

# 3

## *Reinforcing the Long-Term Care Insurance Policy Solution*

### **Overview and Learning Objectives**

This chapter begins with an overview of long-term care insurance (LTCI) policy characteristics and offers guidance in evaluating the various provisions in these contracts. Next, the chapter reviews why it is unrealistic for many individuals to look toward government sources or private savings for long-term care (LTC) funding. It then discusses ways to qualify an LTCI prospect using the LTCINS links system. Finally, the chapter explores seniors' common objections to purchasing LTCI, and it suggests responses to handle these objections.

By reading this chapter and answering the questions, you should be able to

- 3-1. List 10 policy characteristics that can help seniors to select LTCI policies that specifically meet their needs.
- 3-2. Explain the basic characteristics of 13 miscellaneous LTC policy provisions of which seniors should be aware.
- 3-3. Identify the expenses involved in various LTC levels and settings.
- 3-4. Explain the limitations of government-sponsored programs and self-insuring as methods of funding LTC.
- 3-5. Describe three major misconceptions that many seniors have in believing that private LTCI is for someone else.
- 3-6. Qualify a prospect based on general underwriting guidelines.
- 3-7. List the questions in an LTC fact-finder form.
- 3-8. Identify objections to the purchase of long-term care insurance.

## Chapter Outline

Long-Term Care Insurance Policy Evaluation	3-3
What Types of Care Does the Policy Cover?	3-3
Where Is Care Provided?	3-6
What Events Trigger Benefits?	3-8
How Long Is the Elimination Period Once Benefits Are Triggered?	3-10
How Much Will the Policy Pay toward Covered Services?	3-11
Does the Policy Offer Inflation Protection?	3-13
How Long Will Benefits Continue?	3-14
What Is the Premium?	3-16
What Is the Policy's Renewability Provision?	3-18
Is the Policy Tax Qualified?	3-19
Additional LTCI Policy Miscellaneous Benefits	3-22
Combination Products	3-30
Recapping the Need for LTC Insurance	3-31
Qualifying the Prospect	3-35
LTCINS Links	3-35
Circle of Health Protection	3-40
Financial and Personal Resources Review	3-43
Preliminary Discovery Agreement	3-44
Handling Prospects Who Fail to Qualify	3-46
Keeping in Touch with Qualified Prospects	3-48
Prospects Who Are Unconvinced of the Need	3-51
Prospects' Main Objections to LTC Planning	3-51
Additional Objections	3-52
Chapter Three Review	3-59

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# Long-Term Care Insurance Policy Evaluation

Long-term care insurance coverage varies considerably from policy to policy. Some policies offer only nursing home benefits for just 2 or 3 years. Other policies offer a wide variety of benefits, including both nursing home and home health care coverage for an unlimited lifetime period. Variations in coverage depend not only on differences in policy designs but also on the selection of optional policy features.

There are 10 key questions for seniors to consider when evaluating an LTCI policy:

- What types of long-term care does the policy cover?
- Where is care provided?
- What events trigger benefits?
- How long is the elimination period once benefits are triggered?
- How much will the policy pay toward covered services?
- Does the policy offer inflation protection?
- How long will the benefits continue?
- What is the premium?
- What is the policy's renewability provision?
- Is the policy tax qualified?

We will begin our analysis of LTCI policies by looking at each of these questions. Some questions are relatively straightforward. Others require analysis.

## What Types of Care Does the Policy Cover?

There are many types of care for which benefits may be provided under an LTCI policy. By broad categories, these can be identified as facility care, assisted-living care, and home- and community-based care. An LTCI policy may provide benefits for one, several, or all of these types of care.

## **Facility Care (Nursing Home)**

Nursing home care is a term that encompasses skilled-nursing care, intermediate care, and custodial care. All types of care can be thought of as on a care continuum from acute to chronic. An emerging trend is the integration of care techniques and facilities to accommodate people along the continuum and offer a wide variety of services for different levels of care. As a greater need for these services evolves, we can expect the levels and types of care to improve and advance.

Seniors should visit nursing homes in their area to become familiar with them, what they offer, and what they cost.

## **Assisted-Living Facility Care**

Assisted living is provided in facilities that care for those who are no longer able to care for themselves but do not need the *level of care* provided in a nursing home. The number and types of assisted-living facilities are growing rapidly. Assisted-living facilities are intended to foster independence, dignity, privacy, and the ability to function at the maximum level while maintaining connections with the community.

Assisted-living facilities offer a more home-like atmosphere than a nursing home. Although they are a relatively new LTC provider, assisted-living facilities have experienced explosive growth because they offer an effective form of care in the LTC delivery system. They provide cost-effective services for people who need some assistance, yet they do not provide the more intensive care of a nursing home.

## **Home and Community-Based Care**

Home health care provides for part-time, skilled-nursing care by registered and licensed practical nurses. It also provides for occupational, physical, and speech therapy, as well as part-time services from licensed home health aides under the direction of a physician. Services typically include administering prescription medication, monitoring blood levels, wound care, diabetic care, incontinence management, and injections. Most people desire care at home because it provides an important foundation of emotional well-being, control of lifestyle, security, familiarity, privacy, and the other comforts we all associate with home.

Home and community-based care may also include benefits for one or more of the following:

- Medical equipment, emergency alert systems, and modifications to the home, such as a ramp for a wheelchair or bathtub grab

rails, can be purchased, rented, or installed. Insurers find that the cost of equipment or making minor modifications to the home is less than the cost of receiving care in a nursing home. This type of care allows the person to stay in his or her home, rather than going to a facility.

- Adult day care facilities offer weekday custodial care to people with light to moderate impairment. These facilities function much like child day care, providing a supervised, safe environment for people who lack informal caregivers during the day and, therefore, cannot stay at home and function on their own. Medicine administration, meals, and some skilled-nursing services are provided.
- Caregiver training instructs a family member or friend in how to give safe and effective care so that an insured in need of care can remain at home. Insurers recognize that it is more cost effective to train an informal caregiver than to have the insured go to a nursing home.
- A homemaker companion, or home health aide, is normally an employee of a home health care agency who assists with homemaker services such as cooking, laundry, shopping, cleaning, bill paying, or other household chores. Homemaker companions also provide personal care services in daily living such as grooming, personal hygiene, and taking medications.
- Hospice care does not attempt to cure medical conditions but treats terminally ill persons by easing the physical and psychological pain associated with death. In addition to providing services for dying people, hospices may also offer counseling to family members to help them with the physical, psychological, social, and spiritual needs of coping with the terminal illness and subsequent death of a loved one.

#### **Care Settings: Questions to Ask**

Does the proposed policy cover benefits in a variety of physical settings?  
 What percentage of the maximum daily benefits is provided in each setting?

Physical Setting	<u>Home</u>	Adult Day <u>Care</u>	Assisted <u>Living</u>	<u>Hospice</u>	Nursing <u>Home</u>
Benefit Level	0%	25%	50%	75%	100%

## Where Is Care Provided?

There are almost as many variations among LTC policies as there are insurance companies that write the product. LTCI policies provide coverage at different levels. Some policies provide only skilled nursing care. Other policies cover intermediate and custodial levels of care.

Much of this variation is related to the types of care for which benefits are provided. These benefit variations fall into three broad categories: facility-only policies, home-care-only policies, and comprehensive policies.

### Facility-Only Policies

Many early LTC policies were designed to provide benefits only if the insured was in a nursing home. This type of policy was frequently referred to as a *nursing home policy*. Today, however, these policies are practically unavailable in their original form. Their more modern counterparts provide benefits for care not only in nursing homes but also in other settings such as assisted-living facilities and hospices. While the term *facility-only policy* is often used to describe this broader type of coverage, in its most generic sense, it also includes nursing home policies.

Health Care Needs Health Crisis—Accident/Illness Medicare Coverage				
Custodial Care	Intermediate Care	Skilled Care	Acute Care	Intensive Care
Assistance with activities of daily living (ADLs). Services often provided by home health aide, practical nurse.	Occasional nursing-level services, rehab-type services performed under supervision of skilled medical personnel.	Professional-type nursing performed by trained medical personnel under a physician's supervision.	Periodic monitoring typically in hospital, up to 8 hours a day with patient.	24-hour monitoring typically in hospital setting.
Less serious illness _____ Life threatening Beginning infirmities of aging _____ Later infirmities of aging Recovery from illness/accident _____ Health crisis illness/accident				

## Home-Health-Care-Only Policies

Home health care policies were originally developed to be used either as an alternative to nursing home policies or to complement such policies if more comprehensive coverage was desired. A home health care policy is designed to provide benefits for care outside an institutional setting. Some home health care policies also offer benefits for care in assisted-living facilities, and this is one area in which they often overlap with facility-only policies. Although a few insurers still write stand-alone home health care policies, most insurers have exited this market or write the coverage as part of a broader comprehensive policy.

## Comprehensive Policies

Most LTCI policies written today can be described as comprehensive policies. A comprehensive policy, sometimes referred to as an integrated policy, combines benefits for facility care and home health care into a single contract. There are still variations in this type of policy, however, regarding what is covered as part of the standard policy and what is an optional benefit that the prospect may select. For example, some policies cover almost all care settings as part of their standard benefits; other policies provide facility-only coverage as a standard benefit, with home health care covered as an option for an additional premium.

<b>Long-Term Care: Basic Care Levels</b>		
<b>Level of Care</b>	<b>Type of Care</b>	<b>Care Administrators</b>
Skilled	Cleaning of surgical wounds, changing of dressings, administering medication, physical/occupational therapy, higher-level rehabilitative and custodial care	Medical physicians, registered nurses, practical nurses, and licensed therapists
Intermediate	Therapy, general rehabilitation, and custodial care	Registered nurses, practical nurses, and licensed therapists
Custodial	Assistance in bathing, dressing, eating, walking, and other activities of daily living	Registered nurses, practical nurses, licensed therapists, and home health aides
Home Health Care	Intermediate and custodial-type care offered in a home setting	Registered nurses, practical nurses, licensed therapists, social workers, and home health aides

Originally, facility-only policies that covered nursing homes offered benefits for a maximum number of days. As policies began to offer comprehensive and integrated benefits covering nursing home care, home care, assisted-living facilities, and more, the *pool-of-money* method was introduced to determine total plan benefits, regardless of where the services were provided. Today, the pool-of-money method, which is discussed in greater detail later in this chapter, is the predominant approach to determining maximum policy benefits.

Comprehensive plans base their total benefits on the total sum of money in the pool that can be paid under the policy. Although days are taken into account, they are not counted in the strict sense as actual days of benefits but used as a way to determine the maximum dollar amount payable under the policy.

Most people want to stay at home and avoid institutionalization. The ability to remain independent is often the key motivator in policy selection. This makes proper policy analysis of home coverage and its associated premium costs critically important.

## What Events Trigger Benefits?

All tax-qualified LTCI contracts, as defined in chapter 2, use the same two criteria, known as *benefit triggers*, to determine whether an insured is chronically ill and eligible for benefits. To qualify for benefits in a tax-qualified LTCI plan, the insured is required to meet one of the two criteria. The first criterion (or benefit trigger) is that the insured is expected to be unable, without substantial assistance from another person, to perform at least two (out of six) activities of daily living (ADLs) for a period of at least 90 days due to a loss of functional capacity. Prior to the *Health Insurance Portability and Accountability Act (HIPAA)*, these terms were undefined and left to interpretation by each insurance company. An Internal Revenue Service notice clarified the definitions of these terms as they are used to meet the federal standards for benefits. Substantial assistance includes either or both of the following:

- *hands-on assistance*—the physical assistance of another person to perform ADLs
- *standby assistance*—the necessary presence of another person within arm’s reach to prevent, by physical intervention, injury to the individual while performing ADLs. This also includes verbal

cueing, which involves verbal prompting, gesturing, or other demonstrations in order for the person to accomplish an ADL.

The six ADLs and their definitions under the NAIC's LTCI Model Regulation (and HIPAA) are as follows:

- *bathing*—washing oneself by sponge bath; or in either a tub or shower, the task of getting into or out of the tub or shower
- *continence*—the ability to maintain control of bowel and bladder function; or, when unable to maintain control of bowel or bladder function, the ability to perform associated personal hygiene (including caring for a catheter or a colostomy bag)
- *dressing*—putting on and taking off all items of clothing and any necessary braces, fasteners, or artificial limbs
- *eating*—feeding oneself by getting food into the body from a receptacle (such as a plate, cup, or table) or by a feeding tube or intravenously
- *toileting*—getting to and from the toilet, getting on and off the toilet, and performing associated personal hygiene
- *transferring*—moving into or out of a bed, chair, or wheelchair

The second criterion (or benefit trigger) is that substantial services are required to protect the person from threats to health and safety due to significant cognitive impairment. Most policies use the definition of cognitive impairment that is in the NAIC's LTCI Model Regulation: a deficiency in a person's (1) short- or long-term memory, (2) orientation as to person, place, and time, (3) deductive or abstract reasoning, or (4) judgment as it relates to safety awareness.

