

Chapter 7

Long-Term Care Insurance

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7-1. Introduction

Few will argue that one of the biggest risks left in life for aging adults is developing the need for long-term care (LTC). Most Americans are ill prepared for the emotional, physical, and financial consequences of needing long-term services and supports. The Colorado Long-Term Care Partnership Program is but one insurance tool to protect assets from the ever-increasing costs of home care, assisted living facilities, nursing homes, and more.

7-2. Defining Long-Term Care

Long-term care is chronic, extended care, from which the afflicted person may or may not recover. LTC services include medical and non-medical care, providing for the health or personal needs of the care recipient. Most often, LTC does not require skilled medical professionals such as physical therapists, as many people begin by receiving care at home provided by family, friends, or neighbors. Loved ones acting as informal caregivers often deliver custodial care, which may include assistance with household chores, transportation, shopping, managing finances, or help with bathing, dressing, eating, using the restroom, or supervising one with dementia. When home care is not a viable option, LTC may be provided in formal settings such as adult day care centers,

assisted living facilities, skilled nursing facilities, or hospice. Because a medical professional is usually not required for supervising one with dementia, or bathing, dressing, or feeding a loved one, long-term care is not generally covered by health insurance or Medicare.

7-3. Who Needs Care

According to the U.S. Department of Health and Human Services, 52.3 percent of persons turning 65 in 2015-2019 will experience a high need for care over their lifetime (high need is defined as those who have at least two limitations in performing activities of daily living or are cognitively impaired). The March 2017 AARP Fact Sheet reported that women are more likely than men to need care (58 percent women; 47 percent men) and typically need care longer (2.5 years for females and 1.5 years for males). Fourteen percent of those needing care will need services for more than five years.¹ The foremost risk of needing care someday is longevity: 69 percent of those age 90 or more have a disability.² What's more is that 1 in 3 seniors dies with Alzheimer's Disease or another dementia. Alzheimer's disease remains the fifth-leading cause of death among individuals age 65 and older.³ According to Genworth Financial, which has tracked long-term care insurance claims since 1974, 51 percent of all claim dollars are paid to claimants with cognitive disorders, including dementia. Of course, long-term care services may be necessary for people of any age due to accidents or chronic illnesses like multiple sclerosis, cancer, Parkinson's, or arthritis, just to name a few.

7-4. Where Care Is Received

Many people erroneously believe that most long-term care services are provided in nursing homes. In fact, most care is received at home. The government's LTC website, <https://acl.gov/ltc>, reported that 90 percent of elderly people receiving care for a chronic illness are in private homes, while 13 percent are in nursing homes and 5 percent are in assisted living and other residential care facilities. As reported by the Pew Research Center,⁴ there are 40.4 million unpaid caregivers of adults ages 65 and older in the United States, and nearly one-quarter of adults ages 45 to 65 care for an aging adult. Among the caregivers, 22 percent provide help to two people; more than a third have been providing care for five or more years. Six in 10 caregivers are employed, with around 50 percent working full-time. Of the caregivers, 44 percent are caring for a parent, 18 percent for a friend or neighbor, 16 percent for a grandparent, and 22 percent for another relative. According to the AARP, 66 percent of disabled older people who receive care for a chronic illness at home get all of their care from family members, mainly wives or adult daughters; 26 percent receive a combination of family care and paid help; and only 9 percent receive all of their care at home from paid caregivers.⁵

¹ www.aarp.org/content/dam/aarp/ppi/2017-01/the-basics-medicaid-and-long-term-services-and-supports.pdf.

² <https://acl.gov/ltc>.

³ www.alz.org/media/Documents/alzheimers-facts-and-figures.pdf.

⁴ Pew Research Center, "5 Facts About Family Caregivers" (Nov. 18, 2015), available at www.pewresearch.org/fact-tank/2015/11/18/5-facts-about-family-caregivers.

⁵ L. Feinberg, Testimony before Commission on Long-Term Care, "Populations in need of LTSS and service delivery issues," AARP Public Policy Institute (July 17, 2013).

