

Is the small print robbing you of your long term care insurance benefits?



Corporate Compensation Plans, Inc.
457 Main Street - Danbury, CT 06811
203.792.7300 - www.corpcompinc.com

Determining what *type* of a long term care insurance policy to buy may be one of the most *important* financial decisions you will ever make. Therefore it is *essential* to understand your benefits and how they will be paid to you.

Unfortunately most long term care insurance companies compete on the basis of price – not benefits. To emerge the winner, their policies are designed to produce the *lowest* possible premiums.

At first glance this seems commendable, particularly because long term care insurance can be costly. But there are *no* bargains in long term care insurance and, to create the lowest possible premium, many policies contain *severe* benefit limitations, restrictions, and exclusions.

Understanding these contractual limitations – or even knowing they exist – is very difficult because of the complexities of long term care insurance contracts and the jargon in which they are written. Consequently, many buyers of long term care insurance may never receive the insurance benefits they *believed* they had purchased – or might experience far more *difficulty* in collecting those benefits than expected.

So let's talk about the small print you *don't* want to find in your policy – and what can be done to avoid it.

The Limited Home Care Small Print

Betty has Alzheimer's and her family wants her to receive care at home. They arranged for a home caregiver to provide services for 16 hours a day at a rate of \$20 an hour – a total of \$9,600 a month. When they looked at Betty's long term care insurance policy there was relief to see that it had a \$9,000 monthly benefit and so would cover almost all of the costs for the caregiver.

When the family submitted the caregiver's monthly bill for \$9,600 to the insurance company, they fully expected to be paid \$9,000. Instead, what they received was a check for only \$4,500.

When they asked, "why," the insurance company explained that Betty's policy had a 50% home care benefit. Her policy works like this: while Betty could be paid \$9,000 a month if she were in a *nursing* facility, the *maximum* benefit while at *home* was 50% of that amount. As a result, the insurance company paid only \$4,500.

A reduction of benefits for home care is particularly *objectionable* (and egregious) for the following reasons:

- Most people who need long term care want to receive it in the *privacy* of their own homes with their loved ones nearby.
- Most long term care is very *personal* in nature and can involve services that one does not want to share with strangers.

- A reduction in home care benefits can actually *force* people into nursing homes in order to collect the full benefit payment – the very place they are trying to avoid.
- Under certain conditions, it can actually be more *economical* to receive care at home rather than in a facility.

What you can do:

Make certain your long term care insurance policy will pay *full* benefits for home care. If it includes a lesser percentage for home care be sure it pays it as a “cash” benefit.

The Service Day Elimination Period Small Print

When Guy bought his long term care policy he noticed that it included a 90-day *elimination* period. He thought it meant that 90 days after *qualifying* to receive his benefit payments, he would start receiving them.

To *qualify* to receive long term care insurance benefits you must prove that you are *chronically ill*. Being chronically ill means that you either have a severe cognitive impairment such as Alzheimer’s, or that an injury, illness, or aging prevents you from performing two or more of the *activities of daily living*, which are eating, bathing, dressing, moving around, toileting, and continence. With proof from your doctor of a qualified chronic illness, the insurance carrier should begin benefit payments at the end of your chosen elimination period. For example, if your policy has a 90-day elimination period, you would be eligible to receive benefits at the end of that timeframe.

Two years after purchasing his policy, Guy suffered a severe back injury in an automobile accident and immediately began a regimen of care and therapy that was provided every *third* day for 90 days – a total of 30 days of services. A month later he sent in his first claim form expecting to receive his benefit check.

To his surprise the insurance company refused to pay. The reason: to count as a day towards satisfying the *definition* of its elimination period, *qualified reimbursable* services had to be received. Since Guy had only received services for 30 days during the 90-day period, an *additional* 60 days of qualified reimbursable services was needed before he could collect benefits.

What you can do:

1. Buy a policy that has a *calendar day* elimination period. With this provision, once you have been deemed “chronically ill”, *each* day counts towards the elimination period day count *regardless* of whether or not there are reimbursable expenses.
2. Buy a policy with a “zero” day elimination period for *home care*. This means that if you have care given to you in your home the elimination period is *waived* and your benefit payments can start immediately.
3. Consider a policy that, after you have qualified as “chronically ill”, counts *every* week towards the elimination period as long as you have incurred a covered care expense for, at least, *one* day in that period. For example, if you incurred care expenses just *one* day a week for 13 weeks (91 days), a

90-day elimination period would be *completely* satisfied. In this case just 13 days of covered care satisfied the *entire* 90-day elimination period.

The Reimbursement Model Small Print

Joan bought a long-term care insurance policy with a daily benefit of \$200. After a stroke she qualified for insurance benefits. Her physician certified her as “chronically ill” and the insurance company approved her claim. Therefore, once the elimination period was satisfied, she fully expected to receive the \$6,000 monthly benefit – \$200 a day times 30 days.

At the end of the first month this list of bills and receipts was submitted to her insurance company:

- \$100 a day for a caregiver for 15 days – a total of \$1,500.
- \$300 a day for intensive physical therapy for 15 days – a total of \$4,500.

Since the expenses totaled \$6,000, Joan believed she would receive a benefit payment in that amount. Instead she received a check for only \$4,500.

