

Chapter 7

Long-Term Care Insurance

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The headline in *The Denver Post* on November 29, 2016, sounded the alarm: “Colorado Must ‘Act Now’ to Address Aging Population, Rising Costs, Study Says.” Reporter Brian Eason began the front-page, above-the-fold article by telling the story of a 92-year old Coloradoan who had saved \$750,000 to “live out her days comfortably.” Unfortunately, she suffered a stroke and spent her savings on care. First, her continuous care at home cost \$150,000 per year. Next, care in assisted living drained \$85,000 annually. Eventually, she had “spent all she had and was forced to rely on Medicaid and her daughter to make ends meet.”

No doubt, Colorado’s state budget will be severely impacted as the population ages. According to the article:

- By 2030, Medicaid costs for seniors in the Centennial State are expected to more than double from \$1.04 billion to \$2.325 billion, according to the Colorado Futures Center.
- From 2010 to 2025, the number of those retiring is expected to increase by 74 percent compared with only a 27 percent increase in the labor force over the same time period.
- By 2030, Colorado’s senior population is projected to increase by 68 percent, or 508,000 people, over today’s levels.
- In 2030, informal caregiving is forecast to cost caregivers \$6.6 billion in lost wages, lost benefits, and other expenses. In 2015, the cost was \$3.7 billion.

From a micro level, the financial, emotional, physical, and relational consequences of an extended care event to one’s retirement plan, estate, and family members can be devastating. Many people choose not to confront the issue of long-term care planning until a chronic, debilitating illness or accident has already occurred, resulting in limited, and sometimes undesirable, choices.

As longevity continues to increase, more and more Americans will need long-term care at some point in life. Those who wish to preserve independence, afford high-quality care, and protect assets would be wise to plan ahead. For those who are still healthy and can afford the premiums, some form of long-term care insurance may be the appropriate risk management tool. For those who already need extended care or are not healthy enough to purchase long-term care insurance, a number of solutions are now available.

7-1. Defining Long-Term Care

To define long-term care (LTC), let us begin by explaining what LTC is not. Long-term care is not acute care, which is medical care intended to cure or treat an individual with a critical illness or injury. Acute care aims to restore the patient's health to the previous level of functioning. Typically, acute care is provided in a hospital, perhaps an intensive care unit, by skilled medical professionals. Acute care is financed primarily by private health insurance, or Medicare for those 65 years of age and older.

Long-term care is also not subacute care, which is less intensive than acute care. Subacute care is usually provided in a regular hospital inpatient unit, lasts for a limited period of time, and is intended to restore the patient's health. Subacute care may be provided instead of or after acute care. Like acute care, skilled medical professionals provide subacute care, and it is covered by health insurance or Medicare.

Long-term care is chronic care — care provided over an extended period of time, often without expectation of a cure. LTC services include medical and non-medical care, providing for the health or personal needs of the care recipient. Normally, LTC does not require skilled medical professionals, as many people begin by receiving care at home provided by family, friends, or neighbors. Loved ones acting as informal caregivers often deliver custodial care, which may include assistance with household chores; providing transportation; shopping; managing finances; helping with bathing, dressing, eating, or using the restroom; or supervising one with dementia. When home care is not an option, LTC may be provided in formal (paid) settings such as adult day care centers, assisted living facilities, skilled nursing facilities, or hospice facilities. Because a medical professional is usually not required for supervising one with dementia, or bathing, dressing, or feeding a loved one, long-term care is not generally covered by health insurance or Medicare. The primary sources of funding for long-term care are private funds, Medicaid, and some form of long-term care insurance.

7-2. Who Needs Long-Term Care

The need for care can strike at any age and may last weeks, months, or years. According to www.longtermcare.gov, 70 percent of people turning age 65 can expect to use some form of long-term care during their lives. the AARP Public Policy Institute ("Long-Term Support and Services Fact Sheet," March 2017), 52 percent of people who turn age 65 today will develop a disability severe enough to require long term support services. Sixty percent of adults needing care, roughly 7 million adults, were 65 or older. Forty-seven percent of men 65 and older will need care in their lifetimes, compared to 58 percent of women. In 2014, *USA Today* reported in "Do Retirees Need Long-Term Care Insurance?" that, for married couples, the chance that one spouse will need care is 91 percent.

While the odds of needing long-term care services increase exponentially as we get older, the need for care can occur at any age. Although 69 percent of people age 90 or older have a disability, 8 percent of people between the ages of 40 and 50 have a disability that could require long-term care services (www.longtermcare.gov).

7-3. Risk Factors

For some, an unhealthy lifestyle, such as a poor diet, smoking, lack of exercise, or obesity, increases the chance of needing long-term care. Some with chronic conditions such as diabetes, chronic obstructive pulmonary disease (COPD), or other diseases may be more likely to need care. According to the Rocky Mountain Multiple Sclerosis Center, Colorado has always been thought to have an extremely high incidence of multiple sclerosis, a disease in which 80 percent of patients develop the condition between ages 16 and 45. In fact, multiple sclerosis is the leading cause of disability in young women and the second leading cause of disability in young men (www.mscenter.org/content/view/145/180/). Naturally, those with certain hereditary health conditions have increased risks.

