



Weiss Research Inc.

Weiss Research's Step-By-Step Guide To Long-Term Care

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Long term care is a very complex area. But it's also very important. Therefore, we have broken it down for you in to a series of steps.

Each step is simple, but there are *many* of them. So if you need help in making these critical decisions, be sure to get it from someone you trust and who is not just trying to sell you a product.

Before we talk about long-term care insurance, let's consider the long-term care options available to you today:

- You can get *custodial care* — personal assistance with your everyday life. You remain in a residential setting and you continue to live independently. But you also have the advantage of some continuing oversight. If you need it, you can get assistance in your daily life — from shopping and cooking to getting out of bed, walking, eating and bathing.
- You can step up to *intermediate care*. At this level, you'll get some supervision by skilled medical personnel — such as occasional nursing and rehabilitative care, plus basic medical procedures that are required on and off. But don't expect on-site, around-the-clock attention.
- That kind of 24-hour service is only available with *skilled care* or *acute care* — the highest level and, as you might expect, the most expensive. This care is prescribed by a doctor and involves full-time supervision by a skilled nurse or therapist. The cost can be very

high, but don't fret. Even among the 2.25 million Americans in nursing homes, only 5% require skilled care.

Not only do you have several choices for the level of care you will receive, but you also have several choices of *where* you will receive that care:

- *At home.* This is our personal preference and, we trust, yours as well. We want to stay in our own home as long as we possibly can. Skilled care at home may be prohibitively expensive. But if you plan carefully, you can be among the millions of Americans who will be able to afford custodial and intermediate care at home strictly with Medicare and their own savings.
- *In adult day care centers.* If you've ever dropped your children or grandchildren off at a child day care center, you know exactly how this works. Because it's the same concept, but for adults. Someone — it could be your child, grandchild or even a transportation service provided by the center — would drop you off at the facility in the morning. There, you'd spend the day participating in activities. You'd get the therapies you need. And (hopefully!) they'd give you food that you could actually enjoy eating. The idea is that your family member can take care of you at home, while still keeping a full-time job.
- *In assisted living facilities.* No, it's not the same as your own home or condo. But you can make it feel almost like your own. The idea is to give you immediate access to help when you need it. And if you don't need it, fine. As a rule, no one will be hovering over you or telling you what you can or cannot do. On the other hand, if you *want* (and can afford) *extra*, personal, VIP attention beyond what the facility typically provides, that's okay, too. You can have them arrange for your own private-duty nurse to come to the facility. Or you can hire one separately.
- *Through hospice care.* This is provided in your home or in a facility. The exclusive goal is to manage pain and symptoms of terminal illness. It is, no doubt, one of the most needed and most underappreciated services in the U.S.
- *Continuing care retirement communities.* This is a relatively new option. These types of communities give you a combination of housing, health care and social services. The setup can be similar to

an independent living facility, a nursing home, or something in between. You can choose from various levels of care. And you can opt for different payment plans (e.g., all-inclusive, pay-for-service and other such plans).

- *In nursing homes.* If you reached age 65 in the early 1990s, chances are less than one in 10 that you'll live in a nursing home for five years or more. If you reach 65 before 2010, the chances will be even lower. Clearly, spending your final years in a nursing home is not the sure thing that some people say it is.

That's good. Despite all the knowledge and technology we have nowadays, the overwhelming majority of the 17,000 nursing homes in this country are not doing a good job. They say they're understaffed and overworked. True. But with a few notable exceptions, a key problem is also the attitude of the administration. The patients need — and deserve — tender loving care. They're not getting it.

The good news is that you can get a government evaluation on almost any nursing home that's subject to federal standards. On the Internet, go to www.medicare.gov. Then click on the section "Nursing Home Compare." Also be aware that nursing homes vary greatly in quality and cost. There are two commonly recognized categories:

- *Skilled nursing facilities.* This is where registered nurses give you 24-hour service. You get more medical care, plus you have better access to all kinds of therapies (e.g., physical, restorative, occupational and so on).
- *Intermediate care facilities.* Here, the stress is on social and rehabilitative services. It includes some intensive care by registered nurses, but mostly lighter care by practical nurses.

Overall, this wider range of choices, despite obvious deficiencies, is a welcomed change. But no matter which option you choose, it doesn't come without a price tag.

Will you be able to rely on family members for most of the care that you'll need? Will you be able to cover the balance of the costs from your savings?