Nonqualified LTCI contracts, on the other hand, have more liberal eligibility requirements for benefits. Many of these contracts use the same two criteria as those in tax-qualified contracts, except that there is no time period that applies to the inability to perform the ADLs. A small number of nonqualified contracts require only the inability to perform one ADL and/or use more than the six ADLs allowed by HIPAA. Finally, some nonqualified contracts make benefits available if a third criterion (or benefit trigger)—medical necessity—is satisfied. This generally means that a physician has certified that LTC is needed, even if neither of the other two criteria is satisfied.

## How Long Is the Elimination Period Once Benefits Are Triggered?

LTCI policies work much the same way as disability income coverage. Seniors can choose from a variety of elimination periods. Typically, these periods range from 20 to 180 days. Lower premiums usually result when longer elimination periods are chosen. Some experts suggest that a period of 100 days or less be selected.

The issue that seniors must consider is how long, in effect, they can afford to self-insure potential LTC costs. Initially, seniors with less disposable income may choose long elimination periods. This may not be the best choice. It may be easier for a senior client to budget a known premium amount than to face an unknown bill for LTC during a lengthy elimination period in the future.

Seniors with liquid assets over \$1 million are generally better able to elect longer elimination periods than less affluent seniors. Even seniors with substantial net worth may be better advised to elect shorter elimination periods when wealth is tied up in illiquid assets such as homes or growth stocks with low dividend yields.

**EXAMPLE:** Myra has liquid assets of \$100,000, and she is choosing between two policies.

- Policy A offers a 100-day elimination period that costs \$1,500 annually.
- Policy B offers a 30-day elimination period that costs \$1,800 annually (20 percent more than Policy A).

Myra is living on a tight budget and wonders which policy would better meet her needs. Assuming that coverage is needed when daily costs amount to \$150 per day, Myra is self-insuring an additional \$10,500 (70 days x \$150) of LTC costs, for an annual savings of \$300 in LTCI premiums.

It would take Myra roughly 35 years of premium savings (\$300 annual savings x 35 = \$10,500) to equal the amount of out-of-pocket LTC costs generated from just one LTC claim that lasts 100 days or more. If coverage is needed within a relatively short period after buying the LTCI policy, Myra's decision to pick the lower-cost policy could reduce the principal of her nest egg by more than 10 percent (\$10,500 of LTC costs paid from her \$100,000 of liquid assets).

## How Much Will the Policy Pay toward Covered Services?

The answer to this question depends on both of the following:

- the daily, weekly, or monthly benefit amount chosen by the LTCI policyowner
- whether the policy pays benefits on an indemnity (per diem) basis or a reimbursement basis

### Benefit Amount

The daily or monthly benefit selected is the key to how much an LTCI policy will pay. Selection of the daily or monthly benefit figure is one of the most important decisions for senior clients to make in choosing an LTCI policy. Many other LTCI policy benefits are based on this figure. Home health care and adult care benefits are often based on a percentage of the daily or monthly benefit. For example, a policy that pays \$200 per day for nursing home care may pay 50 percent of this amount (\$100 per day) for home health care. Some policies allow seniors to select higher home health care percentages such as 75 or 100 percent. The selection of the initial daily or monthly benefit figure is also important because it serves as the base amount on which future inflation adjustments are determined.

One way to select a daily or monthly benefit is to write or visit several local nursing homes and inquire about their rates. Rates vary depending on the quality of services and surroundings and the geographic location. It is suggested that average nursing home costs in the United States run approximately \$168 per day (2002 amount). These figures can be considerably higher in metropolitan areas. Many homes also charge more for private rooms. If privacy is important to your senior client, this added cost should be factored into the daily or monthly benefit figure selected.

In addition, seniors should speak to several firms that specialize in home health care to obtain an estimate of the typical fees for a variety of services, including daily at-home care.

Rather than restricting benefits to a maximum daily amount, some policies base benefits on a weekly or monthly benefit amount such as \$1,000, \$2,000, \$3,000, or more. This can dramatically affect the amount of benefits paid. A maximum daily benefit, or MDB, is the most that a policy would pay for any given day of benefits, even if the insured

receives multiple services or incurs multiple costs on a given day. A person may receive care from both a home care agency and adult day care facility on a single day. On another day, that same person may receive no services and/or incur no expenses. When services are actually received depends on their scheduling and the availability of caregivers. Insurers with a weekly maximum allowance may multiply the daily limit by seven to create a weekly amount, or simply have a weekly amount with no reference to an MDB. If a policy is paid on a weekly basis with an MDB? for example, \$100 per day? the insured could incur up to \$700 of covered expenses on the same day and the expenses would all be paid by the LTCI policy, provided the total amount of expenses for the week did not exceed \$700. If the monthly benefit is \$3,000, based on a \$100 per day MDB, the insured could have up to \$3,000 of paid services (30 x \$100) for the month, regardless of the \$100 MDB amount.

Alternatively, the monthly maximum benefit could be \$3,000 without any reference to an MDB. In this case, the policy would pay any covered expenses up to the \$3,000 monthly maximum.

**Benefit Payment Basis**—Policies pay benefits in two ways:

- an *indemnity* (per diem) basis
- a *reimbursement* basis

Policies that provide benefits on an indemnity (per diem) basis pay the full daily benefit amount, regardless of the actual cost of care. Benefits typically range from \$50 to \$500 per day. For example, if the cost of a nursing home under an indemnity (per diem) policy is \$150 and the insured has an MDB amount of \$200, then the full \$200 will be paid. Indemnity (per diem) policies are seldom coordinated with benefits that are payable under Medicare. If home health care benefits are provided by an indemnity (per diem) policy, benefits are paid after the need for home health care is certified. A few insurers will even pay if a family member provides the care at no charge, although this will increase the premium. Because indemnity (per diem) policies pay the MDB amount, regardless of the actual charges, they tend to be more expensive than comparable reimbursement policies with the same MDB amount. The earliest LTCI policies were indemnity (per diem) policies.

The majority of newer policies pay benefits on a reimbursement basis. These contracts reimburse the insured for actual expenses up to the specified policy limit. For instance, in the previous example, if the

insured had a reimbursement policy instead of an indemnity (per diem) policy, only \$150 per day would be paid rather than the \$200 that the indemnity (per diem) policy would pay. A tax-qualified policy that provides benefits on a reimbursement basis must be coordinated with Medicare, except when Medicare is the secondary payer of benefits. The lifetime maximum pool of money for benefit dollars can last longer under a reimbursement policy, because the insured is using money from the pool only when it is actually needed to cover costs. There is a trend, however, by some insurers to offer an indemnity (per diem) rider with a reimbursement policy to cover home and community care expenses. This type of policy gives a client more choice in designing LTCI coverage.

## Does the Policy Offer Inflation Protection?

In the United States, medical care costs have outpaced the general rate of inflation for many years. Therefore, it is important for your senior clients to consider what services LTCI benefits will buy when coverage is needed. Even at relatively low inflation rates, the purchasing power of a dollar benefit selected today is likely to erode substantially when benefits are needed many years into the future. For example, at a relatively low medical inflation rate of 4 percent, benefits lose half their purchasing value in 18 years.

Two common inflation protection riders are 5 percent simple and 5 percent compound. The compound rate offers greater protection when the need for benefits is not expected for many years. The 5 percent simple rate typically costs less and can provide effective inflation protection for older seniors.

Another way to protect against inflation is simply to purchase a policy with a higher dollar benefit up front. For example, if local nursing home costs are running about \$168 a day (2002 amount), a senior might select a benefit of \$200 in anticipation of future higher costs.

Still another method to handle the inflation issue is to opt for a policy that automatically offers insureds the opportunity to increase the level of coverage at set intervals, such as every 3 years.

### Inflation Protection Rule of Thumb

- Seniors who are under age 70 and have ample funds should select a 5 percent compound rider because it provides greater inflation protection.
- Seniors who are age 70 or more and on a budget should select a 5 percent simple rider because there are potentially fewer years to cover.
- Inflation protection is a must for middle-age seniors, who should consider a reduced maximum daily benefit in return for inflation protection.

LTCI Inflation-Protection Benefit Comparison Simple versus Compounding Methods				
Policy Year	Basic Daily Benefit	Simple Benefit @ 5%	Compound Benefit @ 5%	Daily Difference of Compound Above Simple
1	100.00	100.00	100.00	0.00
2	100.00	105.00	105.00	0.00
3	100.00	110.00	110.25	0.25
4	100.00	115.00	115.76	0.76
5	100.00	120.00	121.56	1.56
6	100.00	125.00	127.63	2.63
7	100.00	130.00	134.01	4.01
8	100.00	135.00	140.71	5.71
9	100.00	140.00	147.75	7.75
10	100.00	145.00	155.13	10.13
11	100.00	150.00	162.89	12.89
12	100.00	155.00	171.03	16.03
13	100.00	160.00	179.59	19.59
14	100.00	165.00	188.56	23.56
15	100.00	170.00	197.99	27.99
16	100.00	175.00	207.89	32.89
17	100.00	180.00	218.29	38.29
18	100.00	185.00	229.20	44.20
19	100.00	190.00	240.66	50.66
20	100.00	195.00	252.70	57.70

### How Long Will Benefits Continue?

The daily benefit and inflation rider features of an LTCI policy determine how much the policy will pay when coverage is needed, but they will not determine how long those benefits will continue to be paid.

**EXAMPLE:** Senior Smith purchased \$100 per day of coverage with a 5 percent compounded inflation rider. Ten years later, Senior Smith needs benefits. The policy will pay \$155.13 per day. The unanswered question: When will benefits run out? In 2 years? 5 years? Never?

It is important to determine the maximum *benefit period* at the time of policy purchase. The benefit period determines the maximum length of time benefits are payable. Common periods available are 2, 3, 4, and 5 years. It is also possible to purchase lifetime coverage. Lifetime coverage is also referred to as unlimited coverage. The longer the benefit period, the higher the premium.

Some policies handle the maximum benefit question in a different way. They express the *benefit maximum* in dollar terms. This is referred to as a pool of money. Under these policies, benefits are paid for as long as the pool of money lasts, regardless of the time period.

The benefit maximum is calculated based on a daily benefit multiplied by a specific number of days.

The senior prospect selects both the daily benefit level and the specific number of coverage days.

Estimating Future LTC Costs							
Statistics indicate that nursing home stays often last 2.5 years. Will your senior client be able to afford the inflation-adjusted price?							
Assumption: Nursing home care cost with an inflation rate of 5%							
Inflation adjuster factor @ 5%							
Year	Factor	Year	Factor	Year	Factor	Year	Factor
1	1.050	11	1.710	21	2.786	31	4.538
2	1.103	12	1.796	22	2.925	32	4.765
3	1.158	13	1.886	23	3.072	33	5.003
4	1.216	14	1.980	24	3.225	34	5.253
5	1.276	15	2.079	25	3.386	35	5.516
6	1.340	16	2.183	26	3.556	36	5.792
7	1.407	17	2.292	27	3.733	37	6.081
8	1.477	18	2.407	28	3.920	38	6.385
9	1.551	19	2.527	29	4.116	39	6.705
10	1.629	20	2.653	30	4.322	40	7.040
Daily rate today x 365 days x 2.5 years x inflation factor = \$ future costs of 2.5 years							
<b>EXAMPLE:</b> Mr. Jones determines that the daily rate at the type of nursing home in which he would be comfortable is currently \$150 per day. He is now age 60. He believes that it is unlikely that he will need nursing home services until 20 years from now.							
Result: \$150 x 365 days = \$54,750 x 2.5 years = \$136,875 x 2.653 = \$363,130							
(Daily rate today)			(Inflation factor)			(Future costs)	

**EXAMPLE:** Ms. Hunter selects a daily benefit of \$150 for 1,095 days. The lifetime maximum amount of coverage is calculated as follows:

$$\$150/\text{day} \times 1,095 \text{ days} = \$164,250$$

The \$164,250 sum is paid as expenses are incurred up to \$150 per day. If expenses run below \$150 per day, the pool of money lasts longer than 1,095 days.