Good health may lead to longevity, and longevity generally increases the likelihood of needing help someday due to frailty or disease. It is common knowledge that women on average outlive men. In 2013-2014, 67 percent of nursing home residents were females (National Study of Long-Term Care Providers 2013-2014, https://www.cdc.gov/nchs/data/series/sr_03/sr03_038.pdf), and 64 percent of all new long-term care insurance claims opened in 2014 were for females (the *2015-2016 Sourcebook for Long-Term Care Insurance Information*). Also, according to the Alzheimer's Association (www.alz.org), 1 in 3 seniors 85 and older dies with Alzheimer's Disease or another form of dementia.

People living alone are more likely to need formal LTC services from a paid provider and tend to enter an assisted living facility or nursing home sooner than someone living with a companion. Finally, physically active adults may be more prone to an accident while skiing, cycling, or performing other activities.

7-4. Where Long-Term Care Is Provided

Many people erroneously believe that most long-term care services are provided in nursing homes. In fact, most care is received at home. LongTermCare.gov reports that 80 percent of elderly people receiving care for a chronic illness are in private homes, while 13 percent are in nursing homes and 5 percent are in assisted living and other residential care facilities. As reported in a November 18, 2015 Pew Research Center article entitled "5 Facts About Family Caregivers," there are 40.4 million unpaid caregivers of adults ages 65 and older in the United States, and nearly one-quarter of adults ages 45 to 65 care for an aging adult. Among the caregivers, 22 percent provide help to two people; more than a third have been providing care for five or more years. Six in 10 caregivers are employed, with around 50 percent working full-time. Forty-four percent of caregivers are caring for a parent, 18 percent for a friend or neighbor, 16 percent for a grandparent, and 22 percent for another relative. According to AARP, 66 percent of disabled older people who receive care for a chronic illness at home get all of their care from family members — mainly wives or adult daughters. Twenty-six percent receive a combination of family care and paid help, while only 9 percent receive all of their care at home from paid caregivers. (Feinberg L., testimony before Commission on Long-Term Care: "Populations in Need of LTSS and Service Delivery Issues." AARP Public Policy Institute, July 17, 2013.)

The Alzheimer’s Association, in a publication entitled “2013 Alzheimer’s Disease Facts and Figures,” states that seven in 10 people with Alzheimer’s Disease and other dementias live at home, and 80 percent of the care is provided by unpaid caregivers — most often family members. However, 67 percent of people who plan to receive care from a loved one have not asked their loved one. (“50 Must-Know Statistics About Long-Term Care,” *Morningstar*, July 26, 2015.)

Claims data from the long-term care insurance industry provides more evidence that most care is outside of facilities. According to Genworth Financial, which insures more Americans with long-term care insurance than any other company, from December 1974 through December 2017, 68 percent of LTC insurance claims began with home care, 13 percent began in assisted living facilities, and 18 percent of claims started in nursing homes.

Other community-based services include adult day care centers and continuing care retirement communities (also known as life care communities). Respite care, which gives the primary caregiver a break from caregiving responsibilities, may be provided at home or in a facility.

7-5. Cost of Long-Term Care

The following data was taken from the Long Term Care Group’s cost of care survey, which measured 2017 costs (<https://www.newyorklife.com/products/long-term-care-costs/>):

	Denver/Boulder/ Greeley	Colorado Springs	Fort Collins/ Loveland	Non-Metro
Skilled Nursing Facilities				
Private Room Annual Rate	\$110,945.40	\$107,372.05	\$106,218.65	\$89,914.10
Semi-Private Room Annual Rate	\$99,842.10	\$92,604.15	\$94,892.70	\$77,405.55
Assisted Living Facilities				
2-Bedroom Monthly Rate	\$5,689.91	\$4,782.09	\$5,651.25	\$4,807.50
1-Bedroom Monthly Rate	\$5,112.91	\$4,057.44	\$4,307.37	\$4,138.75
Studio Monthly Rate	\$4,417.45	\$3,360.22	\$3,965.28	\$3,659.69
Registered Nurse Per Visit Rate	\$130.03	\$129.05	\$134.78	\$143.68
LPN Per Visit Rate	\$113.89	\$127.79	\$129.02	\$122.15
Home Health Aide Hourly Rate	\$26.17	\$27.69	\$27.44	\$30.91

The second component in the financial cost of long-term care is the length of time care is needed. According to “Long-Term Care Services and Supports for Older Americans: Risk and Financing Research Brief 7/1/15” (updated February 2016), the average projected need for long-term support services for someone turning 65 is 2.5 years for women and 1.5 years for men. However, when removing those that do not need care, the average duration of care for women is 4.4 years and 3.2 years for men. Eighteen percent of women need care for at least five years; 10 percent need care for more than five years.

