

# What is Long Term Care Insurance? (LTCI)

If you are considering LTCI, print this and read the whole thing in pieces maybe?

Long-term care insurance (LTCI) is an insurance product that was developed 40+ years ago when we only had skilled nursing homes for people who needed long-term care. Monthly costs back then were probably a couple thousand dollars a month. Today it is around \$12,000 a month and wiping people's finances out, so they must apply for Medicaid. LTCI was designed to help people pay for those care costs. Often some of these old policies do not cover all the new types of long-term care which include: assisted living facilities, Alzheimer's facilities, adult family homes, and in Washington State, the biggest of all is in-home care.

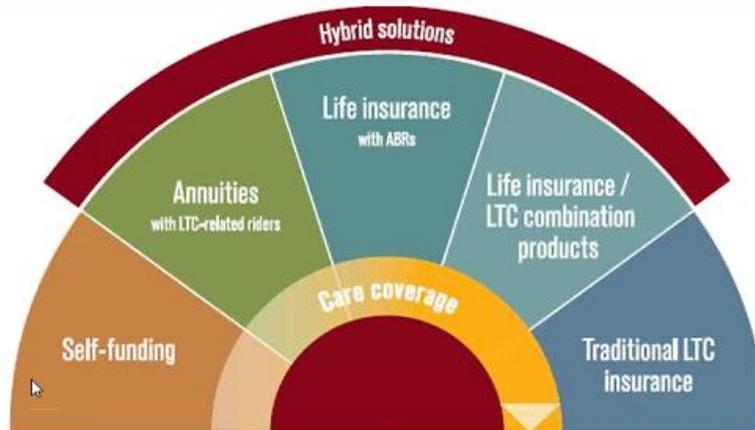
The cost of the premiums will depend on,

1. Your current age
2. Your health today. If one company declined you, shop others as not all underwriting is the same.
3. How many dollars a day you want it to pay out. For example, if the long term care costs \$300/day, you might decide you want the policy to pay out \$200/day and you will pay \$100/day out of your own pocket.
4. The inflation for the \$200 a day to grow; 3% and 5% compounded is normal. This protection will allow you to keep up with increases for the cost of your care twenty years down the road when you might file a claim.
5. The amount of years once your claim begins that you want to be protected for, i.e., 2, 3, 4, 5 etc. and other riders.

**Types of Long Term Care Insurances today from Self-Funding,  
to Hybrids, to the Old Traditional LTCI**

# LTC Options-Spectrum

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To help determine the right fit for your clients, start the conversation about their planning priorities—how they want to protect and care for their family and their future.

It has become more apparent that the policies need to keep up with the types of available care. As the insurance companies developed the newer types of policies, which can be life insurance plus long-term care insurance or annuity with a long-term care Rider, other insurance companies followed suit. So if it wasn't confusing enough what traditional long-term care insurance is with all the bells and whistles, today's products are way more confusing. This makes it very difficult for the consumer to decide what type of policy to buy, or even if to buy.

Buying long-term care insurance is like buying a new car. If you look in the parking lot you'll see trucks, hybrids, small cars, large cars, and the decisions are endless. In shopping for long-term care insurance, you need to look at it the same way. If you can go to a specific salesman, he/she will sell you what they have on their lot. It's just not a simple answer and you need to go to a independent broker who can find the best product for your needs.

As a broker, it is difficult to look at all the products available for each consumer, and I can't imagine how difficult it would be for you. So, one word of advice is to never buy the first time you look at a policy, just because one person says it is the best. You need to get ready to kick some tires and take some test drives, because this process generally is not very fun, but the results are worth it. You need to do your due diligence. My recommendation is to hire someone who knows and shops a lot of these products. Let's get into this a little deeper.

In my 20 years of experience in the long-term care insurance business, I have found that very few insurance representatives ever dissect a long-term care insurance policy to really know what is inside of it. I truly appreciate all my colleagues at [SeniorAction.net](http://SeniorAction.net) in Olympia which consists of about every professional in the long-term care industry. Nursing home directors, Assisted Living directors, attorneys, CPAs, AFH's, In Home Caregivers, Senior Centers and anybody who works with the elderly may come to the monthly SAN meetings. Over the years, these professionals have taught me what the senior industry is all about. So, when I go in and open my Stratacisions LTCI dissect software, these 45 pages of excel spreadsheets of terms inside a LTCI begins to make sense. There are some very important pieces I want included in my long-term care insurance policy. When I bought my policy at age 49, those years were the best time to buy long-term care insurance, because it didn't have all the risks they have today, especially with Alzheimer's being an epidemic. They were all chasing each other for who could sell the most policies at a decent premium and some of the old policies in today's world are still the best. Now we're all living longer, the amount of care is doubled, the need for prescriptions is keeping us alive a lot longer so it makes it very hard for the actuarial people at the insurance companies. What is this world going to be like in 20 years and what will be the needs of long term care? There are some excellent policies on the market today, but not as inexpensive as 20 years ago.

