**Key Design Elements of a long-term care policy**

* **Tax Qualified Plan**
* Benefits paid out are excludible from taxation without limit if paid for actual expenses incurred
* Benefits paid out without regard to expenses incurred excludible from taxation at a per diem amount ($330 in 2015)
* Premiums are tax deductible with certain limitations
* To be Tax Qualified, **must** have following definition of **chronically ill:**

“the inability to perform, without substantial assistance (including standby assistance), from another individual, at least two of six activities

of Daily Living (ADLs) for a period of at least ninety days due to a loss of functional capacity” or

“the need for substantial supervision to protect one from threats to health and safety due to severe cognitive impairment”.

* The Activities of Daily Living include the following:

-Bathing

-Dressing

-Eating

-Transferring (mobility)

-Toileting

-Continence

* Once disability triggered, may also cover homemaker services such as cooking, shopping, taking medication, etc.
* **Benefit Amount**
* Average costs per pay in semi-private room in skilling nursing facility is $212
* Much fluctuation from $152 in Louisiana to $389 in Connecticut (2014 Genworth Study)
* Pay attention to which state beneficiary will likely receive care even though reciprocity exists in most states
* Can sometimes waive elimination period of lower cost home health care is sought (below)
* **When benefits begin (Elimination Period)**
* Number of out of pocket days insured must pay for care. Similar to deductible.
* The longer the EP, the cheaper the premium
* 90 days is typical
* Could be penny wise and pound foolish by buying cheaper policy now only to pay dearly later with long EP
* Service days vs. Calendar days
* EP must be met only once over the lifetime of the policyholder
* Medicare will not pay for the 90-100 EP
* **Duration of Benefits (Benefit Period)**
* The longer the benefits period for LTC, the higher the premium
* 2-5 year periods are common and lifetime benefit is becoming rare
* Medical technology has increased the length of the disability period

Especially for Alzheimer’s

* Studies shown only 8% of those with three year BP exhausted their benefits
* Less than 5% of claims last longer than five years
* Even five year BP can save 30-40% on costs of premiums compared to unlimited benefits periods
* Three year BP can save up to 50% versus lifetime. Some coverage is better than none at all
* Spouses and domestic partners often have “shared care” benefits where if one spouse exhausts benefits can use the spouse’s benefits
* **Inflation**
* Planning for inflation is one of the most important elements of a LTC due to rising medical costs and the length of time between purchase and claim
* *Guaranteed Purchase Option-*Rider that allows purchaser to buy additional benefits at specified dates without showing insurability
* *Inflation specific riders-* Adds 3-5% to benefit amount each year. Can slide from 1-5%.
* Premiums stay level
* Can vary 1-5%
* Also have simple v compound adjustments for inflation. Simple is based on original benefit amount and compound is based on last year’s amount
* *Higher daily benefits amount-* Purchase a higher daily benefit amount than currently needed to account for inflation when benefit is needed. Short term tactic for those buying in their sixties and seventies
* Should advise clients of the consequences of dropping the inflation rider later if it becomes too expensive.
* **Cash v. Expense Reimbursement**
* *Expense reimbursement*- Health Care provider submits bill and insurer pays amount if less than benefit amount.
* *Cash Reimbursement*- Insurer pays insured benefit amount even if greater than expense. As long as “chronically ill”, the policy pays benefit amount and lets insured pick the care. Can run into problems of accountability if insured becomes cognitively impaired.
* Can also raise a tax issue if benefit amount is greater than the per diem amount ($330 in 2015)

**Life Insurance and Long term Care Combination Policies**

* Uses accelerated death benefits of the policy
* Also can be purchased as LTC rider which allows the death benefit provision to apply if long term care is needed
* Monthly LTC benefit is a percentage of the total benefit amount set at when the policy is purchased
* Often paid for with a high single premium payment
* Death benefits don’t increase so may need COLI adjustment to the policy to keep pace with inflation
* May include a residual death benefit if policy is exhausted (5-10%)
* Life insurance/LTC policies generally do not fall within the partnership programs with the reduced Medicaid requirements

**Long-term Care and Annuity Combination Policies**

* Links a single premium deferred annuity to a tax qualified long-term care policy
* The accumulated value of the annuity is used to pay to long-term care expenses
* If LTC exhausts the annuity, then an additional long-term care rider can be purchased
* If not needed, annuity value can provide additional income or death benefit
* Rider can also be purchased by withdrawals from the annuity on a tax-free reduction of basis
* Benefit triggers must meet definition of “chronically ill” and also has EP
* Monthly benefit amount is a function of total dollar amounts available and the period of time selected
* Generally do not qualify as LTC partnership policies

**Long term care Partnership**

* State and private insurers work to make LTC available
* If policyholder exhausts LTC benefits can qualify for Medicaid under relaxed eligibility rules
* Dollar for dollar state policyholder can retain assets under Medicaid up to the policy amount known as “asset disregard” and “spend down” not necessary
* Total asset protection which provides even more comprehensive protection