Given the prevalence of Alzheimer’s Disease in older people, one should also consider that, on average, a person with Alzheimer’s typically lives four to eight years after diagnosis, and can live as long as 20 years depending on various factors (www.alz.org/alzheimers_disease_stages_of_alzheimers.asp).

According to Genworth Financial, 40 percent of claims last less than one year due reasons such as recovery from an acute illness, or a sudden, short-term, terminal illness. For claims lasting more than one year, the average claim lasts 4.3 years, and 18 percent of claims will last more than 5 years. Note also that 70 percent of claim dollars have been paid to female clients, and 51 percent of all claim dollars involve cognitive disorders, including dementia.

Scant reliable data exists to report an average length of need for home care, as much of this form of care is provided by family and friends. The financial costs can be enormous, should one need care for a few years at home, then for two years in assisted living, and finally two years in a nursing home, not to mention the physical and emotional toll to the family.

A third component in the financial risk of needing care that is often overlooked is the effect of inflation on future costs for extended care. According to the annual Genworth Cost of Care Survey 2018, national rates for private nursing home rooms increased 3.64 percent annually over the past 5 years, while semi-private rooms increased by 3.44 percent. In Colorado, private room rates increased by 4.36 percent and semi-private nursing home rooms went up 4.12 percent. Assisted living facilities increased 3 percent nationally and 2.59 percent in Colorado. The cost of home health aides increased 2.51 percent nationwide and 3.56 percent in Colorado.

7-6. Paying for Long-Term Care

Many Americans erroneously believe that Medicare will pay for LTC services. According to www.medicare.gov, “Long-term care is a range of services and support for your personal care needs. Most long-term care isn’t medical care, but rather help with basic personal tasks of everyday life, sometimes called activities of daily living. Medicare doesn’t cover long-term care (also called custodial care), if that’s the only care you need. Most nursing home care is custodial care.” Essentially, Medicare provides for rehabilitation by skilled healthcare providers. Most people who need LTC need personal or custodial care, that is, help with bathing, dressing, eating, etc., or supervisory care due to dementia. While it is true that Medicare can provide limited home health care and up to 100 days of nursing home care, it may prove costly to rely on Medicare to pay for any services. According to the

2012 Edition of the “Medicare and Medicaid Statistical Supplement” from the Centers for Medicare and Medicaid Services, the average number of days covered by Medicare in 2011 was 27. Private or employer-based health insurance works much the same. The Department of Veterans Affairs (VA) may provide LTC for service-related disabilities or for certain eligible veterans. However, the availability of services and the location of participating facilities for veterans may be an issue.

Medicaid is the state/federal assistance program that will pay the LTC costs for needy persons. To be eligible, one must have very limited income and assets. Often times, financial eligibility is met by spending down non-exempt assets on long-term care, depleting one’s estate and preventing the passing of an inheritance to loved ones. Married couples may also see retirement plans and other assets depleted while paying for the care of one spouse, leaving little for the healthy, surviving spouse. Medicaid pays for nearly half of all LTC costs in the United States.

Most people pay privately for LTC until their funds are depleted. One solution is some form of long-term care insurance.

7-7. Reasons People Purchase Long-Term Care Insurance

As Rosalyn Carter once said, “There are only four types of people: those who have been caregivers, those who are caregivers, those who receive care, and those who will be caregivers in the future!” People who execute long-term care planning have often times been through a care event with a loved one and wish to protect themselves and their family from the devastating consequences of long-term care.

For many, long-term care planning includes three basic goals:

- 1) Should I someday need care, keep me at home for as long as possible, without severely impacting the lives of my loved ones around me.
- 2) Preserve the retirement plan and life savings so they can provide for the continuing lifestyle and obligations of my spouse or partner, and preserve the inheritance for those to whom I wish to leave a legacy.
- 3) Avoid destroying other planning such as an estate plan, business succession plan, charitable giving plan, tax avoidance plan, and more.

For families, if extended care is needed for a loved one, the monthly income stream allocated for meeting obligations and maintaining lifestyle will be disrupted and reallocated. LTC insurance provides a stream of funds to pay for care and ensures that the loved one is safe and receiving quality care. This allows the spouse/partner and family to supervise the caregivers instead of being the caregivers. For those without a spouse and/or children, LTC insurance helps allay the fear of running out of money by paying for healthcare needs.

7-8. Stand-Alone Long-Term Care Insurance

The first type of long-term care protection to be discussed herein is known as “traditional” or “stand-alone” long-term care insurance. “Traditional” refers to the fact that such policies have been offered for some 30 to 40 years. “Stand-alone” means that, as a form of health insurance, this type of coverage does not include a death benefit or cash surrender value upon cancellation.

