Texas Department of Insurance

Long-term care insurance guide

Long-term care is a type of service you might need if you can't care for yourself because of an illness, disability, or Alzheimer's disease. It helps with routine daily activities like eating, getting around, and bathing. It can also help if you need someone to look after you or need reminders to take medicine.

Paying for long-term care

The cost of long-term care is based on the type of care you need, how long you need it, where you get it, and what type of medical professional provides it.

There are several ways to pay for long-term care:

- Personal cash or savings.
- Medicaid.
- Medicare.
- Benefits or payments from a life insurance policy or annuity.
- Long-term care insurance.

Medicaid is a state and federal assistance program that pays health care and some long-term care expenses for people with low incomes.

To get Medicaid, you must meet the Texas income and asset requirements. Assets are different than income. They are things you own – like your house, cars, and stocks – that you could turn into cash. Many people pay for long-term care out of pocket until they "spend down" their assets enough to be eligible for Medicaid.

Medicare is a federal program that pays for health care for people over age 65 and for people under age 65 with disabilities. If you're eligible, Medicare will pay some long-term care costs, such as nursing care stays, hospice, and physical therapy. It will cover up to 100 days of care in a nursing home after a hospital stay. Medicare pays the full cost of care for the first 20 days. For days 21 to 100, you pay a $140 a day copayment.

Life insurance or **annuities** can pay for long-term care in two ways:

- A **rider,** or added coverage, to a life insurance policy or annuity.
- An **accelerated death benefit.** This provision allows you to get your death benefit while you're alive if you're diagnosed with a serious illness. The company will subtract the amount you get for long-term care from the death benefit owed to your beneficiaries when you die.

Long-term care insurance

Long-term care insurance pays for several types of care, including:

- **Care in a nursing home or assisted living center.**
- **Nursing care and other health services at your home.**
- **Nursing, therapeutic care, social and educational activities, and supervision at an adult day care facility.**
- **Other services**. Some policies pay for hospice care, respite care (care to allow time off for family members who are caregivers), care after a hospital stay, help with household chores, or caregiver training for family members.

Services that aren't covered

Long-term care policies don't cover some conditions, either at all or for a time. Policies usually don't cover:

- **Preexisting conditions**. A preexisting condition is an illness you got medical advice or treatment for in the six months before the date of coverage. Long-term care policies may delay coverage of a preexisting condition for up to six months after the policy's effective date.
- **Mental and nervous disorders.** Long-term care policies don't cover some mental and nervous disorders, but they must cover schizophrenia, major depressive disorders, Alzheimer's disease, and other age-related disorders. A company can refuse to sell you a policy if you already have Alzheimer's.
- **Care by family members.** Most policies won't pay your family to take care of you. But some policies will pay to train them to be caregivers.

Deciding whether long-term care insurance is right for you

Long-term care insurance isn't right for everyone. It's usually a good idea if you have significant assets you want to protect. But it's probably not a good idea if most of your money goes to pay for utilities, food, or medicine.

To decide whether long-term care insurance is right for you, consider your health, assets, income, and whether you have other ways to get care.

Your health

Think about these things to decide whether long-term care insurance is right for you:

- **Your life expectancy.** The longer you live, the more likely you'll need long-term care. Think about how long your ancestors lived.
- **Your gender.** Women might need long-term care insurance more than men because they usually live longer.
- **Your family situation.** If you have a spouse, adult children, or other family members who can care for you at home, you might not need a policy that pays for home care services. Instead, you might need a policy that pays only for nursing home care.

- **Your family health history.** You might need long-term care if chronic or serious health conditions run in your family.

Your assets and income

Ask yourself these questions:

- What are my assets? Will they change over the next 10 to 20 years? Are my assets large enough to justify the cost of a long-term care policy?
- What's my annual income? Will it change over the next 10 to 20 years? Will I be able to afford the policy if my income goes down or the premiums go up?
- How much does the policy cost?
- How much will the policy cost if I wait until I'm older to buy it? Long-term care premiums are usually cheaper when you're younger.

When you apply for insurance, the agent will fill out a worksheet with you to decide whether long-term care insurance is right for you. The agent will also tell you the company's long-term care rate increases over the past 10 years. Although you can't use that to predict future rate increases, it can give you an idea about how much and how often rates have gone up for that company.

