

Paying for Long-Term Care: What Do I Need to Know

The high cost of long-term care makes paying for it a challenge. What makes it even more challenging is that the alternatives most people are drawn to have serious limitations.

Personal savings - For most people, it will be difficult to accumulate sufficient personal assets to meet both retirement income and long-term care needs. Furthermore, there are both financial and emotional costs associated with liquidation of personal assets to meet long-term care needs. These include taxation of gains realized on the sale of assets, loss of the use and enjoyment of liquidated assets, and depletion of assets available for surviving heirs.

Reliance on family members - A number of socio-economic factors have combined to make it increasingly difficult for family members to provide long-term care to aging parents. These include:

- geographic dispersion of the family;
 - increased participation of women, traditional providers of long-term care, in the paid workforce;
 - a trend toward smaller nuclear families;
 - higher-divorce rates; and
 - the inability of family members to meet their own financial and personal objectives
- while also providing care and support to aging parents.

Medicare and Medicaid - Neither of these government-sponsored programs is ideally suited for paying for long-term care. Medicare generally covers short-term skilled nursing home care following hospitalization and limits at-home help to those who need skilled nursing care and rehabilitative therapy. Medicaid pays for long-term care both at home and in a nursing facility, but this program is targeted to individuals who are below poverty level or those who are medically disabled and have had to spend down their assets to qualify for Medicaid. Coverage and coverage limits vary by state.

Given the limitations of these alternatives, the purchase of long-term care insurance makes sense for many people. Only long-term care insurance is specifically designed to address the costs of services associated with long-term care resulting from chronic illness or injury. But selecting the right policy that meets your long-term care needs

can be tricky.

Legislative Developments

Two major pieces of legislation - one at the state level and the other at the federal level - have affected the design and development of long-term care insurance policies.

At the state level, the National Association of Insurance Commissioners (NAIC) model act has been adopted by most states. The Model Act focuses on two major areas, policy provisions and marketing. The legislation responded to concerns from consumer advocates that without certain minimal protections, consumers could fall prey to deceptive and unfair marketing practices.

At the federal level, the Health Insurance Portability and Accountability Act of 1996 (HIPAA) created a limited tax deduction for premiums paid on qualified long-term care policies.

Under current law, individuals who itemize deductions are entitled to deduct qualified long-term care insurance premiums to the extent such amounts exceed 7.5 percent of adjusted gross income. However, the amount of long-term care expenses and premiums that may be taken into account for purposes of the 7.5 percent floor are capped and increase with age. The limits are set forth below.

Long-term Care Deductible Limits (2005)

Attained Age Before Close of Taxable Year	Applicable Eligible Premium Limitation for Year 2005
40 or less	\$270
Over 40, but not more than 50	\$510
Over 50, but not more than 60	\$1,020
Over 60, but not more than 70	\$2,720
Over 70	\$3,400

Policy Provisions

Most long-term care policies offer coverage for both nursing facility and home care/home health care options.

Another consideration is the amount of benefits provided. The benefit for nursing

home care typically ranges from \$40 to \$500 per day. It is common for policies to pay a benefit for home care/home health care that is expressed as a percentage, say 50 percent, of the benefit provided for institutional care.

Inflation protection is typically offered in the form of a specified increase, generally 5 percent, on either a simple or compound basis. Availability of inflation options varies by state, as well as by product carrier.

Other important considerations in policy design are the elimination period and the benefit period. The elimination period refers to the time that must expire before the benefits become payable. Most insurers allow the applicant to select elimination periods of 30, 60, 90, or 180 days. The benefit period is the time period over which a benefit is paid. Typical selections are benefit periods that offer coverage for two, three, four, or five years or for the lifetime of the insured.

Yet another important policy feature is the nonforfeiture option. One form of nonforfeiture option enables the policy owner to continue coverage in some form even if no further premiums are paid.

Selecting the Right Policy

Selecting the right policy requires a matching of your goals and objectives with premium-paying ability and policy features. Here are some guidelines.

The Amount of the Daily or Monthly Benefit - The greater the amount of the benefit, the higher the premium. Underinsurance is a concern, and individuals should check into costs for nursing homes and home care/home health care in the area where they live or plan to retire.

Elimination Period - Choosing a longer elimination period can significantly lower your premiums. Prior to choosing an elimination period you need to determine if your financial situation will allow you to pay for your care out-of-pocket for some period of time, e.g., can you afford to pay for your care for three months or six months? If so, you might consider purchasing a policy with a 90- or 180-day elimination period.

Home Care/Home Health Care - Most of today's long-term care policies are designed to pay for long-term care services in a nursing home, assisted living/residential care

facility or in a person's own home. People usually prefer to be cared for in their own homes. The level and type of home care you purchase is dependent on your personal situation. For instance, are home health services available in your area? Do you have a spouse or other family members who can help care for you at home? The Home Health Care benefit is generally based on a percentage of the Institutional benefit, e.g., you can choose a Home Health Care Benefit that is 100 percent, 75 percent, or 50 percent of the Institutional Benefit amount. You should give careful consideration to where you want to receive your care, the cost of home care services in your area and what type of outside support (family, friends) may be available to you prior to choosing a Home Care/Home Health Care benefit amount.

Inflation Protection - Serious consideration should be given to purchasing inflation protection with your policy. If you are under age 70, compound inflation should be seriously considered and added to your policy if you are financially able to do so. Inflation protection is also important after age 70. You need to review your personal health situation and family history as it relates to longevity to help determine whether simple or compound inflation protection is most appropriate for your situation. Availability of inflation options varies by state.

Benefit Period - Your personal health and financial situation will be factors in determining which benefit period you choose. Generally, longer benefit periods are more expensive, e.g., purchasing a policy that pays lifetime benefits is more expensive than purchasing a policy that pays benefits for three years.

Benefit Amount - Determination of benefit amounts should be done in concert with the choices made concerning benefit periods, inflation protection, and home health care coverage. You should take into consideration whether or not you have other financial resources available to you to offset the cost of care and what the cost of care is where you live.

Nonforfeiture provision - An example of nonforfeiture provision is one that guarantees reduced benefits in the event you are unable to continue to pay premiums. The addition of a nonforfeiture rider will significantly increase your premiums.

Long term care insurance contains benefits, exclusions, limitations, eligibility requirements and specific terms and provisions under which the insurance coverage

may be continued in force or discontinued. A qualified financial services professional can help educate and guide you through the decision making process.

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