How a Long-Term Care Policy Works

Type of Policies

Insurance companies are continually innovating to meet the changing Long Term Care industry. Medical technology, improvements in quality of care, new, more modern facilities are being built and alternative care programs developed. We have more choices than ever before and costs continue to rise. There are numerous types of policies available. The form in which policies take shape vary by company, however, there are two basic types of policies:

* **1. Specific Long Term Care Policies** - These are policies that are separate from any health insurance or life insurance policy. They are single-purpose policies whose focus is to pay for Long Term Care costs. Within this category, there are two considerations, which can be found in our indemnity vs reimbursement section below.
* **2. Wrap Policies** - These are policies that are generally attached as riders or "wraps" to either life insurance or annuity policies.

As a general rule, stand-alone policies offer the most comprehensive insurance at the best price. They also rely upon distinctions that may facilitate easier claims as well as allowing you to choose the benefits that fit your circumstances without additional insurance you may not want or need.

# Stand-Alone vs. Integrated Policies

Stand-alone policies pay for only one type of care, such as home care or facility care. Integrated policies pay for all levels of care, including assisted living and home care. Most policies available today are integrated to allow for adequate coverage for all circumstances. We do not recommend home care only policies, or nursing facility only policies. Yet, in older policies that were designed as stand- alone, we offer a program for policyholders to apply for additional coverage to include all types of care.

# Indemnity vs. Reimbursement

The two most common ways for a Long Term Care policy to distribute benefits to you are the indemnity and reimbursement methods. When buying a policy, you are given a choice of how much daily benefit you would prefer, often ranging

from $100 to $300 per day. Sometimes there is a weekly, rather than daily amount.

Reimbursement policies will pay for the daily (or weekly) cost of actual care. Example: Your selected daily benefit is $100 on your policy. the actual care you receive costs $90. The policy will pay $90. If the care costs $120 daily, you will receive $100 per day and must pay for the additional costs.

Indemnity policies pay the selected daily benefit when you need care, regardless of the actual cost of care.

# Policy Benefits Periods

The benefit period for a Long Term Care Insurance policy is the duration of time for which that policy will pay for your care. Generally, this is expressed as a number of years, for example, 2 years or 3 years. An unlimited benefit period means the policy will pay for as long as you need it, without time limit.

Understanding your risk and the average number of years care is required would be helpful in choosing a benefit period.

By purchasing a longer benefit period, you are insuring you will not deplete benefits, this option is more expensive, yet provides assurance. Typically the younger applicant finds this attractive from a premium standpoint since their age allows for a more economical advantage of lower premiums. An older applicant, however, may opt for a shorter benefit policy period as a premium cost saving measure, while still providing adequate coverage. Another strategy is to adjust other choices such as a reduced daily limit or increased elimination period to enhance premium affordability.

Some policies are designed around a pool of money concept. In this case, the benefits may be greater than the stated benefit period, even if it is expressed in years in the policy. Example: If you have a policy with a 4 year benefit period, paying a maximum of $100 per day during claim, yet you use only $50 per day of the available dollars, the excess is kept in the pool of money and your policy, in this case, would last 8 years.

Other Long Term Care policies state that they will pay a maximum dollar amount, rather than a benefit period (time). These policies are easier to understand, but the principles are the same.

# Daily Benefit

A Long-Term Insurance policy's Daily Benefit is the maximum dollar amount you will be reimbursed for a single day, usually offered in increments of $10/day.

Some policies offer weekly or monthly maximums, rather than daily. This approach can be more flexible when you use services. For example, you may be able to use twice your daily limit, but only every other day.

When you and your agent design coverage and decide upon a Daily Benefit for your policy, it's important to consider a few important factors:

The cost of home care, assisted living care or nursing facility care varies by facility, type of services required and your location. In some larger metropolitan areas, the cost of care can be quite high (greater than $250 per day). And in other areas in the United States, the cost can be much less. Your agent should be aware of the costs in your area and give informed advice. You may also want to call local facilities.

Another consideration is if you prefer full coverage, or are willing to assume some of the costs yourself. This would provide a partial safety net for your assets. For some people the risk is worth it. Having no coverage, however, in the face of our climate of increasing costs could prove to be financially devastating.

# Inflation Adjustment

Inflation is a real concern, thus the increased cost of care, so all Long Term Care policies are required to offer options to protect against inflation. These options, or riders, add to the policy premium. Policies generally offer three approaches:

* **1. Simple Inflation Adjustment** - Daily benefits are increased by a certain percentage (usually 5%) every year. For example, if the original daily benefit is

$100 per day the first year of purchase, the second year the daily benefit will grow to $105. By the tenth year, the original daily benefit will have grown to

$150.

* **2. Compound Inflation Adjustment** - This option compounds the increase each year based off of each year's increased daily benefit, using a multiplier of 1.05. As in the example above, beginning with a $100 daily benefit, by the tenth year, the daily benefit will have grown to $163.
* **3. Guaranteed Purchase Option** - Rather than purchase an inflation option initially, you will be presented with an offer to purchase additional coverage in later years. The schedule will be stated in your policy, often every three years. If you decide not to exercise this offer, future offers may not be extended.

# Elimination Period

The Elimination Period for a Long Term Care Insurance policy is similar to a "deductible" in health care policies. Rather than dollars, however, elimination periods are expressed in days, commonly 30, 60, and 90 days (multiples of 30) in current policies. This means you will be responsible for any costs for the first 20 or 100 days if Medicare does not pay. Medicare currently has benefits available for the first 100 days of facility care, but not in all circumstances. It is prudent, when choosing an elimination period on your policy, to plan on paying all costs during this time before your policy benefits are payable.

**For more information please contact:**

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