When Joan complained the insurance company pointed out that she had purchased a *reimbursement* policy with a *daily* benefit *limited* to \$200. That meant on the days with expenses of \$100, she would be reimbursed \$100 – not the expected \$200. Unfortunately, it also meant that on the days expenses hit \$300, benefit payments would be *limited* to the \$200 maximum daily benefit.

In addition, Joan also learned that her policy would only pay for expenses that were *approved* by the insurance company, and that list did not include:

- Care by family members
- Household upkeep and maintenance
- Medical equipment
- Cost of transportation to adult day centers or doctor appointments
- Cost for technology such as robotics and smart medicine

What you can do:

1. If you buy a reimbursement policy, be sure it has a *monthly* expense limit rather than a daily limit. This allows payment of your total monthly benefit *without* regard to the daily limit. For example, a policy with a \$200 per day benefit totals \$6,000 for the month. For 5 days during a month you are charged \$1,200 a day for intensive therapy. With the monthly reimbursement provision you will receive the full benefit amount of \$6,000 – with the daily provision you would receive only \$1,000 (5 days times the \$200 limit).
2. Instead of the reimbursement model, buy a policy with either a *cash* or an *indemnity* benefit.

A cash plan *pays 100%* of the daily or monthly benefit *regardless* of the amount and type of long term care expenses incurred. This means your policy will pay 100% of your benefit once you are deemed “chronically ill” – even if *no* carrier approved expenses are incurred. The “cash” policy – from the standpoint of ease of collecting benefits and flexibility – is by far

the best policy to own. However not many insurance companies offer it and it can be expensive.

An *indemnity* plan will pay the full daily benefit as long as there is at least \$1 of approved expenses in that day. For example, when your indemnity policy has a \$300 daily benefit and a \$50 cost for approved care is incurred on a given day, you will receive the *full daily benefit of \$300*. (But be careful: the small print in some insurance policies *limits* the amount of the indemnity benefits to be paid.)

3. Consider a reimbursement policy with a “cash” benefit rider. For example, a policy with a \$12,000 monthly reimbursement benefit that includes a 33% cash benefit rider would pay you *\$4,000* a month for care without proof of reimbursable expenses.

The Indemnity Benefit Small Print

Ralph purchased his long term care insurance policy with an *indemnity* benefit of \$400 per day. The sales person had explained that “indemnity” is a very valuable benefit because the *entire* \$400 benefit would be paid for each day that covered expenses are incurred, *regardless* of the amount of the expense. His understanding was that if, for example, \$50 of expenses was incurred during a day, the \$400 benefit would be paid.

Shortly after purchasing his policy Ralph was seriously injured in an automobile accident. After returning home from the hospital, he started a daily regimen of physical therapy costing \$150 a day.

When Ralph submitted his first claim he expected to receive \$400 for each day of the month because, while his actual daily charges were only \$150, he believed his indemnity benefit guaranteed payment of the *full* benefit.

However, instead of receiving a check in the amount of \$12,000 for the month (\$400 a day x 30 days) he was paid only \$8,400.

When Ralph called the insurance company for an explanation, the representative told him that - had he read his policy more carefully - he would have noticed that the “indemnity” benefit was *limited* to the *Per Diem* amount described in Section 7702B of the Internal Revenue Code. Since the 2009 “Per Diem” is \$280, Ralph’s indemnity benefit could *not* exceed that amount. As a result his monthly payment was \$8,400 (30 days x \$280). Over the course of a year, the difference in benefits received vs. benefits expected could be greater than \$43,000.

What you can do:

The “indemnity” benefit can be a valuable addition to your long term care insurance policy, but make certain there are no limitations or restrictions in it.

Recommendations

Insurance companies have a *right* to include whatever restrictions, limitations, and exclusions in their long term care insurance policies they believe to be necessary – and they can write them in small print if they choose to do so. Along with that right, however, are an obligation and a responsibility to clearly and concisely explain their small print to their policyholders.

Unfortunately, these explanations do not seem to be forthcoming. In fact, long term care insurance policies seem to be becoming even more complex as a myriad of new options and riders are added.

With that in mind, here is a checklist to use when shopping for the valuable protection that long term care insurance can provide to you and to your family. Using this list can avoid unpleasant surprises at claim time:

- √ *Don't* buy a policy with *less* than 100% home care benefits (unless it has some redeeming features such as a cash benefit for home care). Nearly 80% of long term care is given at home. So you want to make sure you are completely covered.

- √ *Don't* buy a policy with a *service* day elimination period. Instead *do* make certain your policy contains a *calendar* day period.

- √ *Do* consider buying a *zero* day elimination period for home care. Most care starts at home and with the “zero” day feature benefit payments can start immediately.

- √ *Don't* buy a reimbursement policy with a *daily* expense limit. Instead *do* make sure it contains a *monthly* limit.

- √ *Do* consider buying a policy with either a 100% or partial *cash* benefit. “Cash”, from your standpoint as the consumer, is the most favorable of all long term care insurance payout models because – just like disability insurance – once you qualify for benefits you will be paid. You can use your benefits for expenses that reimbursement models won't cover – and you don't have to bookkeep and submit expense receipts.

- √ *Do* consider buying a policy with an *indemnity* benefit if “cash” is not available.

Of course, there is no such thing as a “perfect” long term care insurance policy. Benefit and premium trade-offs might have to be made. However, this checklist will help make certain that you completely understand what you are buying – and why you are buying it.

For a FREE analysis of your Long Term Care Insurance policy, click [here](#).