Most modern stand-alone LTC insurance policies offered today are comprehensive, paying for home care, adult day care, assisted living facilities, nursing home care, hospice care, and respite care from a single pool of funds (also known as the lifetime maximum benefit). In the past, many policies allowed for two pools of funds: one benefit account for care in a facility, and a second pool for care at home. This form of LTC insurance, still available from some insurance companies, may be less flexible than the comprehensive form: if the policyowner exhausted his or her home care benefit account, no further benefits were payable until the policyowner received care in a facility.

The vast majority of policies offered today include two standardized ways to trigger the benefits of the policy. One trigger starts the benefits should the policyowner need substantial supervision due to a cognitive impairment, such as Alzheimer’s, dementia, or senility. The other trigger is satisfied once the policyowner has a certification from a qualified healthcare practitioner that he or she requires stand-by or hands-on assistance with two or more out of six activities of daily living (ADLs). The six ADLs are bathing, dressing, eating, toileting, transferring, or continence. The certification includes an expectation that the care need will last at least 90 days. The satisfaction of only one benefit trigger is required. Provided the policyowner triggers his or her benefits, a plan of care is written by a licensed healthcare practitioner, ensuring appropriate levels of care and care settings.

There are three forms of stand-alone LTC insurance: reimbursement, cash indemnity, and indemnity. The most common form of LTC insurance, reimbursement policies, require that the claimant provides receipts for long-term care services covered by the policy. The insurance company then reimburses the claimant for actual expenses up to the daily or monthly maximum benefit of the policy at the time of claim. This is known as the “expense incurred method.” Reimbursement policies typically require that the care services be provided by someone other than a spouse or family member. Some policies allow for home care to be from unlicensed providers, including friends and neighbors. One advantage of reimbursement plans is that any unused daily or monthly benefit remains in the benefit account for future use.

Cash indemnity plans are the most expensive form of LTC insurance, but are also the most flexible. Cash indemnity plans follow the “disability method”: the full daily or monthly benefit is paid to the policyowner regardless of who is providing the care, and regardless of whether care was received that day or month. No proof of covered services is required. No doubt, future technology will deliver LTC in ways we may not even fathom today (*e.g.*, robots, sensors, monitors, etc.) — a cash indemnity policy can be used to pay for these futuristic methods. Drawbacks of cash plans include premium levels that may be double that of reimbursement plans, benefits that may exhaust faster than reimbursement plans, and concern that the benefits paid out to a power of attorney or family member of the policyowner are actually used for his or her care needs.

Like reimbursement policies, indemnity plans require proof of covered services from a qualified provider other than a family member or spouse. Unlike reimbursement plans, indemnity policies pay the full daily benefit (also known as a *per diem*) regardless of the actual cost of care. To illustrate, assume an indemnity policy has a daily benefit of \$200. If the policyowner receives an hour of home care from an agency, the full \$200 is paid to the policyowner, regardless of the cost of the hour of care. If the actual cost of the hour of home care was, say, \$60, the policyowner pays the agency for the hour of care and has \$140 left over to be used for any other purpose. Like cash plans, indemnity plans are not as common as reimbursement policies, and the benefits may be paid out faster than with a reimbursement policy. The premiums for indemnity policies are not substantially higher than the premiums for reimbursement policies.

7-9. Policy Building Blocks of Stand-Alone LTCi

Stand-alone LTC insurance policies include four building blocks: benefit amount, benefit period, inflation protection, and an elimination period.

The benefit amount is how much per day, per week, or per month the policy pays for care. A monthly benefit is the most flexible form of benefit amount, as one's benefit does not have a daily maximum benefit, but rather a monthly maximum benefit. For most comprehensive policies, the benefit amount is the same for all types of care (*e.g.*, nursing home, assisted living, and home care benefit). Some policies allow for the home care benefit to be a percentage below or above the nursing home benefit.

The benefit period may be thought of as the minimum length of time the benefits last before the policy is exhausted. Choices may include one, two, three, four, five, six, or 10 years. In 2013, nearly all carriers discontinued offering an unlimited or lifetime benefit period. Let us assume a client has purchased a five-year benefit period and a \$200 daily benefit. The resulting lifetime maximum benefit is \$365,000 (1,825 days multiplied by \$200). This lifetime maximum benefit may also be referred to as a benefit account, pool of funds, or bucket of money. If it is a reimbursement policy, the benefits would last at least five years. If the actual cost of care is less than \$200 per day, the policyowner is reimbursed the lesser amount, and future benefits remain in the lifetime maximum benefit for future use. In this example, the benefits stretch beyond the five-year benefit period.

All companies in Colorado must offer inflation protection. Three of the most common offers are described here, although more choices exist. The 5 percent automatic compound inflation rider increases the benefit amount by 5 percent of the previous year's amount each year. The 3 percent automatic compound works much the same, except the increases equal 3 percent each year. The 5 percent automatic simple inflation calculates 5 percent of the original benefit amount, then adds that same amount each anniversary date of the policy. The following table illustrates the future value of the benefit amount and lifetime maximum benefit over time using each of the three choices.

