Long Term Care Insurance:

The Basics

“What is Long Term Care (LTC)?” Simply put, long
term care is when someone
needs help with their daily ac-

tivities. Activities like bathing,
dressing, hygiene, going to the
bathroom, eating, and getting
around. This can happen from
just getting old or because of
some illness or an accident.
Also, a person may need care
and supervision due to a cogni-
tive impairment such as Alz-
heimer’s disease. Most policies
start paying benefits if a person
is expected to need assistance
with two of the above men-
tioned activities for 90 days or
more.

Most of this care is called
“custodial care” and is not cov-
ered by health insurance and
Medicare beyond 100 days.
For example: Mr. Smith is 56
years old and gets diagnosed
with Parkinson’s. He does not
need care today, but he knows
that he is going to need help in
the future. His health insurance
will pay for his doctor and hos-
pital, but not for the years of
help that he will need with
bathing, dressing, eating, and
getting around. Again, this is
“custodial care” and is barely
covered by most health insur-
ance and Medicare. At this
point Mr. Smith will have to
pay for his care out of his sav-
ings, have his family or the
state provide care, or have LTC
insurance pay.

Although long term care
insurance is very different be-
tween companies, most policies
share some basic features.

The Benefit Account: If
you needed long term care to-
day, you could spend any-
where from $20,000 to over
$100,000 a year from your
own savings. When you buy
long term care insurance you
buy a “benefit account” or a
“bag of money” for the spe-
cific purpose of long term care.
The bigger your benefit ac-
count, the more expensive the
policy will be. There are fun-
damentally two types of bene-
fit accounts: individual and
shared.

The Monthly or Daily
Maximum: Let’s assume that
Mr. Smith bought a LTC pol-
icy which has a benefit ac-
count worth $200,000. If he
has a monthly maximum on his
policy of $3500, then that is
the most that the policy will
pay from the benefit account
on a monthly basis. This fea-
ture controls how much the
policy will reimburse on a
monthly or daily basis if you
need care. A LTC policy will
last as long as there is money
in the benefit account.

Monthly or daily maxi-
mums function very differen-
tly between policies and com-
panies and should be explained
clearly. Also, because the cost
of care is vastly different
around the country, where in
the country you reside will
affect how much you choose
for this amount.

Inflation Protection: The
cost of care in twenty years is
going to be significantly higher
than it is today. Most inflation
riders allow ALL of your pol-
icy benefits to grow over time.
This is a very important rider
and there are sometimes an
array of choices with a signifi-
cant impact on policy benefits.

The Elimination Period
(Deductible): This is the wait-
ing period before the policy
starts to pay. For example,
Mr. Smith has a chronic illness
and needs care starting tomor-
row and he is going to need it
for the next three years: When
will the policy start paying?
30 days – 90 days? The longer
the elimination period (the
waiting period), the less ex-
spensive the premium. A cau-
tionary note: If Mr. Smith’s
care is costing $3500 a month,
a 90 day elimination period
could cost him more than
$10,000 out of his own pocket
before the policy begins pay-
ing. Also, there are vastly dif-
ferent types of elimination pe-
riods, some much better than
others.

This article does not ad-
dress the important details and
differences between policies
and companies. For this rea-
son, please consult with some-
one who is knowledgeable
about long term care insurance
before making any decisions.

Other important items:
• Picking the Right Company
• Indemnity vs. Reimbursement
• International Coverage
• Shared Care Rider
• Survivorship Benefit Rider
• Waiver of the Homecare Elim-
nation Period Rider

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