#### **Methods of Providing Inflation Protection**

- Inflation rider: 5% simple
- Inflation rider: 5% compounded
- Additional up-front coverage
- Automatic coverage increases on periodic basis

The pool-of-money concept has another advantage. Typically, benefits can be applied to home health care services with the percentage of daily benefit limitations found in other types of policies. This means that seniors are more likely to receive LTC in the setting they prefer.

## **What Is the Premium?**

Primary factors that affect the amount of premium paid for LTCI coverage include the following:

**Amount of the Daily or Monthly Benefit**—The greater the daily or monthly benefit level selected, the higher the premium.

#### **Which Is Better?**

When it comes to a choice between selecting an inflation protection rider or a longer benefit period, how should a senior decide?

If a long benefit period is selected over an inflation rider, out-of-pocket costs can quickly accumulate if prices have risen substantially since the date of policy purchase.

Selecting an inflation rider and a policy with a shorter benefit period may better serve a senior client.

In making such a decision, the senior may wish to refer to statistics that show the average number of years that residents typically spend in a nursing home.

**Elimination Period**—The longer a senior insured has to wait before becoming eligible for benefits, the lower the premium cost. Conversely, a short elimination period increases premium costs.

**Home Health Care**—Choosing home health care coverage raises the premium level in policies in which it is an option. Comprehensive policies typically allow seniors to choose a percentage of the daily or monthly benefit to cover home health care, ranging from 50 to 100 percent. The

higher the percentage of home health care benefits chosen, the greater the amount of premium paid.

**Inflation Protection**—Electing inflation protection increases costs. Generally, it is cheaper to opt for a simple rate inflation rider. Compound interest inflation riders are generally more expensive. Opting for higher coverage to cover the inflation risk also adds to premium costs.

**Benefit Period**—Selecting a short benefit period of, for example, 2 to 3 years, tends to keep premiums relatively low. Selecting lifetime coverage increases premiums.

**Benefit Maximum**—When a pool-of-money-type contract is considered, the selection of lower daily benefits, coupled with the selection of fewer coverage days, tends to decrease the amount of premium paid. Increased protection through the selection of a higher daily benefit or more coverage days correspondingly increases the amount of premium.

**Nonforfeiture**—With a *nonforfeiture benefit*, the policyowner will receive some value for the policy if the policy lapses because the required premium is not paid. Some seniors feel strongly that their LTCI purchase decisions should represent some financial value whether or not premiums continue to be paid. For these seniors, a nonforfeiture option is an important policy feature. A nonforfeiture provision, in effect, creates cash values within an LTCI policy. The most common type of nonforfeiture option, and the one almost always available in tax-qualified policies, is a shortened benefit period. With this option, coverage is continued as a paid-up policy, but the length of the benefit period (or the amount of the benefit if stated as a maximum dollar amount) is reduced. Under the typical provision, the reduced coverage is available only if the lapse is on or after the policy's third anniversary. The amount of the benefit is equal to the greater of the total premiums paid for the policy prior to lapse or 30 times the policy's daily nursing home benefit.

There are two other variations of this provision, as follows:

**Contingent Benefit upon Lapse**—The NAIC model legislation and most states that require an insurer to offer a nonforfeiture benefit also stipulate that a policy must provide for a contingent benefit upon lapse in cases where the nonforfeiture benefit is not purchased. This benefit allows the

policyowner to select certain options each time the insurer increases the premium rate to a level that results in a cumulative increase of the annual premium equal to or exceeding a specified percentage of the premium at the time of policy issue. The percentage is a sliding scale that is determined by the issue age of the insured. For example, the percentage is 130 if the policy was issued when the insured was age 45 to 49 and 110 if the issue age was 50 to 54. The percentage amount continues to drop to 70 percent for an issue age of 60, 40 percent for an issue age of 70, and 20 percent for an issue age of 80. The options available for the policyowner to select are (1) a reduction in benefits to a level sustainable by the current premium or (2) the conversion of the policy to a paid-up status with a shorter benefit period.

***Return-of-Premium Rider***—Some policies offer a nonforfeiture benefit in the form of a return-of-premium rider, under which a portion of the premium is returned if the policy lapses. For example, the policy of one insurer pays nothing if the policy lapses before it has been in force for 5 full years. Fifteen percent of the total premiums paid are returned if the policy was in force for 6 years, 30 percent for 7 years, 45 percent for 8 years, 60 percent for 9 years, and 80 percent for 10 or more years. Other insurers may refund as much as 100 percent of the premiums paid.

The nonforfeiture feature usually comes at a steep price. Premiums for this provision can cause a 100 percent to 200 percent increase over the initial premium cost for people under age 55, and a 15 percent to 100 percent increase over the initial premium cost for seniors age 55 to age 90. The additional extra cost percentage is highest for younger people and lowest for older LTCI purchasers.

## **What Is the Policy's Renewability Provision?**

Most LTCI policies are currently being offered on a *guaranteed renewable* basis. This feature protects policyowners by guaranteeing that coverage will be renewed no matter what their health status is, as long as premiums are paid. This feature also protects insurers and, ultimately, the integrity of the contract and the insurer's ability to pay claims by allowing the company to increase premiums on a class basis.

Rate increases do not automatically take place under a guaranteed renewable contract. Increases are based on class claims rather than individual claim experience. Class basis rate increases under the terms of guaranteed renewable policies must be approved by state insurance

departments. This slows rising policy costs somewhat and, in effect, permits seniors to better budget the costs of their LTCI coverage. The guaranteed renewable provision is part of the NAIC model legislation that has been widely adopted.

A second type of renewal provision in LTCI policies is one that makes them *noncancelable* by the insurer. This type of provision offers the highest level of protection for the policyowner, because the premiums are guaranteed and the contract cannot be changed. The insurer assumes all the risk concerning the actuarial assumptions used in underwriting the policy, no matter what changes subsequently take place. The NAIC's LTCI Model Regulation allows only noncancelable policies to use the term "level premium." Although insurers are permitted to issue policies that are noncancelable, very few policies of this type are written because of the uncertain nature of future claim costs.

## Is the Policy Tax Qualified?

The tax issues surrounding LTCI products were murky for many years. Three key tax questions were as follows:

- Were premiums that were paid for LTCI tax deductible?
- Were benefits received under an LTCI policy taxable?
- What constituted LTC for purposes of the tax code?

The Health Insurance Portability and Accountability Act of 1996 answered these questions.

- Premiums for tax-qualified LTCI are deductible subject to limitations.
- Benefits paid under tax-qualified reimbursement-type LTCI policies are not subject to income tax.
- Rules are set forth specifying what constitutes a tax-qualified LTCI policy and the types of benefits to be provided.

## Effect of HIPAA Legislation

HIPAA established standards for LTCI and helped to stabilize the industry, which up until that time had little uniformity. It also made the tax treatment of LTCI policies more favorable if they met prescribed standards. In most cases, the imposition of these federal standards resulted in broader coverage. Policies issued on or after January 1, 1997,

generally must meet the federal standards to be considered tax qualified, while policies in force before January 1, 1997, generally are grandfathered and automatically qualify for tax benefits.

It should be emphasized that changes brought about by HIPAA primarily relate to federal income tax law. However, states still have authority to regulate LTCI contracts and are not required to bring state regulations into conformity with federal tax law changes. Nevertheless, all states allow tax-qualified contracts so that consumers can obtain the favorable tax benefits.

## **Eligibility for Favorable Tax Treatment**

To understand whether an LTCI policy will receive favorable income tax treatment under HIPAA, it is necessary to know the meaning of several terms.

**Qualified LTCI Contract**—HIPAA provides favorable income tax treatment to a qualified LTCI contract. This is defined as any LTCI contract that meets all the following requirements:

- *chronic illness definition*—The insured must require substantial assistance with at least two of six ADLs or be cognitively impaired.
- *chronic illness certification*—A licensed health care practitioner must at least annually certify that the insured remains chronically ill.
- *no medical necessity trigger*—A licensed health care practitioner’s recommendation alone cannot trigger benefit payments.
- *90-day expectation of disability*—A licensed health care practitioner must certify that ADL dependency is expected to last at least 90 days.
- *qualified LTC restriction*—The insured must receive services that help him or her perform ADLs or that provide substantial supervision for cognitive impairment. The only insurance protection provided under the contract is for qualified LTC services. However, HIPAA does allow a contract to satisfy this requirement if payments are made on an indemnity (per diem) or other periodic basis (such as \$220 per day) without regard to the expenses incurred during the period to which the payments relate.
- *coordination with Medicare*—The contract cannot pay for expenses that are reimbursable under Medicare or would be

reimbursable except for the application of a deductible or coinsurance amount. However, this requirement does not apply to expenses that are reimbursable if (1) Medicare is a secondary payer of benefits, or (2) benefits are paid on an indemnity (per diem) or other periodic basis without regard to the expenses incurred during the period to which the benefits relate.

- *guaranteed renewable*—The contract must be guaranteed renewable.
- *no cash value*—The contract does not provide for a cash surrender value or other money that can be borrowed or paid, assigned, or pledged as collateral for a loan.
- *treatment of refunds and dividends*—All refunds of premiums and all policyowner dividends must be applied as future reductions in premiums or to increase future benefits. A refund in the event of the death of the insured or a complete surrender or cancellation of the contract cannot exceed the aggregate premiums paid under the contract.
- *consumer protection provisions*—The contract must comply with various consumer protection provisions. For the most part, these are the same provisions contained in the NAIC’s LTCI Model Act and already adopted by most states.
- *life insurance/LTCI combination product*—The act also specifies that a qualified LTCI contract can include that portion of a life insurance contract that provides LTCI coverage by a rider or as part of the life insurance contract as long as the above criteria are satisfied.

Although the term qualified LTCI contract is used in HIPAA and the Internal Revenue Code, different terminology is often used for the sake of brevity. Thus, it is common to see these contracts referred to as tax-qualified (TQ) contracts (or policies) and nonqualified (NQ) contracts (or policies).

To further complicate the issue of terminology, sometimes the reference to tax-qualified contracts is preceded by the word federally to clarify that HIPAA provides favorable income tax treatment with respect to federal tax laws, not state tax laws. However, it should be noted that most states do not tax LTCI benefits.

**Qualified LTC Services**—HIPAA defines qualified LTC services as necessary diagnostic, preventive, therapeutic, curing, treating, and

rehabilitative services, and maintenance or personal care services that are required by a chronically ill person and are provided by a plan of care prescribed by a licensed health care practitioner.

**Chronically Ill Person**—A chronically ill person is one who has been certified by a licensed health care practitioner as meeting one of the following requirements:

The person is expected to be unable to perform, without substantial assistance from another person, at least two activities of daily living (ADLs) for a period of at least 90 days due to a loss of functional capacity. HIPAA allows six ADLs: eating, bathing, dressing, transferring from bed to chair, using the toilet, and maintaining continence. A tax-qualified LTCI policy must contain at least five of the six. Substantial services are required to protect the person from threats to health and safety due to substantial cognitive impairment.

For purposes of certifying a person as chronically ill, a licensed health care practitioner is a physician, a registered professional nurse, licensed social worker, or other person who meets requirements prescribed by the Secretary of the Treasury. Recertification must take place at least every 12 months.

The federal income tax provisions that specifically relate to qualified LTCI premiums and benefits are discussed in chapter 6.

## **Additional LTCI Policy Miscellaneous Benefits**

Miscellaneous benefits can add considerable flexibility to long-term care insurance policy coverage. Some of these benefits are offered as part of a standard base policy. Other times, miscellaneous benefits can be obtained by adding optional rider provisions to the base policy. There are 13 miscellaneous benefits that seniors should either seriously consider purchasing if they are offered as optional benefits, or be aware of because of the importance of the protection they provide:

- spousal (or partner) discounts
- shared or joint benefit
- survivorship benefits

- alternative plans of care
- respite care
- homemaker services
- waiver-of-premium provision
- shortened premium-payment period
- reinstatement
- third-party notification
- bed-reservation benefit
- care coordination
- restoration of benefits

### **Spousal (or Partner) Discounts**

Most policies today offer some type of spousal (or partner) discount, although the discounts differ considerably in their scope and complexity. Depending on the requirements of the issuing company and the state of application, the discounts may vary according to whether both or only one spouse is accepted by the same company. Some states require that a married person be given the discount whether or not the spouse applies for or is even insurable for LTCI. In fact, some companies offer the discount to unmarried couples or same-sex partners. Whatever the combination of the two adults, they typically must be from the same generation and live in the same household. Some newer policies, however, can cover several members of the same family who are from different generations. The variations of this benefit, like so many others in LTCI, continue to be introduced and break old design models. Living with another person tends to lower the need for LTC, so companies are gradually becoming more favorably disposed to offering these types of discounts.