It's easier to plan if you have a fixed retirement income. Assuming inflation doesn't pop up again between now and then, a fixed income helps you know ahead of time if you can cover the premium payments. Otherwise, you could wind up paying premiums on a policy for years, be forced to stop when you can't afford it any longer, let the policy lapse and risk losing everything you've paid into it.

The same rules of thumb we gave you for life insurance apply here: If you have to use your savings or make significant lifestyle changes to pay the premiums on a long-term care policy, don't do it. It probably means you can't afford it.

How much should you have? On average, figure \$25,000 to \$35,000 in annual income and \$75,000 in assets *per person* (not per household, and that does not include your home or car). Above that level, you should be able to afford long-term care insurance. Below it, Medicaid will probably absorb the costs.

When you shop for long-term care insurance, you are bound to be confused by the wide array of policies available.

Some insurance agents will help you navigate this maze, whereas others may pull a different kind of wool over your eyes. These agents will tell you that long-term care insurance is the "only way" to prepare for the unexpected needs that you may face in your later years.

These insurance agents either don't know what they're talking about or they're deliberately misleading you. *Long-term care insurance is just one of several options.* To find your way to the best solution *for you*, follow this series of easy, but detailed steps.

Step 1. Find out what Medicare will cover. Agents often spend a lot of time telling you what Medicare does *not* cover, and we cannot deny they have a point. But they don't tell you much about what it *does* cover (e.g., 100% of the first 20 days of skilled nursing care, the full amount of home health care expenses, hospice care in your home and more).

Step 2. Seriously consider Medigap (Medicare supplement insurance). This insurance was designed to help fill in the gap between what Medicare pays and what hospitals and doctors actually charge you. Unlike long-term care insurance, you can easily compare

one Medigap policy to another, thanks to standards mandated by Congress. But, like Medicare, it does not extend into nonmedical needs. Medigap can cover your prescription drugs, preventive screening, foreign travel emergencies and other benefits, but it still does *not* cover types of services beyond those covered by Medicare.

You can get an outline of exactly what Medicare and Medigap cover by ordering a free copy of the *Guide to Health Insurance for People with Medicare* from Medicare at 800-MEDICARE (800-633-4227).

Step 3. Try to avoid relying on Medicaid if you can. Medicaid *will* cover your long-term care expenses, but only if your assets and income are below a certain level defined by your state. We don't recommend Medicaid because the quality of care is usually substandard. And even standard care can often be disappointing.

Nevertheless, many people jump through hoops to qualify for Medicaid. If they don't qualify because their assets are valued above the cutoff level, some people will "spend down" their assets or transfer them to someone else. We do not recommend this approach.

Moreover, if you live in Connecticut, Indiana, New York or California, you can participate in a Partnership Program. This program will let you buy approved long-term care insurance and still qualify for Medicaid. It's set up so that the insurance policy is your first line of defense, and once you've exhausted its benefits from the policy, *then* Medicaid takes over.

Choosing a Plan for Long-Term Care That's Right for You

Step 1: Don't buy long-term care insurance too soon or too late. Insurance agents are in business to sell you a policy today — not years from now. So some insurance agents will tell you that regardless of your age, you need a long-term care policy *right now*. And they will argue that "the sooner you buy, the less it will cost you." But this pitch is both incomplete and misleading.

Sure, your premium will go up with age, but there's a lot more to this than meets the eye. Let's say *you* start paying premiums every month for 20 years before you start collecting your benefits. And let's say *I* pay premiums for only 10 years. Who's going to pay more in total —

you or I? Even if the monthly premium you pay is significantly lower, the total amount I pay could be a lot less.

The key question at stake is this: At approximately what age will your premiums be most likely to really start going up at a fast pace? On average, premiums rise gradually until you are in your early 60s and then begin to take off at around the mid-60s.

Strictly in terms of cost, it's clear that you should not feel a pressing need to buy a long-term care policy until your early or mid-60s. It's equally clear that until that age, the longer you wait, the better. The reason is simple: You're aiming at a moving target. You're trying to plan now for a set of circumstances in the future that are hard to predict. The longer the time between the day you buy the policy and the day you start collecting benefits, the greater the chance you will miss the target. Consider all the things that can change ...

First, your needs. There are no guarantees, but as a rule it's going to be a lot easier for you to anticipate your needs when you're approaching retirement than when you're in your 40s or 50s.