One of my main areas of study is Adult Family Homes (AFHs). What are they and why does DSHS work hard to approve their quality of care? We have over 2,000 AFH's in Washington State with 6 beds or less and this is a home environment with normally 1 caregiver per 2 residents. Very FEW LTCI policies guarantee they will pay for an AFH!!!! Very few!! Why? AFHs are specific to Washington State and the policies rarely address this. So, at the time of claim, when you're all geared up to go to The Bend, your LTCI company X says, "nope, but you might be able to go to some other facility for your care." Call your LTC company NOW to find out and get it in writing! Or if proposed, ask the agent for a Guarantee and watch them ponder, "What is an AFH?"



This is called THE BEND AFH on Hood Canal above Union overlooking the gorgeous Hood Canal and our Olympic Mountains.



Yes, it is an Adult Family Home!!!! Three years ago, I stayed here for 2 weeks when I broke my ankle and had to be off my feet for two weeks. For a while, every morning around 2 am, I would wake up and look out my window, because it was impossible to not be taken away with the beauty and the view of the Hood Canal. Bonnie and Jeff Stevenson, who own the AFH, are great friends of mine. The particular LTCI policy I own will pay the total cost to live here –for LIFE – if I never need it!!! I have a 30-day elimination period on my LTCI policy and I was smart enough to file a claim when I broke my ankle, even though I knew I would not need 30 days of care. As it turned out, my policy took 14 days off my 30-day elimination period. I am now down to 16 days to get on claim and with my 5% inflation rate built in, my LTCI will pay about \$14,000 a month right now!!!! Do you think I am concerned about my future needs or costs of Long Term Care? You either Private Pay for this care until you're broke and apply for Medicaid (The Bend does not accept Medicaid) or insure yourself and your assets. It is just that simple.

Our care starts a lot of the time IN HOME with family helping, then maybe caregivers are hired to come in, then off to an AFH, Assisted Living or a Dementia Facility and THE BEND can do all of this for me. But if I get in really bad health, maybe a Skilled Nursing Home could be my demise and my LTCI is up for that cost as well. Do you know how comforting it is to know that my assets are all protected by the LTCI policy I chose. This was the smartest decision I ever, because the cost of the policy was very affordable vs. the risks of not having it.

Let's look at hybrids now. Hybrids are the new Life/LTCI or Annuity/LTCI policies on the market.

I would honestly venture that us OLD LTCI reps in the USA are still fonder of the older, Traditional LTCI products vs these new hybrids. Why buy life insurance or an annuity if you do not need it inside the combo products? The surveys show it is a lot cheaper price to rent Traditional than to BUY Life or Annuity products. But the insurance marketing companies can spin words to make anything seem inferior in competition. Hope they don't start Tweeting, too 😊

What I find though is that our investment advisers and captive insurance agents can only sell their house brand or what their company allows them to sell. For example, there is a product that a lot of the Brokers sell which is a life insurance and long-term care insurance policy. Remember you are paying the internal costs to buy life insurance plus Long Term Care Insurance. The marketing words are "These premiums are guaranteed and no matter what, you'll get your money back if you decide to get out of it down the road. If you need long-term care it pays for that out of the death benefit and if you die your spouse gets the remaining death benefit, if any"? Now doesn't that sound like a great place to put your CD money? It is a no loss investment!!!!

While it may be a good insurance product, let's look at those words. Yes, the premiums are guaranteed, but as we all know the cost of long-term care is going up at about 4% a year and if the premiums are guaranteed then where does the rising cost inside the product come from? It comes from your cash value you do not pay attention to annually, because it's a life insurance product built on the same platform normally as whole life insurance (premiums are guaranteed, but the dividends are not). Premiums are guaranteed but the cash value is not. Yes, many of these are guaranteed so that if you want to cash it out you will get your money back after paying premiums for a certain amount of years. However, how often does anybody ever cash out their life insurance or long-term care insurance? Let's discuss the inflation costs 30 yrs. down the road for the daily cost of a nursing home. Today, a skilled nursing bed is around \$313 a day or \$114,245 a year according to a DSHS survey. Let's go 30 years from today when you have gone from age 60 to 90 and now that same bed is \$1,015 a day or a whopping \$370,541 a year. Your OLD Life/LTC policy with no inflation protection normally is still going to pay \$313 a day. Don't take me wrong, there are two Life/LTCI products I find SUPERIOR in their design, but do these fit YOUR needs?

It seems whatever a person is selling, it is the best and bantering the opposing product is common. They all have their place in the Traditional or Hybrid world.

I strongly encourage consumers to really look at LTCI if you have \$200,000 in assets and up, because losing it all to the costs of LTC and going on Medicaid is surely not the answer. It does not make any

difference if you have \$200,000 or \$2,000,000 in assets. Insurance is discounted dollars among a pool of risk and it is cheaper to pay \$6000 a year for 2 policies than \$200,000 a year for two needing care. And to pay for it, I would use the interest from my investments to fund two traditional LTCI policies than to take a huge chunk of my assets to park in an Annuity or Life product unless I knew I was going to need care within 10 years. The insurance companies use your interest to fund the cost of the LTCI inside the policies to look like it cost you nothing and rarely with any inflation growth, but hey I am a 2yr. old traditional LTCI guy who loves his protection from his OLD LTCI policy. Just make sure you buy at least 2 yrs. of coverage to get you through the door of the facility as most have a 2yr. private pay rule before I could get you on Medicaid to protect the rest of your assets if married. If single, say goodbye assets, because as I mentioned in my Medicaid area, Medicaid can protect married couple's assets, but not singles.