Deducting premiums on your taxes

You might be able to deduct part of your long-term care premiums from your taxes as a medical expense. To do so, your policy must be tax-qualified. You usually don't have to claim qualified long-term care policy benefits as taxable income.

If your policy is tax-qualified, it will say so in your policy.

Premiums for non-tax-qualified long-term care policies aren't tax-deductible. You might also have to pay taxes on any benefits the policy pays that don't pay for care.

Ask a tax attorney, accountant, or tax adviser about how long-term care insurance will affect your taxes.

Buying coverage

Companies look at your health history to decide whether to sell you a policy and at what price. Younger people and those with few medical issues usually get lower rates.

A company might ask you to answer questions about your health or take a medical exam. Answer all questions truthfully. If a company learns you left something out or gave wrong information, it could cancel your policy or refuse to pay your claim.

Types of long-term care policies

Individual policies

Most long-term care insurance policies are individual policies. You buy individual policies directly from insurance companies.

Group policies

Some groups offer long-term care policies to their members. Your employer might offer a group long-term care policy to its employees, for example. Group policies rarely require a medical exam. Some employers offer coverage to retirees and family members. Family members usually must take a medical exam to get coverage.

Insurance companies must let you keep your coverage after you leave the group or until they cancel the group plan. You can continue your coverage or change it to another long-term care insurance policy.

Federal and state government policies

Federal and U.S. Postal Service employees and retirees, active and retired service members, and their dependents can get long-term care insurance through the Federal Long-Term Care Insurance Program. The premiums are usually lower than the premiums for an individual policy.

If you or a family member is a state or public employee or retiree, you might be able to buy long-term care insurance under a state government program. In Texas, the Teacher Retirement System and several university systems offer group plans.

Association policies

Some associations offer long-term care insurance to their members. Policies sold through associations usually must let members keep their coverage after quitting the association. You usually must have a medical exam to get an association policy. Don't join an association just to buy an insurance policy. The association might decide to stop offering the policy.

Texas Long-Term Care Partnership policies

The Long-Term Care Partnership is a collaboration between private insurance companies, agents, and the state of Texas. It helps Texans meet their long-term care needs. Partnership policies have benefits, features, and consumer protections that aren't available with other long-term care policies.

Features include "dollar-for-dollar" asset protection, inflation protection, and coverage that follows you to another state if you move. Dollar-for-dollar asset protection means Medicaid will disregard one dollar of your assets for every dollar your policy pays in benefits. This can help you qualify for Medicaid even if your assets are above the eligibility limits. These assets also are protected from Medicaid liens and recoveries after you die.

Partnership policies are tax-qualified. You might be able to deduct part of the premium from your taxes as a medical expense. And the benefits you get from a partnership policy usually aren't taxable.

For more information about partnership policies, visit ownyourfuturetexas.org. See a list of companies selling partnership policies.

Long-term care rates

Insurance companies use these factors to decide how much to charge you:

- **Your age.** The younger you are, the lower your rates will be.
- **Your health.** Your premium will be higher if you have health problems.
- **Where you live.** Long-term care costs differ from one area to another.

- **How long you wait to get benefits if you have a claim.** The time you wait before the company pays benefits is called the elimination period. Policies with longer elimination periods have lower rates.
- **Benefit amounts and duration.** Rates are higher for policies that pay higher benefits and for a longer while.

Rate increases

The cost for long-term care services will increase over time. Insurance companies can raise your rates, but only if they raise rates for everyone with the same policy. A company must give you at least 45 days' notice of a rate increase.

A company can't raise your rates because your health gets worse or you have claims.

Policy renewals and cancellations

A company must renew your policy each year if you want it to. But it can refuse to renew your policy if:

- It learns you lied about your health when you bought the policy.
- You don't pay your premiums.
- You used all your benefits.

You can cancel your policy at any time. If you do, the company must return any unearned premium to you.

Unearned premium is money you paid that didn't go toward coverage. For example, if you paid six months of premium in advance but canceled the policy after two months, the company must refund four months of premium to you. Unearned premium doesn't apply to a single-premium policy or to policies that will be paid in full in one to four years.

After you've had your policy for two years, a company can't cancel it or refuse to pay claims because you gave wrong information on your application, unless the wrong information is fraudulent.