7-5. Cost of Care

2021 Colorado Median Costs and Projections					
	Nursing Home		Assisted Living Facility	Home Health Aide	Homemaker Services
	Private Room	Semi-Private Room	1 Bedroom, Single Occupancy	44 hours/week	44 hours/week
Annual Costs	\$116,709	\$102,810	\$57,000	\$76,648	\$76,648
Monthly Costs	\$9,726	\$8,567	\$4,750	\$6,387	\$6,387
5-year annual growth	4%	4%	3%	7%	8%
Future costs @4%:					
in 10 years	\$172,758	\$152,184	\$84,374	\$113,458	\$113,458
in 20 years	\$255,724	\$225,269	\$124,894	\$167,945	\$167,945
in 30 years	\$378,534	\$333,454	\$184,874	\$248,600	\$248,600
in 40 years	\$560,322	\$493,593	\$273,658	\$367,989	\$367,989

Source: Genworth Financial Cost of Care Survey 2021 (www.genworth.com/aging-and-you/finances/cost-of-care.html); Genworth Cost of Care Trends and Insights 2021 www.genworth.com/aging-and-you/finances/cost-of-care/cost-of-care-trends-and-insights.html.

7-6. Paying for Care

Given the high cost of care as evidenced in the chart above, it is vital to have a plan to pay for long-term care services. Because other authors will delve into the programs and resources listed below at length, this author will focus on self-funding and insurance-based solutions.

- ▶ Medicaid, www.medicaid.gov/medicaid/home-community-based-services/index.html.
- ▶ Program of All-Inclusive Care for the Elderly (PACE), <https://hcpf.colorado.gov/program-all-inclusive-care-elderly>.
- ▶ Home and Community Based Services (HCBS) Waivers, <https://hcpf.colorado.gov/elderly-blind-disabled-waiver-ebd>.
- ▶ Medicare Part A (limited to short stays in a nursing home in order to get care for a hospital-related medical condition), www.medicare.gov/what-medicare-covers/what-part-a-covers/medicare-part-a-coverage-nursing-home-care.
- ▶ Department of Veterans Affairs, www.caregiver.va.gov.
- ▶ Social Security Disability Income, www.ssa.gov/disability/.

Personal Funds

The vast majority of Americans who need long-term care will pay for services with personal funds. Some have enough wealth to pay for care no matter how long the event lasts.

Others might deplete assets paying for care and end up on Medicaid. When that is the case, income will be diverted to offset the cost of long-term care services provided by Medicaid.

Self-Insuring

A popular term among those with a degree of wealth is “self-insuring,” which is a misnomer. Insurance always involves leverage: a sizeable number of people with a common shared risk contribute premiums to an insurance pool in order to spread risk in case of a loss. An individual using his or her own funds to pay for a loss (in this case, needing long-term care) does not enjoy any leverage or spreading of risk. A more appropriate label is “self-funding.” Even those who can self-fund may run the risk of running out of resources, especially if dementia is involved. Common sources available to pay for care may include personal savings, pension income, income from Social Security, or proceeds from a reverse mortgage.

Family and Friends

According to the Alzheimer’s Association, 83 percent of care provided to older adults is delivered by family members or friends.⁶ The average caregiver happens to be a 49-year-old woman working outside the home while providing 20 hours of unpaid care to her mother.⁷ and unpaid care is said to total \$470 billion per year.⁸ An article from Reuters in June 2019 declared that the economic cost of unpaid family care is around \$67 billion and will reach \$147 billion by 2050.⁹ Anecdotally, when an adult caregiver is providing assistance to a child, spouse, or parent, he or she may be using personal funds to keep a loved one at home. Other times, a family might contribute monies to keep mom or dad in a better-than-average facility. Such situations might cause a family caregiver to reduce hours at work or give up employment entirely, reducing his or her own retirement funding or a college fund for children.

Insurance-Based Solutions

Those who wish to transfer at least some of the risk of needing care might consider one or more of today’s insurance-based solutions, which include:

- ▶ Traditional, stand-alone LTC insurance;
- ▶ Short-term care insurance;
- ▶ Life insurance with accelerated death benefits;
- ▶ Asset-based policies; and
- ▶ Fixed equity indexed annuities

For more than three decades, Americans have been purchasing “traditional, stand-alone” long-term care insurance policies. The term, “traditional,” is used to indicate that the insurance industry has offered such policies since the early 1970s, and, traditionally, such policies were the most popular form of insurance-based protection. “Stand-alone” refers to the idea that these policies are a form of health insurance that pay for chronic care. Unlike some of the solutions

⁶ www.alz.org/alzheimers-dementia/facts-figures.