So, in closing, LTCI is a PEACE OF MIND insurance. You can make a lot of bad financial decisions in life, but if you ever spent years with your parents or grandparents who had dementia, it is so important to have this coverage and hopefully quality care is the result.

So, words to Google...

#1 Partnership Rider: Protects your assets from Medicaid (Comes only on Traditional LTCI)

2# Survivorship: both Spouses can share their benefits

3# Indemnity: Pays the monthly benefit as pure cash to use and hire whomever you wish and where.

#4 Elimination Period: 0,10,60,90-day options (Study "Days of Care vs Monthly"). If Days of Care, you really need to understand what 30 days of care elimination could mean if you need 1 day of care a week at home = 30 weeks or almost ¾ of a year to trigger it the policy. Few understand this.



## TRADITIONAL LONG TERM CARE INSURANCE

Traditional LTCI plans have been around since the 1960's when the idea of nursing homes first came into existence. Since then these plans have evolved to include the new levels of care that have been created since then, memory care, assisted living, in home care and so on, but they still work the same way. You buy into a plan and pay a monthly fee that can change over time. When you begin to need care you activate the LTCI policy and it pays out a certain amount per day to help you cover the costs of care. In Washington, there are roughly 20 insurance companies currently offering a variety of insurance products.

### **PROS:**

1. Aside from being relatively easy to start, especially if you purchase the plan while young and healthy, there are a vast number of options and types of LTCI plans to fit almost any budget.
2. You can dissect these better yourself as the Sample Policy deals purely with LTC
3. **Partnership Protection**; Only comes with Traditional and basically means if you use up all your benefits (example \$300,000 of benefits, you can now apply for Medicaid and KEEP \$300,000 of any assets you wish and get on Medicaid vs spending all your assets down to \$2000 to get Medicaid
4. **Shared benefits**; If you and your spouse buy exact plans and one uses up all their benefits, they can then use their spouses too. Odds are slim you would both need LTC so extends the first spouses plan.

### **CONS:**

1. Premiums are not guaranteed as there is no cash value to draw from as you are renting this coverage.
2. Plans purchased decades may not cover all the new types of care.
3. You pay all your life except a couple 10 year pay plans.
4. Hard to dissect to see if Adult family homes are covered.



## LIFE INSURANCE / LTI INSURANCE

Hybrid Life Insurance Plans are another new product offered by insurance companies. Say you need Life Insurance and choose a \$300,000 of death benefit as part of a Hybrid Plan, but at some age you end up in a Nursing Home at \$9,000 a month for care. That \$300,000 now converts into LTCI coverage while alive and it pays \$300,000 / \$9,000 a month which equals 3 years of care coverage. It pays for Life or Death. The main point is: someone gets money no matter what.

### **PROS:**

1. These plans basically allow you to knock down two birds with 1 stone. Instead of having to get both Life Insurance AND an LTCI, unsure if you'll ever need either, you get both.
2. You can single pay like the annuity and you are done, or other pay options
3. Guaranteed premiums on many plans, so no price increases.

### **CONS:**

1. The premiums or internal costs for these plans can run twice the costs of a Traditional LTCI.
2. If you use the benefits for LTCI there may be no death benefit now.
3. Hard to dissect to see if Adult family homes are covered.



## ANNUITIES WITH LTCI

LTC Annuity plans are a fairly recent creation. Say you have \$100,000 in a CD or other type of annuity earning a miserable 1-2% return. You can now choose to move it into an Annuity/LTC policy. You'll still have the \$100,000 as an investment now growing tax deferred to use if needed, but the insurance company may stack another \$100,000 to \$200,000 of LTCI benefit on top of it. So now your \$100,000 investment is worth \$300,000 if you need Long Term Care.

### **PROS:**

1. Best part of these plans is that 100% of the annuity's value, if used for LTC, is now TAX FREE. The IRS forgives the taxes that were in the annuity if used for care.
2. Cash value grows Tax Deferred
3. All money used for LTC is now tax-free vs taxable
4. The cash value is many time guaranteed.
5. If you want your money back you can get it and cancel.

### **CONS:**

1. If you go on claim, you are using your \$100,000 first and do not get into the insurance money until you use yours first
2. The maybe 3\$ Guaranteed cash value is really growing maybe a 1 % because the other 2% is used to purchase the \$200,000 insurance benefit.
3. You need a decent sized CD or other type of annuity to get started.
4. The older you purchase the less insurance backing the plan will have
5. Hard to dissect to see if Adult family homes are covered.