A company can't cancel your policy for nonpayment of premium unless you haven't paid the premium for at least 65 days past the due date. When your premium is 30 days past due, the company must tell you and someone you designated that it will cancel your policy.

If the company cancels your policy for nonpayment, it must reinstate the policy if you send proof that you didn't pay premiums because of a mental or physical impairment. You usually have about five months to do this. The company must also pay any claims for covered services. You'll have to pay premiums back to the date the policy lapsed.

How policies work

Companies will pay benefits when you're unable to perform certain activities of daily living (ADLs) or you have a cognitive impairment. The six ADLs are bathing, eating, dressing, using the bathroom, continence, and moving from place to place. You might also get benefits if you have a medical necessity or disability.

Tax-qualified policies require that you have a cognitive impairment, such as Alzheimer's, or be unable to perform two of the six ADLs for at least 90 days. You must also have a plan of care from a doctor or licensed health care practitioner.

Waiting period to get benefits (elimination period)

Policies have a waiting period between the time you start receiving a service and when the company starts paying benefits. For most policies, you'll have to wait 30 to 180 days for your policy to start paying.

Some policies base the elimination period on service days. Service days are days you actually received services. For example, if you get home health care three days a week, it would take 10 weeks before the policy would pay. Other policies base the elimination period on calendar days. Your elimination period would end as soon as the number of days passed.

You can lower your premium by choosing a longer elimination period. But remember that you'll have to pay out of pocket for a longer time.

Some policies have only one elimination period. Others have an elimination period for each new period of care. Before buying a policy, understand how the elimination period works.

Benefit period and amount

A benefit period is the length of time a policy will pay benefits. Benefit periods may range from one year to a lifetime.

Some companies use a benefit amount rather than a benefit period. The benefit amount is calculated by multiplying the daily benefit amount by the number of years of coverage. For example, if you choose a policy with a $100 a day benefit and two years – or 730 days – of coverage, your maximum benefit would be $73,000. If you don't use all your $100 a day benefit, your policy could last longer than two years.

You can usually choose the benefit amounts you want. To help you decide on your benefit amounts, check prices for nursing homes, assisted living centers, and home health care agencies in the area you'll live when you need care.

Optional features

Companies must offer you inflation protection and a nonforfeiture benefit. You'll have to pay higher premiums for these.

Inflation protection

It may be years before you need long-term care services. Long-term care costs will probably go up in that time. Inflation protection raises your benefits to help cover the higher cost of services.

The younger you are, the more important inflation protection could be. The cost of inflation protection is based on your age when you buy the policy.

The company must give you a comparison of policy benefits with and without inflation protection over a 20-year period. If you don't want inflation protection, you must reject it in writing.

Nonforfeiture benefit

Companies must guarantee that you'll get some of the benefits you paid for, even if you cancel your policy or lose coverage. This guarantee is called a nonforfeiture benefit. If you don't want it, you must reject it in writing.

Other features

Waiver of premium

Many policies have a waiver of premium provision. This lets you stop paying premiums while you're getting benefits. Companies either waive the premium when they make the first benefit payment or after a specified time, usually 60 to 90 days after the first payment. The waiver might apply to only some benefits. For instance, you might be able to stop paying premiums while you're in a nursing home, but not while receiving adult day care services.

Refund of premium

The company will refund some or all your premiums – minus any claims paid – if you cancel your policy. Your beneficiary will get the refund if you die. If you keep the policy, the company will use the refund to lower future premiums or increase future benefits.

Restoration of benefits

Some policies restore benefits to the original maximum amounts if you don't need long-term care services for a specified period, usually 180 days. For example, assume your policy has a maximum benefit period of three years and you were in a nursing home for a year. If you don't need additional long-term care services for at least six months after leaving the nursing home, your benefit period would be restored to the original three years.

Bed reservation

If you must leave a nursing home to go into a hospital, some policies will pay to reserve your bed in the nursing home for a specified number of days.