⁷ www.caregiver.org/women-and-caregiving-facts-and-figures.

⁸ www.caregiver.org/caregiver-statistics-demographics.

⁹ www.reuters.com/article/us-health-caregiving/u-s-wages-lost-to-unpaid-family-care-to-hit-147-billion-by-2050-idUSKCN1TT36E.

described below, traditional LTC policies do not provide for a death benefit or money back if the coverage is cancelled, and, in most cases, premiums may increase in the future. Stand-alone LTC insurance policies include four building blocks: benefit amount, benefit period, inflation protection, and an elimination period.

- 1) The benefit amount is how much per day or per month the policy pays for care at home or in an assisted living facility, nursing home, adult day care, or hospice.
- 2) The benefit period may be thought of as the minimum length of time the benefits last before the policy is exhausted. Choices may include one, two, three, four, five, six, or 10 years, or for an unlimited amount of time. Let us assume a client has purchased a three-year benefit period and a \$200 daily benefit. The resulting lifetime maximum benefit is \$219,000 (1,095 days multiplied by \$200). This lifetime maximum benefit may also be referred to as a benefit account, pool of funds, or bucket of money.
- 3) All companies in Colorado must offer inflation protection, which increases the daily benefit and the pool of funds over time. For instance, using the example in the previous paragraph, if the insured with a \$200 daily benefit and a benefit account of \$219,000 were to include an inflation rider that increases the daily benefit and the pool of funds by 3 percent annually, benefits would roughly double over 24 years, resulting in a daily benefit of \$400 and a benefit account of \$438,000. Inflation rider options may include 1, 2, 3, 4, or 5 percent compound increases tied to the CPI (Consumer Price Index), or riders that increase the daily benefit, the benefit account, and the premium by 3 or 5 percent annually.
- 4) The elimination period is the number of days the policyowner receives LTC before benefits begin. The elimination period might also be thought of as a waiting period or a deductible: the longer the elimination period, the lower the premium. Common choices include 0, 30, 60, 90, 180, or 365 days.

There are many other features and riders available in the marketplace:

- ▶ Most insurance carriers provide a **Waiver of Premium** if the insured is receiving benefits.
- ▶ A **Joint Waiver of Premium** rider waives premium for both spouses or partners if just one is receiving benefits.
- ▶ **Shared Care** allows a couple to share in each other's benefits.
- ▶ **Survivorship** allows the surviving spouse or partner to stop paying premiums if the other spouse or partner has passed away after owning the coverage for at least 10 years.
- ▶ **Restoration of Benefits** allows the policy to be restored if the insured recovers and has not been chronically ill for at least six months.
- ▶ **Care Coordination** services, which assist with the development and coordination of the required plan of care. Care coordination may help identify appropriate services and reputable providers of such services and help make arrangements for the services to begin.
- ▶ All LTC insurance policies marketed must offer a **Nonforfeiture Benefit** rider, also known as the Shortened Benefit Period. Should a policyowner with this rider surrender the policy after owning it for at least three years, the premiums paid into the policy will be available to pay for care some day in the future. Note that this is not a return

of premium benefit. Instead, the policyowner has a paid-up policy with benefits equal to the premium paid.

- ▶ Modern policies also include a built-in **Contingent Nonforfeiture** benefit, which allows the policyowner to surrender the policy for a paid-up policy if premiums increase a certain percentage based on the issue age.

7-7. The Colorado Long-Term Care Partnership Program

Beginning January 1, 2008, a traditional LTC insurance policy sold in Colorado may qualify as a Partnership Plan, which allows for special treatment of one's assets if LTC is needed some day. The stated goals of the Partnership program are to (1) assist the citizens of Colorado in planning for their future LTC needs through quality LTC insurance, (2) without depleting the consumer's resources or assets paying for care. Another important aim is to preserve Medicaid dollars for the truly needy.

A Partnership policy allows the policyowner to protect a dollar in non-exempt assets from Medicaid spend-down for every dollar the Partnership LTC insurance policy has paid out in benefits. This is known as dollar-for-dollar asset protection. Taking liberties to simplify the Medicaid qualification rules, an unmarried Colorado resident seeking to qualify for Medicaid to pay for long-term care can have a house (subject to a limit of equity value), a car, and \$2,000. His or her income must also meet strict qualification limits. Let us assume that our citizen also has \$300,000 in non-exempt assets. Should our citizen suddenly suffer a stroke or other debilitating change in health, he or she must spend down the \$300,000 in assets before being eligible for Medicaid.