Second, the facilities. A major pitfall of long-term care insurance is that *future long-term care facilities may not fit the criteria of present long-term care policies*. Indeed, the long-term care industry is undergoing relatively rapid change. If you buy a policy, for example, at age 50 but don't use it until age 70, the types of facilities defined in your policy may no longer match what's available in your area or even in the country as a whole.

Taking all of this into consideration, our advice is simple: Unless you anticipate an unusual situation (such as declining health), start shopping for long-term care insurance when you're in your early 60s.

If you're younger now, it certainly is a good idea to learn all about it, but don't be in a hurry to buy. If you are already older, don't panic. Take it step by step as we recommend below.

Warning: If you will need care within the next two years, the premium will be prohibitively high and the policy is also likely to include a long list of situations that are *not* covered (exclusions). If you decide that long-term care insurance is right for you, do your utmost to buy a policy *before* the need arises.

Step 2: Recognize the importance of shopping around! The cost of long-term care insurance can vary, even for the same person living in the same place, and you won't always know why. Sometimes the price differences are simply because the benefits are different. That's understandable. But often, it's just a reflection of the company's desire to increase or decrease its market share in a particular area, or of flaws in a company's pricing method.

The first rule in shopping around is: Most of the time, you get what you pay for, so you have to pay more if you want more. But the second rule, although sounding like a contradiction, is also true very often: If you shop around, you may very well be able to get essentially the same benefits for less.

To give you an idea of the range of price variation, we conducted a survey of 25,000 premium quotes offered by 35 long-term care insurers. As our standard, we compared tax-qualified policies with comprehensive coverage of nursing home care, community-based care and home health care; a four-year benefit period; a 60-day deductible period; and a \$100 daily benefit. The premiums you would pay vary from state to state, but we took policies that offered the same policy at the same rate in at least 10 states.

The results: *There can be huge differences in what insurance companies will charge you for seemingly similar policies for the same individual in the same place.*

Some of the price differences can be due to subtle differences in the policies. Some companies offer one price for a core policy with riders charged separately for additional features, while others offer higher-priced policies that automatically include the extra features.

For example, both MedAmerica's "Care Directions Premier" policy and Conseco Senior Health's "Preference" policy include certain extra benefits such as a waiver of premium for facility care and bed reservation. However, each of the other policies also includes benefits excluded by the other.

The price differences can also be because some companies are more competitive. A company recently entering the long-term care market may charge lower rates in order to gain market share, may have looser underwriting standards, or insufficient experience in pricing policies.

Even nearly identical policies can vary widely in price. For example, comparing long-term care policies offered to a 65-year-old in at least 10 states, we found that Conseco Senior Health (Pennsylvania) offered the most expensive policy at \$2,970, while United Security Assurance of Pennsylvania had the least expensive policy at \$960. Both policies include the same core benefits and coverage of nursing home care, community-based facilities and home health care.

Step 3: Reduce your cost by buying only what you think you'll need. Start by determining what type of care you think you will need *beyond* the assistance that your own family members may be able to provide — custodial care, intermediate care or skilled care.

We know it's often hard to anticipate your future needs, but try your best. Remember that *custodial care* is provided by someone without medical training who helps you with daily activities. *Intermediate care* includes occasional nursing and rehabilitative care supervised by skilled medical personnel. *Skilled care* includes 24-hour care provided by a skilled nurse or therapist.

Step 4: Do your best to decide where you would most likely be receiving the care. Your choices include in-home care, nursing care, adult day care or an assisted living facility, as we described above.

Step 5: Check out the facilities in the area in which you plan to live, make sure you're comfortable with them and find out how much they cost. The type of coverage you need will depend, among other things, on your health, your finances, and what assistance you can expect from friends or family members. Check out the cost of facilities and services in the area in which you will be living. If you can narrow down the coverage and facility options, you will find yourself a long way through the maze.

For care within your home, contact a home care agency and ask them about the going rates for home nurses and therapists. Also consider costs associated with any modifications that may be needed for your home (e.g., wheelchair accessibility, handicap rails and so on).

Step 6: Try to estimate how much of the long-term care expenses you will be able to pay on your own each month. Your financial planner may be able to give you an estimate of your retirement income that would be available for health care costs. However, even a good estimate can be off the mark, so make sure

your policy covers enough to avoid being financially strapped by long-term care expenses. Later, make sure your agent takes this information into consideration, limiting your out-of-pocket expenses to what you have specified.