Year	5% Automatic Compound		3% Automatic Compound		5% Automatic Simple	
	Daily Benefit	Max Benefit	Daily Benefit	Max Benefit	Daily Benefit	Max Benefit
1	\$200	\$365,000	\$200	\$365,000	\$200	\$365,000
10	\$310	\$566,235	\$261	\$476,242	\$290	\$529,250
20	\$505	\$922,337	\$351	\$640,030	\$390	\$711,750
30	\$823	\$1,502,389	\$471	\$860,146	\$490	\$894,250
40	\$1,341	\$2,447,234	\$633	\$1,155,965	\$590	\$1,076,750

The elimination period is the number of days the policyowner receives long-term care before benefits begin. The elimination period might also be thought of as a waiting period or a deductible: the longer the elimination period, the lower the premium. Common choices include zero, 30, 60, 90, 180, or 365 days. Most policies require that the claimant actually receive formal care from a covered provider on a given day in order for that day to count towards the elimination period. Available as a built-in feature in some policies or as a rider in others, a calendar day elimination period does not require that one receives care for that day to count. Instead, every day the insured is otherwise benefit eligible counts towards the elimination period, even if formal care services are not required or received. Today, most policies include a cumulative for life crediting method: if the policyowner meets a day of elimination period, he or she will never need to meet that day of elimination period again, even if a second care event occurs in the future.

One popular rider available from leading insurance carriers is called the waiver of home care elimination period rider. Assume a policyowner includes a 90-day elimination period and includes the aforementioned rider. The elimination period for care in a facility is 90 days, while the elimination period for home care is zero days. Typically, the number of days home care is received counts towards the elimination period in the facility. Therefore, should the policyowner need care for 90 or more days, there would be no elimination period to meet for home care or for facility care.

The most common elimination period choice is 90 days, as consumers feel secure that they can afford to pay for the first 90 days of long-term care. However, if the policyowner needs care in 20 or 30 years from the time of purchase, the cost of care may be several times more than the cost of care today. Consumers should carefully consider how much of their income and assets they wish to expose to this risk.

7-10. Other Popular Features and Riders of Stand-Alone LTCi

Couples may shop for a policy offering shared benefits, which allows two people (for example, a married couple, common-law spouses, or same-sex partners) to share policies in some manner. The author knows of three methods to model shared benefits. For the examples below, assume that both partners purchased a three-year benefit period.

Method 1: One spouse uses all of his or her benefit account, after which he or she may use all of his or her spouse's benefit account. Some companies allow the non-claiming spouse to purchase more coverage at an attained age. Another leading company automatically replenishes 50 percent of the non-claiming spouse's benefit account for future

use. If one spouse passes away without exhausting his or her benefit account, the unused amount transfers to the survivor.

Method 2: One spouse can use all of his or her benefit account and then some, but not all, of the non-claiming spouse's benefit account. If one spouse passes away without exhausting his or her benefit account, the unused amount transfers to the surviving spouse.

Method 3: A third benefit account is available to either spouse to use. In other words, one spouse uses his or her entire benefit account and then uses the shared pool of money in the third account. In no case can one spouse use the other spouse's benefit account. If one spouse passes away without exhausting the third benefit account, the balance transfers to the surviving spouse.

A survivorship benefit allows the surviving spouse or partner to stop paying premiums upon the death of the first partner, provided that the policy had been in force initially for 10 years. Many companies, but not all, stipulate that there can be no claims during the first 10 years of policy ownership.

Restoration of benefits allows for monies paid by the policy to be put back into the lifetime maximum benefit if the claimant recovers fully and no longer requires care for at least 180 consecutive days.

Most policies include a waiver-of-premium provision: premiums are waived as long as the policyowner is receiving benefits. Some older policies waive premiums only if the claimant is in a nursing home, or if the claimant has received benefits from the policy for at least 90 days.

Also included in most policies today is a care coordination or care advisory service, which assists with the development and coordination of the plan of care. Care coordination may help identify appropriate services and reputable providers of such services and help make arrangement for the services to begin.

All LTC insurance policies marketed must offer a nonforfeiture benefit rider, also known as the shortened benefit period. Should a policyowner with this rider surrender the policy after owning it for at least three years, the premiums paid into the policy will be available to pay for care some day in the future. Note that this is not a return-of-premium benefit, although return of premium at death is an optional rider on many policies. Modern policies also include a built-in contingent nonforfeiture benefit, which is described in the next section.

7-11. Stand-Alone LTCi Premiums

The premium one ultimately pays for an LTC insurance policy depends greatly on the choices concerning the four building blocks and optional riders described above. Other factors influencing the premium include:

- ▶ Age — the higher the age at policy issue, the higher the premium.
- ▶ Couples discount — married couples or those with a committed partner may save 30 to 40 percent on premiums if both apply and are approved. Many insurance carriers offer a 10 to 15 percent discount if only one spouse or partner applies or is approved.