Now let us assume that our citizen purchased a Partnership LTC insurance policy. For every dollar the policy pays for qualified LTC expenses, Medicaid will disregard a dollar of his or her \$300,000 in non-exempt resources when applying for Medicaid. If the policy paid \$300,000 or more in benefits, all of the non-exempt resources may be disregarded. If the Partnership policy paid out \$200,000, and at the time of applying for Medicaid the remaining non-exempt assets were down to \$200,000, our citizen could apply for Medicaid and disregard the \$200,000 in assets. In addition, the disregarded assets are exempt from the estate recovery process at the Medicaid recipient's death.

Partnership policies do not cost more than non-Partnership policies. Assuming the insurance carrier's policy has been approved by the state, the policy is automatically Partnership as long as the policyowner purchased inflation protection equal to or exceeding certain minimum levels, which vary slightly from state to state. All Partnership policies must include inflation protection of 5 percent compounded annually or, in the alternative, consumer-price-indexed inflation protection compounded annually up to age 61. From age 61 to 75, Colorado requires inflation protection of 5 percent simple interest, 3 percent compound interest, CPI, or 5 percent compounded two times the maximum. From age 76 on, inflation protection is not required, but still may be purchased as part of the policy. All Partnership policies must be issued after the program begins in Colorado. Per federal law, Colorado cannot grandfather policies.¹⁰

It is important to note that only traditional, stand-alone policies may qualify for the Colorado Partnership program. Other forms of long-term care insurance do not qualify.

¹⁰ Long Term Care — Colorado Gerontological Society, www.senioranswers.org/insurance/long-term-care/.

7-8. Other Types of LTC Insurance

Short-term Care Insurance

Higher premiums and stringent health underwriting for long-term care insurance have helped give rise to another insurance-based solution gaining in popularity: short-term care insurance (STC). Most STC policies cover care in nursing homes, assisted living facilities, home care, and more. Unlike long-term care insurance, STC policies cover less than one year of care. Maximum benefit periods are often 300 to 360 days of care services. Importantly, two key factors drive the demand for STC: affordability and ease of health underwriting. Many people not healthy enough to purchase LTC insurance may qualify for STC. Likewise, those who may not be able to afford a robust LTC policy may opt for less expensive STC insurance.

Life Insurance with Accelerated Benefits

Most life insurance policies sold in the past require that the insured pass away in order for the death benefit to be paid. An ever-increasing number of life insurance companies now offer an accelerated death benefit (ADB) rider or built-in feature that allows the death benefit to be “accelerated” — that is, a portion of the death benefit can be used to pay for care while, obviously, the insured is alive. Any death benefit not used for care will be paid to the beneficiary(ies). Both permanent life insurance policies (*e.g.*, whole life and universal life) and, to a lesser extent at this point, term life insurance policies can now be purchased with ADBs. Such policies may offer a long-term care (LTC) rider or a chronic illness rider.

Policies offering an LTC rider charge additional premium for the privilege of using the death benefit at a rate determined at policy issue. Choices are often 2, 3, or 4 percent of the death benefit at issue. For example, if the insured has a life insurance policy with a \$150,000 death benefit and an LTC rider that accelerates the death benefit at 4 percent per month, the maximum monthly benefit available to pay for covered long-term care expenses is \$6,000. If the entire death benefit has been accelerated, the policy comes to an end.

Life insurance policies with chronic illness riders are becoming plentiful. Such policies are often designed in one of three ways:

- 1) A built-in chronic illness rider includes no charges up front as if the rider is free of charge. However, if the insured accelerates the death benefit, a discounted, or reduced, death benefit is calculated and is withheld from the amount the insured receives in case of a chronic illness. Typically, the discounted death benefit, and resulting amount that can be received, cannot be known until claim time. Because most policies offering this style of chronic illness rider do not require additional or extra medical underwriting, some applicants with conditions such as early Parkinson’s or Multiple Sclerosis may be able to purchase coverage.
- 2) The lien approach is similar to the above, but instead of a discounted death benefit, the payment of the accelerated death benefit is considered an offset or lien against the death benefit.
- 3) The third, and often the most attractive, chronic illness rider design is the dollar-for-dollar death benefit reduction approach. This method involves a known additional charge for the rider, a defined percentage of the death benefit (*e.g.*, 50 percent or 100 percent) that is available for acceleration, and a defined benefit amount (*e.g.*, 2 or 4 percent per month). This style of chronic illness rider involves additional medical

underwriting and a memory test — those that may not qualify medically to purchase LTC insurance may not be able to purchase this rider.