Step 7: Try to arrive at a reasonable guess regarding when you might start using the benefits. If you're in good health and have a family history of longevity, set your date further into the future than average. In contrast, if you're already suffering from chronic health problems, you may need the benefits sooner rather than later.

Step 8: Find a competent agent *specialized* in long-term care insurance. Before you can purchase a policy, you need to find a good agent. That means interviewing several before selecting the one that's right for you. Some tips include ...

- Do not limit your choices to those you happen to know about or who are associated with your broker. Shop around.
- Make sure the agent is *specialized* in long-term care. This is a very complex field, and you need someone who can clearly explain all the ins and outs.
- Listen carefully and make sure the agent's explanations are not limited to the policies he or she sells. If they are, look for another agent.

Step 9: Check the Financial Strength Rating for each company you consider. It may be a long time before you begin to submit claims. Therefore, you want to make sure your insurance company will still be viable at that time. Favor companies with a rating of B+ (good) or higher, and avoid companies with a rating of C+ (weak) or lower.

Step 10: If you're considering buying a policy with your spouse, determine if you qualify for a spousal discount. If both you and your spouse or significant other (not all companies cover significant others — make sure to ask and see it in writing) purchase a policy from the same company, some companies will give each of you a discount on your annual premium. Most companies require the policies be exactly the same. However, men usually have different long-term care needs than women, since women tend to live longer and be alone in their later years. If the company you are considering provides a

discount even if your policy is different from your spouse's, it's worth considering.

Be sure you find out how to qualify for a spousal discount and how the discount is actually applied. At New York Life Insurance Company, for example, the 10% discount was applied to all policies in a family, such as two spouses or two or more siblings. At Continental Casualty Company, the 20% discount was applied to both policies as a unit, and the benefits must be exactly the same.

Step 11: Ask your agent for quotes on the premiums you will pay. Make sure the quotes are based on the preferences and needs that you outlined in earlier steps.

Step 12: Find out exactly what each policy covers in addition to the basics that you require — in terms of custodial, intermediate or skilled care. The actual policies that your agent suggests may differ somewhat from your wish list of benefits, including some that you did not ask for or excluding others that you wanted. This may help explain some, but not all, of the price differences.

Step 13: Ask your agent to give you a list of the types of facilities that are included and how they are defined. Facilities may include nursing home care, in-home care, adult day care, hospice care, assisted living facilities and other options.

Warning: There are no national standards for most long-term care facilities. The precise definition of these facilities can vary greatly from policy to policy and from state to state. Consequently, if you buy a policy in one state and then retire to another, there may be no facilities in your new state that meet the precise definitions in your policy.

Step 14: Find out the basic terms of coverage and reimbursement.

Basic term 1: The elimination period. This is akin to the deductible on your other insurance policies. The difference is that the elimination period is measured in days rather than dollars. Just like other deductibles, you get to choose among several options, such as 0, 60 or 100 days. An elimination period of 60 days means that you pay for

services for 60 days before your long-term insurance starts to pay your bills.

There are two important tips: (1) Find out if the elimination period is separate and distinct for different coverage types, and (2) inquire as to exactly *how* the elimination period is satisfied. Are the days added consecutively as soon as you have triggered benefits? Or do only those days in which you incur expenses count toward the elimination period?

Confused? Then consider this example: Suppose you need care on days 1, 4 and 10. With some policies, that would be counted as only 3 days toward your elimination period. With other policies, it would be counted as 10 days, which means you'd start collecting the benefits much sooner.

How do you decide which elimination period is best for you? It depends entirely on your financial situation and how long you can afford to pay for your own care without depleting your assets. The shorter the elimination period, however, the higher the premium you have to pay on the policy.

Basic term 2: The benefit period. This is the length of *time* the policy will pay benefits. This can typically range from two to five years, and some may even have an unlimited lifetime period. Some policies, however, use a *maximum* total value of the benefits instead of a period of time.

Figuring out exactly the benefit period that you will need can be a complex exercise, but you can arrive at a rough estimate. Start by trying to anticipate how long you might stay in a nursing home or in whichever facility you anticipate needing.

Consider the national stats: The average length of stay in a nursing home is from 2 1/2 to 3 years. Among the people 65 or older who entered nursing homes in 1990, only 21% lived there for five years or more.