- ▶ Health — most carriers offer a standard health rate as well as a 10 to 15 percent discount for excellent health.
- ▶ Gender — women live longer than men and account for nearly two-thirds of long-term care insurance claims. As mentioned earlier, 70 percent of claims dollars paid by Genworth were for females. As a result, females are charged higher premium rates than males.

Many Americans who purchased LTC insurance in the 1970s, '80s, and '90s have experienced premium increases. Such increases have been caused by underpricing of past policies, prolonged low interest rates that limit the return on invested reserves, high persistency (low lapse rates) of in-force policies, and higher-than-expected claims. All LTC insurance policies are guaranteed renewable for life, meaning the policyowner is the only one who can cancel the policy. Furthermore, the insurance company cannot unilaterally change any provision of the contract while it remains in force. In other words, the carrier cannot harm the policyowner with a contractual change. The carrier can, however, add language to make the policy better or more valuable to the policyowner. The only detrimental change allowed by the carrier is to increase the premiums for an identified class of insureds. Any rate increase for a class of insureds must be approved by the state division of insurance. Upon receiving a rate increase, policyowners may elect to keep the policy as-is and pay the higher premium, reduce the benefits and the corresponding premium to a more affordable level, or surrender the policy. Modern policies include a Contingent Nonforfeiture benefit. If premiums increase to a certain level, based on a table of increase percentages, the built-in Contingent Nonforfeiture benefit may be exercised. If such action is taken, the policy is converted to paid-up status, and, if the insured needs long-term care in the future, the past premiums remain on account with the insurance company to pay for care services.

Today, stand-alone LTC insurance policies cost several times more than policies offered 10 to 20 years ago. While premium increases are never welcomed, consumers tend to hold on to policies purchased in the past, realizing that the premiums are a fraction of what a new policy would cost. Naturally, if one's health has changed for the worse, it may be impossible to replace the coverage.

One way to insulate against future rate increases is by purchasing a limited pay rider, such as a 10-year pay rider. With a 10-year pay rider, the policyowner pays the premium for 10 years, after which time the premium is paid-up for life. It follows that the policyowner cannot be required to pay more premiums after year 10, even if others with the same policy series have an increase.

7-12. Partnership Plans

In the early 1990s, four states — California, Connecticut, Indiana, and New York — were part of a pilot project to promote the purchase of stand-alone long-term care insurance. Known as the Original Partnership States, the program successfully encouraged consumers to take private responsibility for their LTC needs, and continues to do so to this day.

The Deficit Reduction Act of 2005 (DRA) was signed into law in 2006. Among other things, this federal law changed the look-back period for asset transfers from three years to five years and capped home equity for Medicaid eligibility (\$572,000 in 2018 for Colorado

residents). The DRA also enabled all remaining states beyond the original four to offer Partnership Plans. Beginning January 1, 2008, a traditional LTC insurance policy sold in Colorado may qualify as a Partnership Plan, which allows for special treatment of one's assets if LTC is needed some day. The stated goals of the Partnership program are (1) to assist the citizens of Colorado in planning for their future LTC needs through quality LTC insurance, (2) without depleting the consumer's resources and assets paying for care.

A Partnership Policy allows the policyowner to protect a dollar in non-exempt assets from Medicaid spend-down for every dollar the Partnership LTC insurance policy has paid out in benefits. This is known as dollar-for-dollar asset protection. Taking liberties to simplify the Medicaid qualification rules, an unmarried Colorado resident seeking to qualify for Medicaid to pay for long-term care can have a house, a car, and \$2,000. His or her income must also meet strict qualification limits. Let us assume that our citizen also has \$300,000 in non-exempt assets. Should our citizen suddenly suffer a stroke or other debilitating change in health, he or she must spend down the \$300,000 in assets before being eligible for Medicaid.

Now let us assume that our citizen purchased a Partnership LTC insurance policy. For every dollar the policy pays for qualified LTC expenses, Medicaid will disregard a dollar of his or her \$300,000 in non-exempt resources when applying for Medicaid. If the policy paid \$300,000 or more in benefits, all of the non-exempt resources may be disregarded. If the Partnership Policy paid out \$200,000, and at the time of applying for Medicaid the remaining non-exempt assets were down to \$200,000, our citizen could apply for Medicaid and disregard the \$200,000 in assets. In addition, the disregarded assets are exempt from the estate recovery process at the Medicaid recipient's death.

To qualify as a Partnership Policy in Colorado, the policy must:

- ▶ Be approved by the Division of Insurance;
- ▶ Be a stand-alone, tax-qualified policy;
- ▶ Provide coverage to a person who was a resident of Colorado when coverage became effective;
- ▶ Have an effective date on or after January 1, 2008; and
- ▶ Meet certain inflation rider requirements based on age.