This is one area in which you may hear many questions about the amount and type of discount, particularly from individual people who will not qualify for it. The reason for the discount's not being applicable to individual people is that they are more likely to make claims than people with spouses or partners who can assist with and/or supervise the caregiving process and provide companionship and support.

### **Shared or Joint Benefit**

A few insurers provide for a shared benefit for a husband and wife. Under this benefit, each spouse can access the benefits of the other spouse. For example, if each spouse has a 4-year benefit period and one spouse has exhausted his or her benefits, benefit payments can continue

by drawing on any unused benefits under the other spouse's policy. In effect, one spouse could have a benefit period of up to 8 years as long as the other spouse has received no benefit payments. If the insurer uses the pool-of-money method, a single pool combines the benefits of both spouses, and either or both spouses can draw benefit payments from the pool. In another variation of benefit sharing, an insurer might allow the transfer of any unused benefits to a surviving spouse's policy, or an insurer might allow the spouses to purchase an extra pool of money equal to the separate pool of money on each spouse. If either or both spouses exhaust their individual pools, this extra pool can be accessed.

In addition, there is at least one insurer that offers a shared benefit for family members. Based on the significant difference in money available under these three optional benefits, the total annual premiums of policies within them can vary by as much as 40 percent. These optional benefits demonstrate that it is not enough to know that a policy offers some type of shared benefit. You must carefully study the exact policy language to understand the differences among policies.

### **Survivorship Benefits**

Survivorship benefits are another variation of the shared-benefit theme. This type of benefit may be included in the basic coverage, or it may be added as an optional rider when both spouses own a policy or are covered under the same policy. A typical provision states that if the coverage remains in force for a specified number of years and one spouse dies without having received any benefits, the surviving spouse would then have a paid-up policy. You could interpret this provision as a lifetime premium waiver for the survivor. Different policies require different in-force time durations, as well as whether or not the payment of a claim would terminate the benefit.

This benefit is yet another example of how coverage varies among policies. The more generous policies provide a full survivorship benefit after the required in-force time duration, regardless of whether a claim was paid. You should expect, however, that this more generous provision would also be more expensive. In addition, some companies allow this benefit to apply to committed couples of the same or different sexes, with or without a civil or religious ceremony to unite them, or to two family members living in the same household. As you can see, some policies are more liberal than others. These survivorship benefits may be best suited for situations in which at least one of the spouses has a family

health history where someone required LTC or there is a large age difference between spouses.

### **Alternative Plans of Care**

Many policies provide benefits for alternative plans of care, even though the types of care might not be covered in the policy. For example, a policy covering nursing home care might provide home health care benefits only if these benefits are less expensive than care in a nursing home. As a general rule, the alternative plan must be acceptable to the insurer, the insured, and the insured's physician. It is intended to be mutually beneficial to both the insurer and the insured. If it is executed properly, it can save the insurer claims money and provide the insured with more comfortable care that better meets his or her needs. The adoption of an alternative plan also correlates with the use of a care coordinator.

An alternative plans clause serves as a catch-all provision to accommodate changes in LTC services and coverage that will most certainly occur in the future. Today, there is a steady introduction of new policy features and modifications of existing ones. There are also new types of facilities, services, and provider options that are continually being made available. Not long ago, there were no adult day care centers and no assisted-living facilities. Without building flexibility into policies, they may not be able to cover new types of services that will be available in the future and, consequently, policies will become outdated long before they may be needed years later.

### **Respite Care**

This type of care provides for temporary institutional or home care for a person while the informal caregiver takes vacation or break time. This benefit allows occasional full-time care for a person who is receiving home health care. Respite care can be provided in a person's home or by moving the person to a nursing facility for a short stay. Insurers limit the number of days this benefit is payable. There is a separate policy maximum expressed as a number of days or dollar amount. The benefit is calculated on an annual basis and renews each year. Originally only 7 to 14 days were offered, but realizing consumers' need for and appreciation of this benefit, insurers have increased it to an average of 30 days.

### **Homemaker Services**

LTC needs go beyond medical needs. Household chores ranging from cooking to cleaning must be performed. Transportation to medical

appointments and shopping are other typical needs. This can present problems, particularly for individuals who live alone. Long-term care insurance coverage that offers community-based homemaker services can help to solve these needs. Coverage for homemaker services can be very broad or rather restrictive depending on policy language. Some policies cover these services once benefit triggers are satisfied. Other policies provide community-based homemaker services only in conjunction with other home care services such as a visit by a home health aide.

## **Waiver of Premium**

Paying premiums during a period of confinement in a nursing home can be difficult. This is the time, however, when maintaining long-term care insurance coverage is critical. A waiver-of-premium benefit eliminates the necessity to pay premiums during periods of nursing home confinement.

Most LTCI policies contain a waiver-of-premium provision, under which the policyowner does not have to pay premiums after the insured has begun to receive benefit payments or has received them for a period of time. While the premiums are being waived, the policy remains fully in force.

The effective date of the waiver can vary among policies. Some policies waive the premium once the elimination period is satisfied. Others require a minimum nursing home stay before premiums are waived.

Waiver-of-premium coverage may be limited to nursing home stays under some policies. Other policies can be designed so that premiums are waived for home health care coverage.

Unlike comparable provisions in life insurance and many other types of health insurance, there are a variety of requirements that might apply to the waiver-of-premium provision for LTCI. Care must be exercised to evaluate policy differences even in an area as seemingly uncomplicated and basic as waiver of premium. The details and definitions vary from policy to policy. Checking to see if waiver of premium is included in a policy involves more than just a yes-or-no answer. Seniors need to read this policy feature very carefully. They should ask questions as they compare policies they are considering for purchase or when the policy is already in force and they are reviewing it. Here are the questions that seniors should be able to answer about a company's LTCI policy's waiver of premium:

- What triggers the waiver?
- How are the elimination or waiting period days counted?

- Does the waiver pertain to home care as well as facility care?
- When does the waiver end?

### **Shortened Premium-Payment Period**

The majority of LTCI policies have premiums that are payable for life and determined by the insured's age at the time of issue. For example, a policy may have an annual cost of \$800 at the time of purchase. Assuming the policy is guaranteed renewable, this premium will not change unless it is raised on a class basis. A few companies have guaranteed renewable policies with scheduled premium increases. These increases may occur as frequently as annually or as infrequently as every 5 years.

In recent years, insurers have increasingly begun to offer accelerated premium-payment periods. These shorter premium-payment periods, which result in higher annual premiums, are popular with many insureds who want to have their policies paid for prior to retirement. Some of the accelerated premium-payment options include a

- single-premium option (one-time payment)
- paid-up-at-65 option under which the policyowner pays an annual premium until he or she reaches age 65
- shortened payment period of 2, 5, 10, or 20 years

After all the premiums have been paid under one of the accelerated premium-payment options, the policy is paid up and no subsequent premiums are required to keep it in force. With premiums paid on an accelerated basis, the policyowner has a lot to lose if the policy terminates in a short period of time because of either lapse or death. As a result, some states require some type of return-of-premium rider to accompany an accelerated premium-payment period of 10 years or less.

### **Reinstatement**

Another provision designed to protect the insured is the reinstatement provision. It requires the insurer to reinstate a lapsed policy within 5 months after the end of the grace period (6 months from the premium due date) if the insurer receives proof that the insured was cognitively impaired at the time the premium was due. The reinstatement is retroactive to the date of lapse and is made without the insured's having to show any evidence of insurability. However, any overdue premiums must be paid.

If a policy lapses for any other reason, reinstatement is at the insurer's option. Most policies provide that the policy can be reinstated if

the insurer accepts the overdue premiums without an application. In most cases, however, the insurer will require a new application, and the case will again be subject to underwriting. If the insurer decides to reinstate the policy, the reinstatement date will be the date the insurer approves the reinstatement application. After a policy is reinstated, benefits are paid only for LTC that is received on or after the date of reinstatement.

### **Third-Party Notification**

In light of the chances for policy lapses during periods of physical illness or cognitive impairment, most states now require that long-term care insurance statements be sent simultaneously to the insured and another individual such as an adult child. For example, an adult child will receive a lapse notice while there is sufficient time for policy reinstatement. This can be a particularly important tool when coupled with a durable power of attorney (discussed in later chapters), which allows the child access to

financial assets that may be needed to satisfy any unpaid bills.

#### **Nowhere to Sleep!**

Picture this situation:

You get a call. It's the nursing home. Your mother has been taken to the hospital. You're about to drop everything and leave for the emergency room but you cannot. First you must make a decision: Will you pay for your mother's bed while she's in the hospital?

If you say "No," there's no guarantee she will be able to return to the nursing home. Someone else is willing to pay for her bed.

If you say "Yes," do you have the funds to pay for both the nursing home and the hospital costs?

There is a solution—a long-term care policy with bed-reservation benefits.

### **Bed-Reservation Benefit**

Policies that provide nursing home care often contain a bed-reservation benefit, which continues policy payments to an LTC facility for a limited time (such as 21 days) if the insured temporarily leaves the facility. It may be that the insured needs to be hospitalized for an acute condition or wishes to take a personal leave from the nursing home to attend a family reunion or holiday activity. Without continuation of payments to the

facility, the bed may be rented to someone else and unavailable upon the insured's return. A standard requirement for this benefit to take effect is that the insured must have satisfied the elimination or waiting period and be qualified to receive benefits under the policy.

### **Care Coordination**

Many policies provide for the services of a care coordinator who works with the insured, his or her family, and licensed health care practitioners. The care coordinator's function is to assess the insured's condition,

identify needs, evaluate care options, and develop an individualized plan of care that provides the most appropriate services. The care coordinator may also periodically reevaluate ongoing plans of care and act as an advocate for the insured. In many cases, the care coordinator is recommended by the insurance company but is not its employee or an employee of a care provider. Care coordinators most often work for independent agencies and have social work or nursing backgrounds. They understand the admissions and qualification process for entering LTC facilities and know how to place insureds with appropriate care providers. This is especially important for home and community care. Many care coordinators work for large organizations that can negotiate with care providers based on the large business volume they can bring to these providers.

This type of coverage varies greatly from company to company. Some policies require care coordination, some have no provision for it, and others may have a variety of similar provisions. If a care coordinator the insurer recommends is used, additional benefits might be available to the insured such as waiving elimination or waiting periods, increasing benefit levels, and not decreasing maximum policy benefits that might otherwise occur because of the cost of using the care coordinator. Care coordination may be a part of the basic policy, or it may be an additional benefit with a separate charge. However, if the insured or his or her family selects a care coordinator that is not recommended by the insurer, there may or may not be coverage.

### **Restoration of Benefits**

Some companies offer a restoration-of-benefits provision with their policies that are written with less than a lifetime benefit period. Under this provision, insureds can have their full complement of benefits restored if they previously received less than full policy benefits and have not received any policy benefits for a certain time period, often

#### **Care Coordination: The Prospect's Perspective**

The need for LTC often presents new emotional, practical, and financial challenges for individuals and families. In reviewing policies, the family decision makers should find out: Does the policy offer care coordination? How does it work?

Then they should ask the following questions about care coordination:

- What are the qualifications and experience of the care coordinators?
- Are the care coordination services local?
- Are the services a part of the basic policy, or do they cost extra?
- Who decides what care is prescribed? the care coordinator or the insured?

180 days. Without this provision, the benefits available for a subsequent claim would be reduced by the benefits previously paid. This type of provision may be included as part of the policy's basic coverage, or it can be added as a rider for an additional premium. The use of this benefit has been infrequent, perhaps because as the duration of chronic illness claims increases, the chance of recovery and being able to restore benefits decreases.

**EXAMPLE:** Mrs. Williams's long-term care insurance policy provides 3 years of coverage. It also has a 6-month restoration-of-benefits provision. Mrs. Williams suffers a heart seizure that requires 6 months of confinement in a nursing home. Mrs. Williams returns home and remains in stable condition for 12 months before she needs LTC again. She has a full 3 years of coverage during her second illness because there has been more than a 6-month period between claims and her benefits were restored.

