

## WHAT A GOOD LONG-TERM CARE POLICY SHOULD INCLUDE

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As nursing home and long-term care costs continue to rise, the Deficit Reduction Act has made it more difficult to qualify for Medicaid to pay for nursing home costs. Long-term care insurance can help cover expenses, but long term care insurance contracts are notoriously confusing. How do you figure out what is right for you? The following are some tips to help you sort through all the different options.

**Find a strong insurance company.** The first step is to choose a solid insurance company. Because it is likely you won't be using the policy for many years, you want to make sure the company will still be around when you need it. Make certain that the insurer is rated in the top two categories by one of the services that rates insurance companies, such as A.M. Best, Moodys, Standard & Poor's, or Weiss.

**What is covered.** Policies may cover nursing home care, home health care, assisted living, hospice care, or adult day care, or some combination of these. The more comprehensive the policy, the better. A policy that covers multiple types of care will give you more flexibility in choosing the care that is right for you. Another factor to consider is how many activities of daily living (ADLs) need to be impaired in order to trigger the policy. ADLs are things like eating, dressing, bathing, cooking, using the toilet, maintaining continence, and moving around. If possible, choose a policy that covers you when you can't perform at least two ADLs, one of which is bathing.

**Waiting period.** Most long-term care insurance policies have a waiting period before benefits begin to kick in. This waiting period can be between 0 and 90 days, or even longer. You will have to cover all expenses during the waiting period, so choose a time period that you think you can afford to cover. A longer waiting period can mean lower premiums, but you need to be careful if you are getting home care. The waiting period is not based on calendar days, but on days of reimbursable service, which can be very complicated. Some policies may have different waiting periods for home health care and nursing home care.

**Daily benefit.** The daily benefit is the amount the insurance pays per day toward long-term care expenses. If your daily benefit doesn't cover your expenses, you will have to cover any additional costs. Purchasing the maximum daily benefit will assure you have the most coverage available. If you want to lower your premiums, you may consider covering a portion of the premium yourself. You can then insure for the maximum daily benefit minus the amount you are covering. The lower daily benefit will mean a lower premium.

It is important to determine how the daily benefit is calculated. It can be each day's actual charges or the daily average, calculated each month. The latter is better for home health care because a home care worker might come for a full day, one day, and then only part of the day, the next day.

**Benefit period.** When you purchase a policy, you need to choose how long you want your coverage to last. In general, you do not need to purchase a lifetime policy – three to five years worth of coverage should be enough. In fact a new study from the American Association of Long-term Care Insurance shows that a three-year benefit policy is sufficient for most people. According to the study of in-force long-term care policies, only 8 percent of people needed coverage for more than three years. So, unless you have a family history of a chronic illness, you aren't likely to need more coverage. If you are buying insurance as part of a Medicaid planning strategy, however, you will need to purchase at least enough insurance to cover the five-year lookback period. That way you can transfer assets to your children or grandchildren before you enter the nursing home, use the long-term care coverage to wait out Medicaid's new five-year look-back period, and after those five years have passed apply for Medicaid to pay your nursing home costs (provided the assets remaining in your name do not exceed Medicaid's limits).

If you do have a history of a chronic disease in your family, you may want to purchase more coverage. Coverage for 10 years may be enough and would still be less expensive than purchasing a lifetime policy.

**Inflation protection.** As nursing home costs continue to rise, your daily benefit will cover less and less of your expenses. Most insurance policies offer inflation protection of 5 percent a year, which is designed to increase your daily benefit along with the long-term care inflation rate of 5.6 percent a year. Although inflation protection can significantly increase your premium, it is strongly recommended. There are two main types of inflation protection: compound interest increases or simple interest increases. If you are purchasing a long-term care policy and are younger than age 62 or 63, you will need to purchase compound inflation protection. This can, however, more than double your premium. If you purchase a policy after age 62 or 63, some experts believe that simple inflation increases should be enough, and you will save on premium costs.