Partnership Policies do not cost more than non-Partnership Policies. Assuming the insurance carrier's policy has been approved by the state, the policy is automatically Partnership as long as the policyowner purchased inflation protection equal to or exceeding certain minimum levels, which varies slightly from state to state. In Colorado, the inflation requirements in place since July 1, 2012, are as follows:

Less than age 61	Annual automatic compound
Ages 61 – 75	Annual automatic compound or simple
76 and above	No inflation is required

Should a Colorado resident move to another Partnership state (except for California), the asset disregard from Medicaid spend-down follows the policyowner to the other state. This recognition of another state's Partnership program is referred to as reciprocity. Colorado and the other Partnership states reserve the right to opt out of reciprocity in the future, although the author knows of no state that has opted out as of this writing.

7-13. Tax-Qualified Versus Non-Tax-Qualified Policies

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) created federally “tax-qualified” stand-alone LTC insurance policies. Tax-qualified (TQ) policies offer certain income tax advantages over non-tax-qualified (NTQ) policies, as well as contractual differences as described in the table below.

Policies purchased prior to January 1, 1997, were grandfathered into TQ status unless material changes to the coverage were made to the policy after January 1, 1997. People purchasing LTC insurance on or after this date have been able to choose between TQ and NTQ, although less than 2 percent of LTC insurance policies purchased in 2007 were NTQ, according to the American Association for Long-Term Care Insurance *2008 LTCi Sourcebook*. The author suspects that the percentage of NTQ policies sold in today is even less, as very few insurance companies offer NTQ.

The following table was taken from *A Shopper’s Guide to Long-Term Care Insurance*, 2009 ed. (National Association of Insurance Commissioners). *Author’s note:* the table below fails to mention that only tax-qualified policies can qualify for the Partnership program.

Federally tax-qualified policies	Federally non-tax-qualified policies
1. Premiums can be included with other annual uncompensated medical expenses for deductions from your income in excess of 10 percent of adjusted gross income up to a maximum amount, adjusted for inflation.	1. You may or may not be able to deduct any part of your annual premiums. Congress and the U.S. Department of the Treasury have not clarified this area of the law.
2. Benefits that you receive and use to pay for long-term care services generally will not be counted as income. For policies that pay benefits using the expense incurred method, benefits that you receive in excess of the costs of long term care services may be taxable. For policies that pay benefits using the indemnity or disability methods, all benefit payments up to the federally approved <i>per diem</i> (daily) rate are tax-free, even if they exceed your expenses.	2. Benefits that you receive may or may not count as income. Congress and the U.S. Department of the Treasury have not clarified this area of the law.
3. To trigger the benefits under your policy, federal law requires you to be unable to do two activities of daily living without substantial assistance.	3. Policies can offer a different combination of benefit triggers. Benefit triggers are not restricted to two activities of daily living.
4. “Medical necessity” cannot be used as a trigger for benefits.	4. “Medical necessity” and/or other measures of disability can be offered as benefit triggers.

Federally tax-qualified policies	Federally non-tax-qualified policies
5. Chronic illness or disability must be expected to last for at least 90 days.	5. Policies don't have to require that the disability be expected to last for at least 90 days.
6. For cognitive impairment to be covered, a person must require "substantial supervision."	6. Policies don't have to require "substantial supervision" to trigger benefits for cognitive impairments.

7-14. Tax Incentives for Stand-Alone LTCi Policies

The following represents an interpretation of the federal and state tax guidelines. It is for informational purposes only. The author cannot and does not provide tax advice. Consult a tax consultant or legal advisor.

Rules for individuals: Individual taxpayers who itemize their income tax deductions can treat premiums paid for tax-qualified, stand-alone LTCi for themselves, their spouses, and any tax dependents as personal medical expenses to the extent that they exceed 10 percent of the individual's Adjusted Gross Income (AGI). The amount of the premium treated as a medical expense is limited to the premium shown on the yearly maximum deductible limit (see chart, below).

Rules for Self-Employed: Self-employed individuals can deduct tax-qualified LTCi premiums as a trade or business expense similar to health and accident insurance. A tax deduction is allowed for the self-employed individual, his or her spouse, and other tax dependents. The yearly deductible maximum for each covered individual is the age-based limit (see chart below).

Rules for C Corporations: C Corporations benefit from complete deductibility of tax-qualified LTCi . . . protection as a business expense similar to traditional health and accident insurance.

Attained Age in 2017	Limitation of Premiums
Age 40 or less	\$420
Age 41 - 50	\$790
Age 51 - 60	\$1,580
Age 61 - 70	\$4,220
Age 71 and above	\$5,270

Colorado: State income tax credits are available for the taxpayer and the taxpayer's spouse in an amount equal to the lesser of 25 percent of premiums paid during the tax year or \$150 per policy. The credit is available to taxpayers with federal taxable income less than \$50,000, or two individuals filing a joint return with federal taxable income less than \$100,000 if credit is claimed for two policies.

