per day—unless, of course, you expect to contribute substantial savings. (Individuals who have fairly significant assets might actually make a more cost-effective decision when they choose the lower daily benefits. Consult with a financial planner or accountant to find out what's best for you). You should also consider whether you plan to remain in your present state or whether you plan on moving to another state at some point in the future (to be closer to your children, for example). The reason is that location can affect price.

**Optional inflation rider**

Although the average daily cost of nursing homes in your locale might be $200 today, it could be substantially more five years from now. Therefore, an inflation rider is very important. Moreover, the younger you are when you buy an LTCI policy, the more important inflation protection will be. An inflation rider can be expensive, sometimes increasing the cost of a policy by as much as 40 percent.

**Range of care**

Review the policy carefully to determine which expenses are covered. A very comprehensive LTCI policy will cover skilled care, intermediate care, custodial care, home care, adult day care, and even alternative care (such as assisted living). Most policies will cover skilled, intermediate, and custodial care. Home health care can also be an important consideration, since most people prefer to live in their own homes for as long as possible. Home care makes sense when you're recovering from a stroke, broken bone, or illness and don't need lifetime care. It is also useful if you're living with your children and require the services of a nurse or home health aide a few times a week. It's generally a good idea to insure for at least a one- or two-year home health care benefit period.

**Pre-existing conditions**

A pre-existing condition may be defined as a medical condition for which you sought medical advice or treatment (or experienced symptoms from) within a specified period of time—such as one year or five years—before applying for the LTCI policy. Some states may require a shorter time period. Some companies may ignore pre-existing conditions, while others may refuse to pay for treatment related to those conditions, if permitted by state law. Often, however, insurance companies will impose a waiting period before your coverage will go into effect regarding treatment for pre-existing conditions. Typically, you'll have to wait up to six months before that condition is eligible for coverage.

**Tip:** Bear in mind that even though some companies will not require a medical examination before issuing your policy, it is still necessary that you truthfully disclose any preexisting conditions. Otherwise, your company can refuse coverage for that condition or terminate your coverage altogether.

**Other exclusions**

Read the policy carefully to ascertain what isn't covered. For instance, since Alzheimer's disease, senility, and Parkinson's disease are common reasons for long-term care, make sure that your policy doesn't exclude these conditions. Also, most policies will not pay benefits for a person who has an alcohol or drug addiction, an injury caused by an act of war, or injuries that were self-inflicted or resulted from attempted suicide.

**Premium increases**

Most policies provide that your premiums will not increase unless the rates for everyone in a given class are increased. Therefore, the premium you pay at age 55 when you buy the policy probably should be the same as the premium you continue to pay at age 75. Your own premiums cannot be increased simply because of your age, health status, or claims experience. However, rates for the entire class you're in (e.g., the class of 70-year-old retired auto workers) may be adjusted, based on claims experience.
**Guaranteed renewability**

When LTCI was first introduced, it was a conditionally renewable contract. This gave the insurance companies discretion to cancel policies and/or to raise rates. Most policies now are "guaranteed renewable" so long as you pay your premiums. Therefore, do not purchase a policy that is renewable at the option of the insurer. The insurance company should guarantee that it will offer you the opportunity to renew the policy and maintain the coverage; they cannot condition the renewal on evidence of your insurability (i.e., good health).

**Waiver of premiums**

An optional feature to your policy may be the waiver of premium provision. This provision allows you to stop paying premiums once you are in a nursing home and the insurance company has started to pay benefits. Although some companies will waive your premium as soon as they make the first benefit payment, others may wait up to 90 days. Bear in mind, also, that this waiver of premium provision might not apply if you are receiving home health care.

**Grace period for late payment**

A good policy should provide a one-month grace period during which the policy will remain in effect if you are late paying the premium. Absent such a grace period, your policy could be canceled immediately.

**Return of premium**

Some companies offer return of premium or nonforfeiture benefits for individuals who cancel their policies after paying premiums for a number of years. For instance, a policy might return nothing if canceled within the first five years, 15 percent of the premium after five years, and perhaps all of the premium after 35 years. However, it might cost you an extra 25 to 45 percent of your normal premium to add a return of premium rider to your policy.

**Prior hospitalization**

Some policies require you to have a hospital stay of at least three days before qualifying for LTCI benefits. This requirement is very restrictive and can greatly limit your ability to receive any benefits under your policy if you require only custodial care.

**Example(s):** Sally is an 80-year-old woman with arthritis who recently suffered such pain in her fingers, hands, and arms that her doctor ordered her hospitalized overnight. The arthritis continues to be so painful that she cannot dress herself or feed herself. Because Sally was not hospitalized for three consecutive days, however, her LTCI policy will not pay for her care if she enters a nursing home right now.