### **Limitations and Exclusions**

With some exceptions, most LTCI policies contain the exclusions permitted by the NAIC model legislation. These exclusions can be extensive; therefore, the prospective insured should read them carefully. One area in which there are differences among insurers pertains to mental health. This is an area that insurers avoid as much as possible because of the potential for fraudulent claims and the controversies that often arise over claim settlements. A few insurers cover mental and nervous disorders just as they cover physical disorders. However, most insurers use a typical policy exclusion as follows: "This policy does not provide benefits for the care or treatment of mental or nervous disorders without a demonstrable organic cause." This exclusion denies benefits for conditions such as schizophrenia and depression. Conditions such as Alzheimer's or Parkinson's disease, however, would be covered. As a result of state law, many insurers provide that Alzheimer's and Parkinson's diseases are covered in their policies.

## **Combination Products**

Today, prospects can choose from several different insurance products to cover LTC expenses. Of course, the most widely recognized and utilized is the individual LTCI policy that provides benefits on either an indemnity (per diem) basis or a reimbursement basis. Additionally, there

are several combination products that package other insurance coverage with LTCI. Under these package products, life insurance, disability income insurance, or an annuity is combined with LTCI to provide customized solutions to a variety of client needs and goals. These combination products have been referred to as hybrid products, linked policies, blended policies, or packaged policies.

There are two compelling reasons why these combination products have been developed. First, packaging two products together can create benefits with added appeal for the right client. Second, because many clients are concerned about paying a large amount of money for LTC protection that they may never use, packaging LTCI with another coverage makes a more acceptable product than LTCI by itself. Nevertheless, sales growth for combination products has been modest because many companies market them less aggressively.

The slow sales growth of combination products is due to several factors. One reason is that many combination products were designed to take advantage of the high interest rates and the steadily increasing stock market values of a few years ago. Now that interest rates are lower and stock market values have fallen, these products are less attractive. Another reason is that these products combine complex LTCI policies with complex life insurance or annuity contracts. The resulting policies are quite difficult for advisors to understand and explain to their clients. Finally, many advisors view LTCI as meeting a different need than a life insurance or annuity contract, and they believe that separate products should be used for each need.

## **Recapping the Need for LTC Insurance**

Funding LTC needs is expensive. As the following table shows, nursing home care can easily run over \$150 a day in major metropolitan areas. The average national daily cost of an assisted-living facility is about half that of a nursing home. The question then becomes how best to fund these costs.

### **Why LTC Insurance Makes Sense**

There are several reasons why LTCI makes sense. LTCI can

- preserve personal savings
- provide more coverage than Medicare
- offer a more acceptable solution than Medicaid

<b>Cross-Country Cost Sampling: Nursing Home Costs (2002)</b>			
	Average Daily Nursing Home Costs: Private	Average Daily Nursing Home Costs: Semi-Private	Average Assisted- Living Facility Costs: Monthly
Phoenix, AZ	\$162	\$131	\$1,075
San Francisco, CA	250	147	3,071
Miami, FL	193	137	1,410
Baltimore, MD	160	150	2,045
Boston, MA	243	207	2,804
New York, NY	274	269	3,700
Raleigh, NC	142	125	2,450
Philadelphia, PA	189	179	1,900
Houston, TX	143	90	1,552
National Average	\$168	\$143	\$2,159

Source: MetLife Mature Market Institute (www.Metlife.com)

**Preserve Personal Savings**—LTCI expenses are known and can therefore be predictably budgeted. The percentage of private savings in excess of the benefits purchased in an LTCI policy that may be needed to pay LTC costs if the need arises can be quantified and designated for that purpose. Thus, the fear of losing a lifetime of savings to a final illness is alleviated. Once seniors predict their potential LTC costs, they can determine how they want to handle their remaining assets. Some will want to use part of those assets to enjoy life fully in the present. With an LTCI policy, they will not have to worry about spending money on a trip versus saving for a future illness.

Many seniors want to pass assets to heirs to provide for the education of their grandchildren or to allow an adult child to pay a debt or establish a business. An LTCI policy gives its owner peace of mind by ensuring that assets intended for these purposes will not be depleted by nursing home or at-home health care costs.

**Provide More Coverage than Medicare**—An LTCI policy fills in the voids left by Medicare in middle-class LTC needs. Unlike with Medicare, nursing home care is covered without prior hospitalization. Coverage can also be provided when custodial care is all that is needed. Patients with cognitive impairments can more easily access needed care. Unlike with Medicare, those with chronic conditions who are still able to

travel within the community can obtain home health care benefits. There is no need to be confined to one's home. Nor is there a fear of constant service cutbacks.

**Offer a More Acceptable Solution than Medicaid**—LTCI provides nursing home and home health care benefits whether or not the senior has assets. Unlike under Medicaid, there is no need for impoverishment. Seniors can spend their accumulated assets to enjoy life or preserve them for heirs. They can avoid the legal maneuvering aimed at preserving assets.

LTCI expands the care options for senior clients. In many communities, nursing home entry becomes easier when private money is available. Furthermore, home health care options are broader when compliance with government rules aimed at restricting benefits is not at issue.

### **The Important Role of Financial Advisor Assistance**

As financial advisors, you play an important role in assisting seniors in the purchase of long-term care insurance. Often, obtaining appropriate LTCI is a crucial lifetime decision? one has that an impact on multiple generations.

### **Crucial Purchase Decision**

Few seniors have the inclination to tackle an analysis of long-term care insurance coverage alone. They depend on your expertise to guide them. Your knowledge becomes critically important. Some seniors may have the option to change their long-term care insurance coverage in the future. Other seniors will find, however, that their purchase decision is irrevocable. Poor health or mental impairment may occur. The ability to pass new underwriting may be difficult, if not impossible. Increased age may make premiums for newer coverage out of reach.

The initial purchase decision is often the only purchase decision—not out of choice but due to circumstance. Make sure your senior clients understand the policy choices they have made and why they have made

#### **Can You Self-Insure Your Future Long-Term Care? Personal Savings versus LTC Dilemma**

Assume the following facts:

Ms. Smith is age 60 and able to work until age 70. Each year Ms. Smith sets aside \$2,000 in a nondeductible IRA or tax-deferred annuity instead of purchasing an LTCI policy with a 3-year benefit period. She earns 10 percent each year on her IRA savings. How long will her savings last?

Her account balance at retirement age 70 would be \$36,018.

If LTC costs are approximately \$200 per day when Ms. Smith requires them shortly after retirement, then

$$\$36,018 \div \$200 \text{ of LTC cost per day} = 180 \text{ days}$$

Ms. Smith has been able to self-insure for only about 6 months of her LTC costs!

them. Seniors who understand their LTCI benefits coverage will be satisfied with both you and your company. Satisfied seniors are a valuable source of referrals in the relatively new long-term care insurance marketplace.

### **Key Estate Planning Tool**

Long-term care insurance is a missing key ingredient in many estate plans. Sometimes meticulous attention is paid to the proper drafting of will clauses designed to save taxes or to the phrasing of living trust documents in order to avoid probate. Unfortunately, far too little attention is paid to the feasibility of these plans. In other words, a carefully crafted estate plan can be null and void if the cost of providing LTC financially devastates assets meant for heirs.

Think of long-term care insurance as a safety switch that protects estate assets from an unexpected financial blow-up. Your work in the seniors marketplace will bring you into contact with other advisors such as attorneys and accountants. Be sure to lend your expertise in the area of long-term care insurance when working with these advisors as part of the estate planning team. It is this insurance that will facilitate the successful realization of their work and ultimately the estate plan.

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## Qualifying the Prospect

After you have discussed the overall necessity for LTCI and the probability of needing some type of care, you should make sure that your client and his or her spouse, if applicable, potentially qualify for coverage before you proceed to personal information gathering. The only truly acceptable reason for a person's failing to insure himself or herself against the risk of LTC is that he or she does not qualify medically or financially for the coverage. If you determine that this is the situation, the LTCI selling process is finished.

In the ideal scenario, *qualified prospects* are identified before private face-to-face meetings are established. Many successful financial advisors prequalify prospects on the telephone once they have agreed to an appointment. In many instances, however, a face-to-face meeting occurs before you know whether or not you are dealing with a qualified prospect. These meetings take time. The more time you spend with qualified prospects, the more productive your interviews will be. Therefore, consider the following four-step approach to increase the amount of time you spend with current qualified prospects:

- Begin qualifying your prospect with LTCINS links.
- Demonstrate the circle of health protection.
- Conduct a financial and personal resources review fact-finder (if necessary).
- Attempt a trial close before conducting a full analysis.

### LTCINS Links

LTCINS (which stands for LTC insurance) is an acronym for key information that you obtain from asking a series of questions. When the information is linked together, you can make a relatively quick judgment about whether it is possible to underwrite a prospect. Using LTCINS, you have a sense of whether the prospect is insurable. You will also have a barometer of the prospect's finances and if there are sufficient funds to pay for LTCI.

Qualified prospects for LTCI have four basic characteristics. They are people who

- need and value your products and services
- can afford to pay for them
- are insurable
- can be approached by you on a favorable basis

If these four conditions are satisfied, then the next step is to secure a preliminary agreement to proceed into the full fact-finder. If these four conditions are not satisfied, you must have a contingency strategy to pivot to another product, outline a plan for future contact with the prospect when he or she is better qualified, or gracefully exit the interview and move on. Some pivoting ideas are discussed later in this class.

### **L = Life Span**

These are the first questions to ask the prospect: When were you born? Can you provide me with an exact date?

This information will let you know immediately whether or not your prospect is young enough for your company to underwrite. If the prospect is too old, you will realize that you will have to move on to a discussion of other products and referrals. Knowing the exact date of birth also enables you to quote the approximate premium costs. In addition, this information gives you the data necessary to motivate a prospect to save money by purchasing now, rather than waiting past a birthday/premium increase date.

### **T = Time in Hospital**

The next line of questions for the prospect begins with: Have you ever spent time in the hospital? If the answer is “yes,” then: Was it during the past 5 years (or other appropriate threshold date set by your company)? What was the reason? How long did it take you to recover?

You should be prepared to prequalify prospects to see if they would be medically eligible for coverage. A few simple medical questions can quickly determine whether there may be a medical underwriting problem.

Most companies’ applications contain a series of between four and 10 questions that are designed to prequalify prospects for coverage. The list of questions will be much longer for insurers that have stringent underwriting standards. If a prospect answers “yes” to any of these questions, then he or she will be disqualified, and you are advised not to submit the application.

You should become aware of conditions that are “red flags” to an insurer. This will save time and avoid disappointment and hurt feelings if potential declination is spotted early in the process. If you determine that the prospect is insurable, continue with your LTCI presentation. If the prospect fails to qualify for LTCI for either medical or financial reasons, you should have plans to pivot to other products that will also enhance the prospect’s financial plan. Whether prospects qualify or not, you should ask them for the names of other people they know who might be prospects for LTCI.

## **C = Children**

The next line of questioning for the prospect involves the family: Do you have children? If the answer is “yes,” then: What are their ages? Do they live nearby? Do you speak to them often?

Many seniors refuse to make decisions without input from their adult children. Knowing the ages of these children gives you information about other potential prospects. LTCI is often bought by two generations of family members, particularly if a relative has suffered a lengthy illness or has had to pay for expensive nursing home care.

If adult children are part of the decision-making process and you believe the prospect will prequalify, offer to postpone the remainder of the interview until the adult children can be present. Otherwise, you risk having the senior prospect make a presentation on your behalf to his or her children. This can result in the children’s ignoring what is being proposed or seeking the advice of another advisor. Either way, the result may be a lost planning opportunity.

Adult children may have several valid reasons for assisting their parents in the purchase of LTCI. First of all, you can assume that children want their parents to have the highest possible quality of care. The parents may require their children’s help in evaluating the various? and sometimes confusing? policy options that are available to them. The children may want to assist their parents in paying for the coverage, so it makes sense for them to understand what they may be, in part, financing. Furthermore, adult children have a vested interest in seeing that their parents have LTC coverage because it can protect assets that they may eventually inherit from being depleted, or it can protect the children from having to use their own assets to pay for LTC services that their parents may ultimately need. Moreover, as a part of the policy, the children may be the third party who is to be contacted if the LTCI coverage is about to lapse or terminate because of an unpaid premium.

## **I = Insurance Proposals**

This next line of questioning for the prospect deals with potential competition: Are you weighing other LTCI proposals? If the answer is “yes,” then: Are you already working with another financial advisor? If the answer is “yes,” then: Who is the advisor, and what company does the advisor represent?

The prospect’s answers to these questions will tell you whether you are facing competition. You should expect that the subject of competition will come up during the interview process, and you should not shy away from dealing with it. On the contrary, you should be prepared to address the topic of competition from a multidimensional perspective..

