

Long-Term Care Insurance: Deal or No Deal?

On July 17, 2007, the Commonwealth of Pennsylvania passed the Long-Term Care Partnership Program Act. The purpose of that Act was to permit the sale of Long-Term Care Insurance Partnership policies which were mandated by the United States Congress in the Deficit Reduction Act of 2005. Recently, the Commonwealth has begun mailing to its residents information about this program. In light of these developments, this article will explain the concept of Long-Term Care Insurance and focus on the partnership program. It will also give some insight as to who would most benefit from these policies.

Basically, long-term care insurance policies are issued by private insurance companies and guarantee a fixed monthly cash payment in the event that the insured requires daily personal care assistance. These policies almost universally pay a fixed dollar amount each day that the insured patient receives long term care. Long-term care insurance policies can cover skilled nursing home care, custodial care and home care. Many policies now also cover the care received at assisted-living facilities.

Long-term care insurance policies can be very expensive. The costs for such policies vary, depending on factors such as the age of the person purchasing the policy and the level of coverage being purchased. A person buying a policy at age 65 will pay considerably more than one who purchases a policy at 50. A policy that covers home care and assisted-living facility care is more expensive than one that does not. A purchaser can choose the length of coverage, which could range from one year to a lifetime of benefits. Obviously, the longer the benefit period, the more expensive the policy. Another option which affects the price of the premiums is inflation protection. Inflation protection increases the amount of daily benefits paid by a set percentage each year. Long-term care policies also have deductible, or elimination periods, which require the policyholder to pay for a specified period before the policy begins paying. The length of the elimination period also affects the price of the policy, shorter elimination periods costing more than longer ones.

In an effort to reduce the country's reliance on Medicaid, the Deficit Reduction Act of 2005 permitted the states to partner with insurance companies to sell long-term care insurance. In Pennsylvania, these policies are called "Qualified Partnership Policies." According to the state's insurance commission in a notice published in the Pennsylvania Bulletin on January 26, 2008: "Qualified Partnership Policies permit individuals to protect certain resources if eligibility under the Medical Assistance Program is ever needed. The protection of resources when determining an individual's eligibility for Pennsylvania's Medical Assistance Long-Term Care Program permits the disregard of specific resources equal to the amount of insurance benefits that were paid from a Qualified Partnership Policy."

What that means is that if, for example, a person purchased a "Qualified Partnership Policy" with \$200,000.00 in benefits, that person would then be able to, in effect, shelter

\$200,000.00 in additional resources if those policy benefits are exhausted and the policyholder then wishes to qualify for Medicaid. These are the long-term care insurance policies that are now being touted by the Commonwealth in its recent publicity campaign.

While the benefits of the Qualified Partnership Policies are obvious, they do come with a price for prospective policyholders. For example, these policies require people to purchase inflation protection, which is not required of those buying a standard long-term care insurance policy. Also, those who purchased a policy on or before February 8, 2006, would not be able to exchange their policy for a partnership policy. They would then have to purchase a new policy, which would more than likely result in a much higher premium being charged. Finally, it is important to know that partnership policies are not currently for sale in Pennsylvania, although they should be available shortly.

According to a Parade Magazine article dated February 17, 2008, in determining whether to buy any type of long-term care insurance policy, you should:

- **Buy from a company that has top financial ratings.** You want the insurer to last at least as long as you do.
- **Avoid policies you need a paycheck to pay for.** You must be able to afford premiums after you retire.
- **Don't buy more insurance than you need.** Few people require lifetime benefits. The average stay in a nursing home is just 2.5 years, and 43% of residents stay less than one year.
- **Don't choose a policy solely on the seller's recommendation.** Get a second opinion from a certified financial planner or an elder-law attorney.

Remember, those with little in the way of assets most likely do not need long-term care insurance, as they would presumably receive Medicaid benefits in paying for their long-term care needs. Those with a considerable amount of assets would be able to pay for long-term care directly and would not need to purchase a long term care insurance policy.

The bottom line is that if you are considering the purchase of a long-term care policy or a partnership policy, make sure you consider all your options and discuss it with someone who is knowledgeable and who you trust.