Shopping for long-term care insurance

Ask yourself these questions about the policies you're thinking about buying:

- **What types of care are covered and where?** Policies can offer a lot of services, including home health care, adult day care, assisted living facility care, and nursing home care. They must cover all levels of care from custodial to intermediate to skilled care.
- **What are the benefit triggers?** Policies won't pay until you've met requirements, such as being unable to perform activities of daily living or becoming cognitively impaired.
- **How much is the daily benefit amount for each type of care?** Most policies will pay a maximum daily amount for your care. You choose the maximum daily benefit when you buy the policy.
- **How long are benefits paid?** The chances of needing long-term care for more than five years are small. For most people, a policy covering three to five years is a good choice and more cost-effective. If you're worried about getting a disease that requires more care, such as Alzheimer's, buy lifetime coverage.

- **Does the policy have a preexisting condition waiting period? If so, how long is it?** Some policies have extended waiting periods if you have a preexisting condition.
- **What inflation protection is offered?** All companies must offer inflation protection. If you don't want it, you must reject it in writing. The company may have other options for inflation protection. Remember that to be prepared for inflation, you must pay a higher premium today or higher out-of-pocket costs later.
- **What's the nonforfeiture benefit?** Companies must offer you a guarantee that you'll get some of the benefits you paid for even if you cancel or lose coverage. If you reject the nonforfeiture benefit, you must do so in writing.
- **Is the policy tax-qualified?** If you buy a tax-qualified policy, you might be able to deduct part of the premiums you paid as a medical expense on your income taxes. Benefits paid from a tax-qualified policy are usually not taxable income. The policy must say whether it's tax-qualified or non-tax-qualified.
- **Can I upgrade the policy later?** Some companies let you change or raise your coverages or benefit amounts after you buy a policy. You'll probably have to answer questions about your health, though.

Shopping tips

- **Shop around.** Prices vary from one company to another, even for policies with similar benefits. Get quotes from several companies before you buy.
- **Look at factors other than price.** Buy only from licensed insurance companies and agents. Also make sure the companies you're considering are financially stable and have good customer service. Call our Help Line at 800-252-3439 to learn a company's financial rating and to verify that it has a license.
- **Consider the company's 10-year history of rate increases.**
- **Use an agent that specializes in long-term care insurance.** Having an agent with knowledge and experience can help you choose the right coverage for your needs.
- **Use your free-look period.** Insurance companies must give you at least 30 days to look over your policy after you get it. Read it carefully to be sure it has the benefits and features you want. If you return the policy within the 30 days, you'll get a refund of any premium you paid.

Alternatives to long-term care insurance

Limited long-term care or short-term recovery care

Limited long-term care and short-term recovery care policies have a benefit period of less than one year. Besides meeting criteria based on activities of daily living, the policy may require that you be hospitalized before you go to a nursing home.

Premiums are lower than for other long-term care policies. Short-term recovery care policies aren't tax-qualified. They also have fewer consumer protections than traditional long-term care. Before you buy a short-term policy, understand your rights to renew the policy, how it covers preexisting conditions, and whether the policy has a nonforfeiture benefit or inflation protection.

Life settlements

Some companies buy life insurance policies. They usually pay a percentage of the policy's death benefit. If you sell your life insurance policy, the buyer takes over paying the premiums and collects the policy's death benefit when you die.

To get a list of registered life settlement companies and brokers, call our Consumer Help Line.

Reverse mortgages

If you own a home, you can use income from a reverse mortgage to pay for long-term care. Reverse mortgages are special home loans for people 62 and over. They let you convert part of the equity you've built up in your home into income without having to sell the home or take out a second mortgage. You don't have to pay on the loan until your home is no longer your primary residence.

Resources

Texas Long-Term Care Partnership Program (state program to increase awareness of the importance of long-term care planning)

National Clearinghouse for Long-Term Care Information (U.S. Department of Health and Human Services)
202-619-0724

Medicare (questions about Medicare coverage, doctor and hospital directories, and requests for the Medicare and You handbook)
800-Medicare (800-633-4227)

Medicare Quality Improvement Organization (questions or complaints about quality of Medicare)
844-430-9505

Social Security Administration (questions about Medicare enrollment and eligibility)
800-772-1213

Texas Health and Human Services (services for older Texans)
800-252-9240

Texas Department of State Health Services (questions about health facility compliance and licensing)
888-963-7111

Texas Medicaid Long-term Care Services (questions about Medicaid coverage)
800-252-8263

2-1-1 (free information about resources in your area)

Texas Medical Board (questions about licensing and certification of doctors and complaints about care provided in a doctor's office)
800-248-4062