Financial advisors handle competitive situations in different ways. Some move on to other prospects. Some insist on being the last to present a full-scale proposal. Those with access to several insurance carriers typically offer to compare products across company lines. Captive financial advisors sometimes promote other product lines and point to the advantages of dealing with one insurance carrier. Here, there is no one right or wrong answer. Use the approach that works best for you.

## **N = Nursing Home Experience**

This line of questioning for the prospect deals with his or her exposure to nursing homes: Has anyone in your family or have your close friends ever been confined to a nursing home? If the prospect answers “yes,” then: How do you regard these experiences?

The purpose of these questions is two-fold. It helps you gather facts about the prospect’s experiences and fears about nursing home stays. Furthermore, you may learn more about health issues that could possibly impede the underwriting process. For example, you may learn whether there is a family history of Alzheimer’s disease, heart disease, or cancer. Also, this line of questioning just might motivate the prospect to take action as he or she recalls what are frequently unpleasant memories. These questions reinforce the desire to avoid institutionalization and possibly even impoverishment.

## **S = Savings Level**

The final line of questioning for the prospect deals with his or her ability to pay for the coverage: Do you have savings? If the answer is “yes,” then: Do the savings amount to over \$1 million? Are they in the range of \$500,000? Do they amount to \$100,000, \$50,000, or less? Are you able

to add to savings? Have you recently been forced to dip into savings? If you have, why was it necessary?

The answers to these questions will help to tell you whether LTCI is appropriate for the prospect and whether he or she is able to afford premium payments. In other words, the answers provide you with enough information to make an initial judgment about whether the prospect should proceed with the purchase of LTCI or should rely on planning alternatives other than insurance to meet LTC costs.

To help determine whether a prospect is financially qualified to purchase LTCI, the NAIC has established the minimal financial suitability guidelines, as follows:

- Premiums should not exceed 7 percent of an applicant's income.
- If an applicant wishes to purchase the LTC coverage for asset protection, he or she should have at least \$30,000 in assets.

Your company may provide you with its own higher specific income and saving level guidelines for determining whether or not LTCI is an appropriate and suitable product for your prospects.

Insurers will not issue a policy to someone who violates their financial suitability guidelines or the guidelines established by the NAIC without obtaining documentation from the prospect acknowledging that he or she understands that he or she is incompatible with those suitability guidelines. These guidelines are designed to protect the public at large.

In addition to the objective suitability guidelines for buying LTCI, however, there are subjective reasons to buy it that cannot be overlooked. Some of the primary reasons that prospects cite for buying LTCI are to preserve their independence, to maintain control over their assets, and to uphold their sense of dignity regarding the choice of locations and the care settings. It is important to bear in mind that the purchase of LTCI is not just about dollars and cents. Many people believe that they will never be disabled and reject the idea that they will ever need care. Therefore, the decision to purchase LTCI is often an emotional one. Consequently, this is something that you need to be sensitive to as you ask feeling-finding questions in the interview. These types of questions will be discussed later in this class.

Finally, the purchase of LTCI may not be appropriate for wealthy prospects. Some would argue that wealthy people can afford to pay for LTC without a great deal of asset erosion or financial hardship. Others would argue, conversely, that wealthy people have automobile and

homeowners insurance, so why should they not recognize LTC as an equally legitimate risk that needs to be managed?

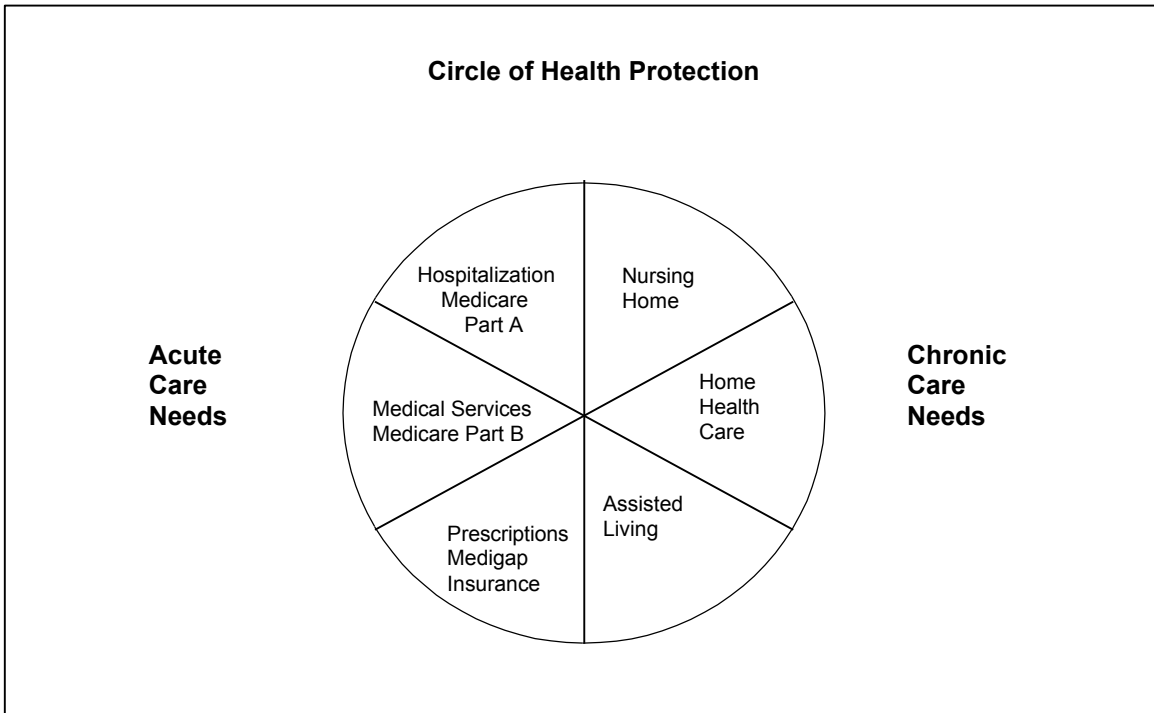
## Circle of Health Protection

After you have gathered information using LTCINS links, you can provide your prospects with information about their health care coverage with the help of a graphic called the *circle of health protection*. The circle is made up of two halves, each with three sections. The first half of the circle represents protection for acute health care needs, in which a patient receives medical care for a relatively brief period of time for a severe episode of illness (such as pneumonia), an accident or other trauma, or recovery from surgery. Acute care is given in a hospital. The other half of the circle represents protection for chronic health care needs. Chronic health care needs are the kind of needs covered by LTCI, and they represent the broad range of medical, custodial, social, and other care services to assist people who have an impaired ability to live independently for an extended period of time.

### Acute Care Needs

Use the acute care half of the circle to discuss Medicare Parts A and B as well as medigap insurance. Many of your prospects are already covered by Medicare, or they will certainly qualify for it at retirement. The purpose of this explanation is to dispel misconceptions about government programs. (This same discussion is also applicable to group and individual medical expense policies such as Blue Cross and managed care contracts that pay only for acute care services. Their discussion may be more meaningful for your younger prospects.) You can provide your prospects with a brief overview, not a detailed analysis, of Medicare hospitalization, outpatient, and medical services benefits. This may also give you an opportunity to cite the shortcomings of the various financing alternatives that your prospect may bring up for discussion. (Many financial advisors find that giving prospects the current *Guide to Health Insurance for People with Medicare* published by the Center for Medicare and Medicaid Services? CMS? is useful for making reference to Medicare and medigap plans.)

You may wish to use some of the following points in your discussion with the prospect:



**On Medicare**—Medicare does not cover strictly custodial nursing home care services. Unless your senior prospect is in need of daily care that can be administered only by a medical professional, Medicare will not cover the care. Assistance in the activities of daily living exclusively, such as getting from bed to chair, feeding oneself, going to the bathroom, and bathing, is not covered.

**On Skilled-Nursing Facility Care**—Medicare hospital insurance helps pay for inpatient care in a Medicare-participating skilled-nursing facility following a hospital stay if the patient’s condition requires nursing or rehabilitation services that can be provided only in a skilled-nursing facility. It is important to point out, however, that most nursing homes in the United States are not skilled-nursing facilities, and many skilled-nursing facilities are not Medicare approved.

**On Medicare and LTCI**—One of the most important things to know about Medicare is what it does *not* provide. It does not provide for nursing home care unless it is required as the result of a medical condition necessitating hospitalization. It does not provide benefits solely

for custodial care. This last restriction by itself will give you the opportunity to discuss LTCI coverage with your prospect.

**On Medicare Supplement Policies (Medigap)**—Medigap policies are usually designed to cover deductibles and any coinsurance costs required to be made by the insured who has Medicare coverage. If Medicare excludes the required LTC that a covered insured needs, it will also be excluded by medigap insurance policies. Although these policies provide beneficial protection, they are not the answer for LTC needs.

Use the medigap portion of the circle to alert your prospects to the deductibles, copayments, and prescription drug costs that are not covered by Medicare. Once again, the objective is to give a brief overview, not a comprehensive analysis. Sometimes, a prospect may already have a medigap policy or similar coverage. If so, you may wish to color this portion of the circle to demonstrate the extent of the prospect's current coverage. If you are using a highlighter, half of the circle should now be fully colored. It is then time to turn the discussion to chronic care needs.

### **Chronic Care Needs**

Use the chronic care half of the circle to discuss nursing homes, home health care, and assisted-living facilities. Begin the discussion by repeating that Medicare does not cover the bulk of these costs. (Ordinary group or individual managed care health insurance policies also do not pay for chronic care services.)

**On Nursing Homes**—Point out that, at best, Medicare will cover 100 days of nursing home care. Then refer to the cost of nursing homes in your community. For example, you may indicate to the prospect that nursing home costs in your community average \$175 a day, which is more than \$63,000 per year. Then ask these questions: Have you considered how you or your family would pay for these costs? Would you be able to pay \$63,000 a year for nursing home care from savings? If you could pay these costs, how long would your savings last? The prospect's answers to these questions can give you insight into his or her thinking.

**On Home Health Care**—Move next to home health care. Ask the prospect if he or she would prefer to stay at home in the event of a major illness. Expect a "yes" answer. Most prospects want to remain in their homes until they die, so point out that there are costs associated with this

option such as: Someone may have to take over your cleaning and cooking chores and may even have to help bathe and dress you. You might even need help just to get out of bed. In our vicinity, these costs can amount to roughly \$160 for an 8-hour day, which is less than the cost of a nursing home, but it is still a lot of money for many of us to pay. Would you be able to pay for home health care? Although \$160 a day does not sound like very much, consider that for a 5-day week, it amounts to \$800. Ask the prospect: Would your family be able or willing to provide weekend care, or would they prefer to spend the additional \$320? If so, that brings the cost of care to \$1,120 a week, or over \$4,500 a month.

**On Assisted Living**—Next, move the discussion to the final section of the circle? assisted living. Provide a brief explanation of what assisted living means, indicating that it provides personal care and support services such as help with bathing, dressing, meals, and housekeeping, to people with physical or cognitive impairments. Point out that assisted living represents a preferable alternative to nursing home care for many individuals because it offers far greater independence. Once again, shift the discussion to costs by indicating that assisted-living costs can range anywhere from \$1,500 to \$4,500 per month. Then ask the prospect: Do you or your family have this extra money? Would you want money spent this way, or would you prefer to consider a more practical alternative that can cover all these costs for a reasonable monthly premium?

Allow prospects time to think about these questions and their answers. Let them visualize the alternatives. Sometimes, you will be able to begin to fill in the application at this point in the interview. If the prospect conveys the proper buying signals and the willingness to apply for LTCI, then by all means proceed with quantifying the amount of coverage, and complete the application.

On most occasions, however, you will find that the circle of health protection serves as an introductory educational tool and that you will still want to further probe a prospect's needs and preferences using a mini fact-finder such as the financial and personal resources review.

## **Financial and Personal Resources Review**

The financial and personal resources review is a short and simple fact-finder designed to uncover information and potential objections to purchasing LTCI. At the same time, it can also serve as an additional

motivator for the prospect to purchase LTCI coverage. The use of this mini fact-finder is optional, but you may find it helpful.

(A copy of this mini fact-finder is included on the next page for your use, but please be sure to first obtain your company's approval.)