Consumers should fully understand which type of chronic illness rider is being considered. Those contemplating a built-in chronic illness rider should look at the fine print to determine if the policy requires a *permanent* illness. While not ideal, this requirement often signifies that those with conditions such as Parkinson's, Multiple Sclerosis, or even mild memory issues may be able to qualify for coverage. Healthier applicants should avoid policies requiring a permanent illness and/or a discounted death benefit at claim time. Also noteworthy is that chronic illness riders pay benefits in the form of cash indemnity, allowing the money received to be used for any purpose, including household bills or care from family members.

Some of the most attractive attributes of life insurance solutions with ADBs may include guaranteed premiums and/or cost of insurance (not all policies include such guarantees), a death benefit paid to beneficiaries if care is not needed, and cash values upon surrender (not available with term life). People with existing permanent life insurance policies with cash surrender values may consider a tax-free 1035 Exchange from an existing policy without an ADB to one with an ADB. Disadvantages include the lack of inflation protection, policies do not qualify for the Colorado Partnership program, and someone may be relying on receiving the death benefit.

Asset-based Policies

Asset-based policies are so-named because the coverage is often funded by a portion of one's assets and, because the policy features cash surrender values, the policy is an asset. There are two types of asset-based policies: life-based and annuity-based.

Also known as "hybrid," "combination," or "linked-benefit" policies, asset-based policies built on a life insurance platform combine life insurance with a long-term care insurance extension of benefits rider. Unlike asset-based policies, traditional, stand-alone policies cannot provide cash surrender values, a death benefit, or guaranteed premiums (with very few exceptions). Asset-based policies are popular for consumers with the ability to self-fund long-term care. For example, if a consumer were to purchase an asset-based policy with a \$100,000 single premium, if he or she were to cancel the coverage after a certain number of years (*e.g.*, five or 10 years, depending on the company), the \$100,000 would be returned to the insured. If the policyholder were to pass away without needing care, the beneficiary(ies) of the death benefit would collect \$100,000. And if care were needed, an extension of benefits rider would provide LTC benefits that last several years or more. In other words, asset-based policies ensure that someone will collect a benefit. Insurance companies are now offering more ways to pay premiums for this type of coverage, including payments over five, 10, or 15 years, or to age 100. Also noteworthy is that companies may pay benefits in the form of cash indemnity (anyone can provide care and receipts for covered care services are not required) or expense reimbursement (requires a home care agency or licensed facility and receipts for covered care are required).

A second form of asset-based coverage is an annuity with a long-term care extension of benefits rider. Covering one person or a married couple, this type of annuity is not purposed for income but for long-term care. Funded with a single premium or a tax-free 1035 Exchange from another deferred annuity, the value of the new, asset-based annuity contract grows tax-deferred, provides a death benefit if care is not needed, and can be used to pay for qualified long-term care services over a number of years or for life via an extension of benefits rider. If the policy is being funded by a 1035 Exchange, unlike other annuities, the monetary gain in the policy is not taxed as income if it is used to pay for qualified care. This form of LTC insurance involves self-funding,

as the initial LTC benefits are accelerated from the policyowner's annuity account. As a result, insurance carriers are able to issue coverage when someone is not healthy enough to qualify for other forms of LTC insurance.

Fixed Equity Indexed Annuities

In most cases, people purchasing fixed equity indexed annuities, which tie the growth of the annuity to the performance of indexed accounts, do so for guaranteed lifetime income and protection of principal. Some equity indexed annuities provide additional benefits if the annuitant were to need long-term care. For example, if the annuitant is confined to a nursing home, surrender charges may be waived, providing liquidity for care services or any other purpose. The most lucrative feature or rider offered allows the annuitant to receive twice the monthly guaranteed income benefit for up to five years if care is needed, regardless of the setting. While these enhancements are not technically long-term care insurance, most companies do not require medical underwriting in order to add these benefits to a policy. Generally, unless the person applying for the annuitant already needs care, these enhancements can be included.

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