But use these stats only as a starting point. You are bound to differ from the national average, depending on your health and your personal circumstances. Your safest bet is to start by looking at a policy that pays for lifetime benefits. Then, if the cost is too high, cut it back from there.

Basic term 3: The daily benefit. This is the amount the policy will pay for each day of covered services. Choosing a daily benefit is not a simple issue, because the second part of the question is: What is the cost of the daily benefit you *would like* to have? And the third issue is: Can you afford it?

The best way to determine what you will need is to contact local nursing homes, assisted living facilities and home health agencies, and ask them what their average daily cost is. Make sure you are checking with facilities that you would consider using. If you want to use nicer, upscale facilities, be sure to check into the cost of those.

Because this is not a simple equation, some plans give you more flexibility by offering a daily benefit reimbursable on a weekly or monthly basis. For example, if you selected a daily benefit of \$100 reimbursable on a weekly basis, you would be reimbursed for up to \$700 per week in expenses no matter how much you incurred on any one day.

Step 15: Determine if the policy is a pool-of-money contract or not. Most current policies will actually give you more time to collect the benefits than indicated by the benefit period. For example, in a four-year policy, if you need care on and off, you may not use up all your benefits in that four-year period. So you could continue to collect those unused benefits in subsequent years as well. These are called *pool-of-money* contracts. (To calculate your pool, just multiply the total number of days by the daily benefit.) Other policies will actually end at the end of the four years, no matter what. Try to avoid these.

Step 16: Check into the requirements needed to activate the policy. Before your policy begins to cover your long-term care expenses, you have to meet what are referred to as *benefit triggers*, and these can vary from policy to policy. Under most policies, you will be qualified for benefits when you meet certain conditions: (1) the inability to perform activities of daily living (ADLs), which typically include bathing, dressing, transferring, toileting, eating, continence and taking medication on your own; and (2) cognitive impairment.

But here's the all-important wrinkle: Some plans require you to satisfy *either* condition 1 or 2. Some require that you satisfy *both* conditions. Still others also allow for a third trigger, often referred to as *medical necessity*. This means that a doctor determines if you need care due to an injury or sickness. Make sure you find out the precise requirements

of each policy. Clearly, the most liberal triggers, which allow you to qualify most easily, are the best.

Step 17: Find out the true cost and benefit of any other features that are included (or can be added by a rider) to the policy. Extra features that you truly will need and use are fine. But when agents persuade you to spend more money on bells and whistles that you're unlikely to take advantage of, they're doing you a disservice. Make sure your agent carefully explains each additional feature recommended *and* gives you the option to reject it or choose another policy that does not include this feature. The agent may tell you that "it doesn't cost extra," but it does. Some commonly offered features include ...

Inflation protection. This feature is usually overpriced. Plus, if we experience deflation in the years ahead, the extra premiums that you've paid for inflation protection will have been unnecessary.

Waiver of premium. After you receive long-term care services for a designated period of time, some policies waive payment of your premiums while you receive benefits. Other companies waive your premium forever once you've been in a nursing home for a certain period of time, even if you completely recover. Many companies break this benefit down between nursing home care and home care services. This is an excellent feature. But it costs, and it's often bundled into a policy whether you want it or not.

Nonforfeiture. Suppose it turns out you don't need the benefits provided by your long-term care policy. Or suppose you decide that the premiums are too high; you may want to stop paying them. Well, some policies will give you a partial refund of your premiums. Other companies reduce your benefit period or benefit amount if you cancel because of increased premiums. Again, this nonforfeiture feature is a nice benefit to have. But it does boost your up-front cost. If you have done your homework and bought only the benefits you will really need and can truly afford, you shouldn't have to spend the extra money for this feature.

Restoration of benefits. If you can avoid using any benefits for a period of, for example, six full months, some policies will restore your full benefit period. In this example, let's say that you have a policy with a three-year benefit period. And let's say you've spent one year in a nursing home. With this feature, if you spend the next six months

without any care, your full three-year benefit period would be restored. But this particular situation is actually very unusual, so we certainly wouldn't make a decision to buy or not based on this feature.

Other features. There are many additional features that can be included in a long-term care policy. Sometimes they are included in the policy or need to be added with a rider. Familiarize yourself with these options, weigh their benefits against their costs and, of course, make sure the definitions are clear.

Your agent will explain the details of each policy. Just make sure that you actually need these additional benefits, because they can add substantially to your total costs.