## **Preliminary Discovery Agreement**

By the time you have successfully discussed the need for LTCI, asked the LTCINS prequalification questions, demonstrated the circle of health protection, and completed the financial and personal resources review, you should expect that a qualified prospect is ready to take the next steps toward purchasing LTCI. These steps begin with the completion of a more thorough fact-finder and feeling-finder so that an appropriate LTCI plan can be designed. At this juncture, you may consider using a trial close or preliminary discovery agreement such as the following:

Mr. and Mrs. Prospect, based on the answers you have given me to several questions, it is apparent that you would want quality care if you needed ongoing assistance with the basic activities of daily living. You also do not want to be a financial, physical, or emotional burden to your heirs, and you would rather preserve your legacy for them. If I can design/formulate a plan that would enable you to accomplish the goals you've expressed at an affordable cost to you, would you be interested in working together to construct such a plan?

(If the answer is no, or unsatisfactorily enthusiastic, see the section below titled "Handling Prospects Who Fail to Qualify" for optional pivoting strategies you may consider using, depending on the type of situation you encounter).

If the answer is yes, you have a qualified prospect with whom you can proceed. As mentioned previously, depending on the prospect's receptiveness and willingness to purchase LTCI, you can begin to take the application for coverage at this point in the interview. You will, of course, still need to ask the prospect questions regarding the areas of LTCI benefits discussed earlier in order to complete the application. Nonetheless, if the prospect strongly views LTCI as a single product need and displays positive buying signs, then sell him or her the product right now rather than jeopardizing the opportunity to turn the

## Financial and Personal Resources Review

Prepared for: \_\_\_\_\_

1. Health coverage  
Do you believe your current health coverage adequately covers:
 

A. Hospitalization costs?	Yes	No
B. Nursing home costs?	Yes	No
C. Home health care costs?	Yes	No
D. Assisted-living costs?	Yes	No
  
2. Health care preferences  
If you suffered a long-term disability as a result of a stroke, where would you prefer to receive care?
 

A. Nursing home?	Yes	No
B. Own home?	Yes	No
  
3. Financial resources for health care  
If you were faced with a nursing home bill of \$50,000 right now, how would you pay for it?
 

A. Savings?	Yes	No
B. Bank loan?	Yes	No
C. Other sources?	Yes	No

Describe:

How long could you personally afford to pay this \$50,000 bill from these resources?

A. 1 year?	Yes	No
B. 2.5 years? (Most nursing home stays average this long.)	Yes	No
C. 5 years or longer?	Yes	No

Would your children be in a position to help you pay for this care?

	Yes	No
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How would you prefer to pay for this care if you had a choice?

A. Private resources?	Yes	No
B. Insurance benefits?	Yes	No

If your answer is insurance, is there any reason why you haven't purchased it?
  
4. Personal resources for health care  
If you became ill tomorrow, would your family:
 

A. Be trained to provide you with at-home medical care?	Yes	No
B. Have the time to provide you with at-home care?		
For a week?	Yes	No
For a month?	Yes	No
For 9 months?	Yes	No
For a year or more?	Yes	No
C. Be physically able to provide at-home care on a long-term basis?	Yes	No
D. Be able to quit working to provide care?	Yes	No
  
5. Goals for financial resources
 

A. Would you like to leave an estate to your children?	Yes	No
B. Would you like to help pay for your grandchildren's education?	Yes	No
C. Would you want your estate diminished after your death because of debt incurred by LTC?	Yes	No

prospect into a client. However, if based on your sales experience and judgment, you perceive that the prospect is interested in a comprehensive financial plan that includes LTCI, you should proceed with completing the LTC fact-finder your company provides.

### **Transitional Phrase**

The transition into the actual fact-finding form is usually facilitated by asking for the prospect's permission to proceed by saying something like this:

For me to do a proper job analyzing your financial well-being, I'll need to ask you some personal questions. I can assure you that the information I gather will be held in the strictest of confidence. With this in mind, is it all right to proceed?

Note that it might be necessary to schedule a second interview to conduct the actual fact-finding. This decision is your judgment call, and it needs to be based on many factors. Among them are the following: how well you know the prospect, how well educated he or she is about long-term care issues, how long the previous segments of the interview have taken, and how tired the prospect is. These are just some of the issues you must consider when deciding whether or not to move forward immediately.

## **Handling Prospects Who Fail to Qualify**

You will encounter some situations where you are prepared to make the transition into completing the comprehensive fact-finder, but the prospect does not qualify for LTCI. There are many reasons why a prospect may fail to qualify. Whatever the reasons are, however, you should first attempt to pivot to another product discussion using the fact-finder to gather the necessary information.

### **Pivoting Options (If the Prospect Does Not Qualify)**

When a prospect does not qualify for LTCI, you have to tell him or her, but you do not necessarily have to lose the prospect. Pivoting involves delicately suggesting to the prospect that he or she consider an alternative approach to financing LTC needs. If the prospect wants to fund LTC costs but is uninsurable, you can propose an alternative by saying:

I'm sorry to tell you that you will not be able to obtain LTCI at this time because of your medical condition. However, you may be able to cushion some of the potential costs of paying for LTC by developing a strategy that employs alternative financial resources. If we can construct a plan of action within your budget to cover the potential cost of LTC, would you be interested?

The following are several categories of prospects who fail to qualify for long-term care insurance:

- hostile or uncooperative prospects
- uninsurable prospects
- prospects with insufficient funds
- prospects shopping for a better deal

### **Hostile or Uncooperative Prospects**

If a prospect is hostile or is generally uncooperative during the prequalification process, you should move on and concentrate your efforts with people who will appreciate your expertise and assistance. There are too many qualified prospects in the LTC marketplace who do not own long-term care insurance and would be more than willing to purchase it if they were properly guided through the selling process. You need to spend your valuable time with them, not with hostile or uncooperative prospects.

### **Uninsurable Prospects**

If a prospect turns out to be uninsurable for LTCI, you may want to serve as a resource and refer the prospect to an eldercare attorney for additional LTC planning. You may also want to pivot to another product that the prospect should consider. Many prospects for LTCI, especially those who are in or near retirement, are likely to have considerable assets in savings that they are seeking to protect with LTCI. Mutual funds and annuities are two products that you can sell without worrying about underwriting rejections. Explain your company's concerns about the prospect's being uninsurable and then open the discussion on how these other product lines can be used to defray some of the costs of LTC services.

In fact, when the discussion centers on financing alternatives to LTCI, your creativity can build your credibility in the prospect's eyes,

and this can lead to the discussion of other products as well as referrals to other family members.

### **Prospects with Insufficient Funds**

Some prospects simply cannot afford LTCI. Not everyone who needs LTCI is a qualified prospect to purchase it. The “no money” objection is one of the basic disqualifying criteria in financial services selling. The sooner you discover that the prospect cannot afford LTCI, the sooner you may be able to move to another product that he or she can afford. For example, someone with modest savings might be a prospect for a small life insurance policy or a deferred annuity. Furthermore, he or she may also become a source of leads to other prospects who may be more qualified for LTCI.

### **Prospects Shopping for a Better Deal**

Many prospects have hidden objections. They are not interested in completing a comprehensive fact-finder or establishing a long-lasting client-advisor relationship. They may even spend years waiting for the illusive better deal while they remain uninsured. Nevertheless, these prospects can be cultivated slowly over time if you have the patience.

Education can sometimes be the solution to overcoming these prospects’ procrastination. They are excellent prospects to invite to an LTC seminar that you are conducting. The education you provide may help them confront and overcome their reasons for procrastination. A seminar is a low-key way for you to maintain contact with these prospects. When they are ready to buy LTCI, your name should come to mind. In the meantime, these prospects may purchase other products from you or become a source of referrals.

## **Keeping in Contact with Qualified Prospects**

Do not forget to maintain contact with qualified prospects who do not buy LTCI from you initially. Also, remember to stay in contact with your clients once a sale is made. Seminars, newsletters, birthday and holiday cards, and periodic reviews are all methods of maintaining contact. Your LTC clients are prospects for other products. If you are conducting a seminar on a topic other than LTC, invite these people to attend. A seminar is an excellent way to maintain face-to-face contact and to encourage cross-selling opportunities in a time-efficient manner. Newsletters are less personal but still remind clients of your expertise.

Sending birthday and holiday greeting cards keeps your name in front of clients and prospects. It can also lead to repeat business and referrals, it may help to build relationships, and clients usually appreciate receiving your cards. Periodic reviews offer a way to uncover sequential marketing opportunities while staying in touch with your clients' changing needs.



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# **Prospects Who Are Unconvinced of the Need**

## **Prospects' Main Objections to LTC Planning**

Despite the shortcomings of self-insuring or relying on government programs to pay LTC costs, many seniors will remain unconvinced of their individual need to purchase LTCI. Many seniors are afraid of the entire process of purchasing LTCI for fear of making a mistake that they will regret. Others rationalize away the potential need for LTCI.

Some prospects will object to the notion that they need to consider ways to handle nursing home costs. Typically, prospects voice these objections in one of the following ways:

- “I’ll never go into a nursing home.”
- “I’ll just stay in the hospital a little bit longer.”
- “I’m too young to need LTC. It’s too early to plan.”

### **Answering the “I’ll Never Go!” Objection**

Statistics indicate that the older we get, the greater our chances of spending time in a nursing home. An estimated 43 percent of those over age 65 will require assistance with LTC needs.

### **Answering the “I’ll Just Stay in the Hospital a Little Bit Longer” Objection**

Hospitals are acute care delivery systems. Private insurance and government program rules encourage relatively quick discharge once a patient is out of immediate medical danger. Hospitals can also be very dangerous places to linger. Many patients contract additional diseases, and some of these hospital-contracted diseases are drug resistant.

### **Answering the “I’m Too Young” or “It’s Too Early to Plan” Objection**

Although some prospects offer objections to having to think about nursing home costs, other prospects believe that it is simply too early to

plan. But whether your prospects are in their 50s or 70s, it is not too early to plan. Those who take this stance are ignoring the approaching demographic collision between the need for services and the ability to pay for them.

Today, most members of the Silent Generation are retired. Due to improved medical care, a substantial number can expect to live well past age 85. After 2011, the first representatives of the 78-million-strong Baby Boom generation will begin to reach retirement age. It is feasible that members of these two generations will be competing for nursing home care at the same time.

Simple economics tells a chilling story. Older generations are living longer. They will be joined by younger generations that need care. Strong demand will more than likely increase prices for nursing home and eldercare-related services. If your prospects are unprepared, they may not be able to pay for necessary services. Delayed care may lessen the quality of life for some people, while proving deadly to others. Prospects who are prepared will be better able both physically and financially to weather the upcoming generational storm.

## **Additional Objections**

Some seniors simply refuse to believe that they have a need for LTCI. Three major misconceptions bolster their belief that private LTCI coverage is for someone else:

- “The odds are in my favor. Health care advances have extended life and lessened the need for LTC.”
- “I’ll stay at home. It’s cheaper, and besides, Medicare will pick up my home health care expenses.”
- “My family will take care of me.”

### **“The Odds Are in My Favor”**

The simple truth is that the statistics increasingly indicate that they are not. It is true that health care advances are translating into increased longevity. This does not mean, however, that all these added years are spent in good health. The number of seniors reaching age 85 and beyond is rising dramatically. Unfortunately, with increased age comes the greater likelihood of chronic illness and the need for LTC. Forty-three percent of Americans 65 and older can expect to spend time in a nursing home. Roughly 74 percent of nursing home residents are 75 or older. The

odds are that the longer seniors live, the more likely they will need LTC services.

Remind prospects that if they wait to buy LTCI, they may not be able to qualify for coverage when they need it. And if they do qualify, it is likely to cost them far more than today's premiums.

Suggest that they compare the costs between buying today and waiting until tomorrow. Typically, they will be able to buy more coverage for less money at their current age than if they wait even just a few more years.

### **The “I’ll Stay at Home” Solution**

This is the question you need to ask the prospect in response to this objection: Can you afford to stay at home to receive the care you may need? Statistics verify that most people want to stay at home during their senior years rather than move into LTC facility settings. Home health care is becoming increasingly popular among older Americans. It is estimated that 85 percent of all LTC services are provided in the personal residences of those who need them. In fact, the popularity of home health care is expected to grow dramatically for demographic, psychological, and financial reasons.

People are indeed living longer, and as we have seen, with increased age comes the increased risk of chronic health problems. In the future, the aging of the enormous Baby Boom generation will exacerbate the demand for home health services.

Psychologically, many people associate LTC facilities with sterility and a loss of independence and dignity. Conditions are often more crowded than those at home. Many residents must share rooms with strangers. Home health care offers the opportunity to age in place in familiar surroundings.

Financially, home health care has made sense due to increased coverage of its costs under the Medicare system. There are drawbacks, however, in relying on this government program. Medicare home care benefits are typically designed for periodic home care visits that last a short number of hours. Problems arise when more extensive services are needed. Medicare benefits are not designed to provide for more extensive care. Nor should seniors expect enhanced Medicare home health benefits in the future. Federal policy changes are far more likely to curtail benefits in order to maintain the fiscal stability of the Medicare system.

When more extensive care is required, staying at home can be more expensive than entering a nursing home. If family members live far

### **Home Health Care Average Costs (2002)**

The national average hourly rate for home care is **\$37** for a licensed practical nurse (LPN) and **\$18** for a home health aide (HHA).

Licensed practical nurses, known as licensed vocational nurses in Texas and California, provide care for their clients under the supervision of physicians and registered nurses. They provide basic bedside care and, where states allow, LPNs may administer prescription medication or start intravenous lines.

Home health aides, sometimes known as certified nursing assistants, provide personal care and help their clients with activities of daily living. They work under the supervision of a nurse to report a client's condition and progress, and they report changes in the client's condition to a registered nurse or case manager. Their duties range from making beds to taking vital signs.

away or are unable to serve as primary caregivers, capacity, handling day-to-day tasks, from meal preparation to household cleaning, must be arranged. In a stay-at-home situation, these services are usually provided to only one senior. In an LTC facility setting, the cost of these services is typically divided among many seniors.

Medicare enters the equation again when it comes to determining the amount to pay for home care services. Recent trends have sought to curtail rather than enhance benefit payments. This increases the likelihood that providers will be reluctant to accept Medicare schedules as full payment for services. Alternatively, the number of services or amount of necessary caregiver time may exceed Medicare limits.

Moreover, to qualify for Medicare home health coverage, an individual must be housebound. This leaves an enormous gap for those who are able to visit the doctor or do limited shopping but unable to manage other areas of independent living without help.

Private funds will have to make up the differences. If the funds are unavailable, an individual may be forced into a nursing home situation that is paid for by Medicaid and accompanied by unplanned impoverishment.

An LTCI policy presents a far more palatable solution. The policy can provide the funds for home health care when needed and help seniors remain independent and avoid impoverishment.

Home health care coverage was one of the factors that we examined in our analysis of long-term care insurance policies. It can be a financial lifesaver to seniors who want to remain independent and noninstitutionalized as long as possible. Being able to stay at home is so important to so many of your prospects. It is one of the key motivators for buying LTCI coverage. Be sure to review a senior's feelings toward home care versus institutional care before any final LTCI purchase decision is made.

**Long-Term Care:  
Staying Home Is Not Necessarily Cheap!**

- |                                                                                                                        |    |                     |
|------------------------------------------------------------------------------------------------------------------------|----|---------------------|
| 1. Estimate the amount you will pay per hour for a home health aide. Costs typically range from \$15 to \$20 per hour. | 1. | \$ _____            |
| 2. Estimate the number of hours per day you will need to hire care.                                                    | 2. | _____               |
| 3. Multiply the hourly cost by the number of hours per day. This will provide you with daily cost estimate.            | 3. | \$ _____ daily cost |
| 4. Multiply the daily cost by the number of days care is required on an annual basis.                                  | 4. | \$ _____ x days     |
| 5. Annual estimated costs for home health care.                                                                        | 5. | \$ _____            |

**EXAMPLE 1:** Grandfather Bill suffers from Parkinson's disease. His family is reluctant to leave him alone. Grandfather Bill moves to daughter Alice's home. Alice works and therefore feels she must hire help 10 hours a day (8-hour work day plus 2 hours of commuting). Costs are estimated to run \$20 per hour. Sister Nell has agreed to watch over Grandfather Bill for 2 weeks per year. Therefore, it is concluded that help is needed 250 days per year (50 weeks x 5 days per week). Estimated home health care costs are as follows:

- |                                 |                |          |
|---------------------------------|----------------|----------|
| 1. Estimated per hour cost      |                | \$ 20    |
| 2. Number of hours per day      | x 10 hours     |          |
| 3. Daily cost estimate          | \$ 200 per day |          |
| 4. Number of days care required | x 250 days     |          |
| 5. Annual estimated home care   |                | \$50,000 |

**EXAMPLE 2:** Assume the same facts as in Example 1 except that Caregiver Alice feels she can no longer care for her father without additional help over the weekends. An additional 100 days of care are required. Result:

$$\begin{aligned} & \$ 200 \text{ per day} \times 350 \text{ days per year} \\ \text{Estimated annual home care costs} & = \$70,000 * \end{aligned}$$

**EXAMPLE 3:** Assume the same facts as in Example 1 except that Grandfather Bill now requires 24-hour live-in help due to increased physical deterioration. Result:

- |                                            |                     |                |
|--------------------------------------------|---------------------|----------------|
| Daily costs rise (24 hour x \$20 per hour) |                     | \$ 480 per day |
| Required care days increase                | x 365 days per year |                |
| Estimated annual costs rise                |                     | \$175,200*     |

***Can your family really afford these costs?***

\* This amount does not include added fees for specialized services or needed alterations.

## “My Family Will Take Care of Me”

Here is the question that seniors must examine carefully: Is your family able to take care of you? Traditionally, families have taken care of their own members rather than institutionalizing them. Often the care was provided at the frail individual’s home or in the home of an adult child. Women have traditionally served and continue predominantly to serve as caregivers when LTC needs arise. A survey conducted by the National Alliance for Caregiving and the American Association of Retired Persons (AARP) indicated that the number of households caring for a senior relative or friend jumped from 7 million in 1988 to more than 22 million in 2000. Many of these caregivers were older women. Consider posing these questions to prospects who assert that their families will take care of them:

- *Do they have the time?* Over 70 percent of caregivers are women. The majority of women are working. Most working women are also raising children. Numerous articles have been written about the difficulty of juggling work and rearing children. Does your senior prospect or client really believe that an adult daughter or daughter-in-law can devote substantial blocks of time over a prolonged period to providing LTC? Even full-time homemakers freed from child-rearing duties need a break from providing LTC. Who will step in to relieve them? Are there several family members available to share the burden? If not, would it not be better to choose an alternative plan for providing the senior with LTC?
- *Do they have the financial resources?* If the caregivers work, can they afford to quit? Can they afford to cut back on their hours or take unpaid leaves of absence? In many cases, this will not be feasible. Working caregivers usually need their paychecks simply to cover the normal costs of daily living. A recent study by the AARP found that 49 percent of caregivers were forced to adjust their daily work schedules. The question then becomes: How do such adjustments affect caregivers’ careers? Are lower raises given to them? Do promotions fail to materialize for them?
- *Do they have the necessary skills?* Practical nursing skills are often needed to properly care for infirm relatives. Some of these skills can be learned rather easily; others require more intensive training. Even if relatives are willing to provide the

necessary care, do they have the requisite skills to provide that care? If they do not, are they willing to be or capable of being trained?

- *Are you psychologically prepared to be dependent on a close relative for your most basic needs?* Parents are often the individuals in need of LTC. Ask the senior prospect if family members are psychologically prepared to reverse roles. How will a parent feel being fed or led to the toilet by a child? Would the parent prefer to maintain an adult-to-adult relationship? If so, outside help will often be needed.

Finally, another issue to consider is whether or not the family can afford to pay for care at home by a third party. Hiring outside help can quickly deplete the resources of the individual who needs care. How many families have an extra \$2,000 to \$4,000 per month to meet home health care costs? Is this the way the family wishes to spend a potential inheritance? If the frail individual's resources become depleted, can other family members afford to pay for outside help? Once again, this could shift family resources from younger to older generations. Would a grandparent wish to see a grandchild select an inferior college because of strained family finances brought on by home care costs?

As a financial advisor, it will be your challenge to help seniors identify and overcome their objections to long-term care insurance and to guide them to the product that best meets their emotional and financial needs.



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## Chapter Three Review

*Key Terms and Concepts are explained in the Glossary. Answers to the Review Questions and Self-Test Questions are found in the back of the book in the Answers to Questions section.*

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### Key Terms and Concepts

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long-term care insurance (LTCI)	survivorship benefits
long-term care (LTC)	alternative plan of care
level of care	respite care
facility-only policy	homemaker services
home-health-care-only policy	waiver of premium
comprehensive policy	shortened premium-payment period
Health Insurance Portability and Accountability Act (HIPAA)	reinstatement
elimination period	third-party notification
indemnity	bed-reservation benefit
reimbursement	care coordination
inflation protection	restoration of benefits
benefit period	qualified prospect
benefit maximum	LTCINS links
nonforfeiture benefit	circle of health protection
guaranteed renewable	acute care needs
noncancelable	chronic care needs
tax qualified (LTCI contract)	financial and personal resources review
spousal (or partner) discount	preliminary discovery agreement
shared or joint benefit	objections to LTC planning

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### Review Questions

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- 3-1. List 10 questions that seniors should consider as they evaluate a long-term care insurance policy.
- 3-2. List and briefly describe three miscellaneous long-term care insurance policy provisions that spouses or domestic partners would find particularly useful.

- 3-3. Explain what the initials LTCINS stand for and how this acronym can help an advisor obtain key information from a prospect.
- 3-4. Explain why some prospects fail to qualify for long-term care insurance.
- 3-5. List senior prospects' three common objections to purchasing long-term care insurance.

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## Self-Test Questions

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Instructions: Read chapter 3 first, then answer the following questions to test your knowledge. There are 10 questions; circle the correct answer, then check your answers with the answer key in the back of the book.

- 3-1. Which of the following factors should a client take into consideration when choosing a long-term care daily benefit level?
- (A) Nursing home rates are set according to nationalized standards by the Health Care Financing Administration.
  - (B) Home health care rates are set according to nationalized standards by the Health and Human Services Department.
  - (C) Nursing homes often charge more for private rooms, and clients who value privacy should take this potential added cost into account.
  - (D) Medicare sets national minimum standards that require professional on-site 24-hour medical staffing at all licensed nursing homes.
- 3-2. The purchase of an inflation protection rider is
- (A) unimportant for clients over age 60 due to low medical inflation trends
  - (B) unimportant for clients over age 65 due to automatic Social Security cost-of-living benefit increases
  - (C) one way for younger clients to protect the purchasing power of their benefits
  - (D) generally considered too expensive for younger clients
- 3-3. Which of the following statements concerning the pool-of-money concept in many long-term care insurance contracts is correct?
- (A) Benefits continue for as long as the selected pool of money lasts.
  - (B) Benefits continue for a statutory period of 3 years.
  - (C) Premiums are paid in a lump sum.
  - (D) Home health care is excluded.

- 3-4. Which of the following statements regarding the tax implications of long-term care coverage is correct?
- (A) There are no statutory guidelines.
  - (B) Premiums are eligible for deduction under tax-qualified plans, while benefits are fully taxable.
  - (C) Premiums are eligible for deduction and benefits are tax free under tax-qualified reimbursement-type plans.
  - (D) Benefits are tax free, provided an individual loses the ability to perform at least five of six specified activities of daily living.
- 3-5. Which of the following statements regarding the respite care provision in many long-term care insurance policies is (are) correct?
- I. This benefit allows occasional full-time care for a person who is receiving home health care.
  - II. Respite care can be provided in a person's home or by moving the person to a nursing facility for a short stay.
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II
- 3-6. Which of the following statements regarding the financial and personal resources review is (are) correct?
- I. It is a long and complex fact-finder designed to uncover information and potential objections to purchasing long-term care insurance.
  - II. It can serve as an additional motivator for the purchase of long-term care insurance.
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II

- 3-7. Which of the following statements regarding long-term care facility costs is (are) correct?
- I. The average national daily cost of an assisted-living facility is about half that of a nursing home.
  - II. The average daily cost of a semi-private room in a nursing home is about half the cost of a private room.
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II
- 3-8. All the following are long-term care insurance policies that address the respective care settings for which these contracts will pay benefits EXCEPT
- (A) facility-only policies
  - (B) home-health-care-only policies
  - (C) assisted-living-only policies
  - (D) comprehensive policies
- 3-9. All the following are reasons why the purchase of long-term care insurance makes sense EXCEPT:
- (A) It can preserve an individual's savings.
  - (B) It provides more coverage than Medicare.
  - (C) It is a more acceptable solution than Medicaid.
  - (D) It is the least expensive solution to long-term care needs.
- 3-10. Qualified prospects for LTCI have each of the following basic characteristics EXCEPT:
- (A) They need and value your products and services.
  - (B) They cannot afford to pay for them.
  - (C) They are insurable.
  - (D) They can be approached by you on a favorable basis.