Finally, daily benefits received from a cash or indemnity policy are income tax free up to \$370 per day in 2018. Benefits received above \$370 are taxable as income unless used for qualified medical expenses. I.R.C. § 7702B(d)(4).

7-15. Short-Term Care Insurance

Higher premiums and stringent health underwriting for long-term care insurance have helped give rise to a new insurance-based solution gaining popularity: short-term care insurance (STC). At least eight companies now offer STC, which covers care in nursing homes or assisted living facilities, home care, and more. Unlike long-term care insurance, STC policies cover less than one year of care. Maximum benefit periods are often 300 to 360 days of care services.

Driving demand for STC are two key factors: affordability and ease of health underwriting. Many people not healthy enough to purchase LTC insurance may qualify for STC. Likewise, those who may not be able to afford a robust LTC policy may opt for less expensive STC insurance.

STC policies also boast shorter elimination periods than LTC. Choices typically include zero, 15, and 30 days. Additionally, unlike most LTC insurance policies, STC policies do not require certification that the care need is expected to last at least 90 days. The result is that STC policies may pay for care expenses not covered by LTC, especially after surgeries or hospitalizations. Some STC offerings include a built-in restoration of benefits feature, inflation protection, and discounts for two people in the same household applying at the same time. Issue ages range from 18 to 89.

7-16. Linked-Benefit Life with LTC Riders

Most life insurance policies sold in the past require that the insured passes away in order for the death benefit to be payable. An ever-increasing number of life insurance companies now link together life insurance with an accelerated death benefit (ADB), which allows a portion or percentage of the death benefit to be received for care services. One of the most attractive characteristics of linked-benefit life policies is that, unlike stand-alone LTC insurance, a death benefit is paid to beneficiaries if not used for care. Also, many linked-benefit life policies offer guaranteed premiums, the ability to pay premiums for a predetermined period of time, and cash surrender values upon cancellation of coverage.

There are two types of riders that accelerate death benefits for care. The first type to be discussed here is commonly referred to as an “LTC rider” as it is quite similar to stand-alone LTC insurance. A life insurance policy (usually whole life or universal life) offering such a rider may give the insured a choice of purchasing an LTC rider that accelerates the death benefit at 2, 3, or 4 percent per month for qualified LTC services. Let us assume that a policy with a \$200,000 death benefit is issued with an LTC rider that accelerates 2 percent of the death benefit per month. Such a design would provide a \$4,000 monthly benefit for LTC for at least 50 months until the death benefit has been exhausted. If the 3 percent LTC rider

were included, the monthly benefit would equal \$6,000 per month for 33 months, while a 4 percent acceleration provides \$8,000 per month for at least 25 months. Note that such a rider must be included at issue — it cannot be added to policies purchased in the past.

Consumers interested in LTC riders can shop for three methods for paying claims: reimbursement, indemnity, and cash indemnity. These methods were discussed previously in section 7-8.

Purchasing a life insurance policy with an LTC rider involves medical underwriting for both life insurance and long-term care insurance. Therefore, if someone is not insurable for stand-alone LTCi and for life insurance, he or she will likely not be able to purchase a linked-benefit life insurance policy with an LTC rider. Even though a linked-benefit life insurance policy with an LTC rider can be marketed as long-term care protection, the coverage cannot qualify for the Partnership program.

7-17. Linked-Benefit Life with Chronic Illness Riders

The second type of rider that can be added to a life insurance policy is referred to as a Chronic Illness rider. While this benefit cannot be marketed as LTC insurance, these policies are gaining in acceptance and market share. Like linked-benefit life with LTC riders and stand-alone LTC insurance, policies with Chronic Illness riders require that one of two triggers are met: (1) severe cognitive impairment or (2) assistance in two or more of six activities of daily living (ADLs). However, some, but not all, Chronic Illness riders require certification that the insured's condition is permanent and expected to last for the rest of his or her life. The disadvantage of such language is the possibility that the insured's stroke or injury may not be deemed permanent and the death benefit may not be accelerated. The advantage of requiring a permanent condition is this: medical underwriting is somewhat relaxed, allowing some people with conditions like multiple sclerosis (MS) or early Parkinson's who are otherwise quite healthy and functional to purchase such coverage.

Some policies automatically include Chronic Illness riders at no additional cost, while others require additional premium and medical underwriting. Because those with built-in Chronic Illness riders usually require no extra medical underwriting, they rarely allow all of the death benefit to be accelerated for care. Instead, factors at claim time such as age, gender, rate class, cash value, and discount interest rates are used to discount how much of the death benefit can be accelerated. Alternatively, policies offering optional Chronic Illness riders at additional cost provide known monthly benefits and how much of the death benefit can be accelerated (often times 100 percent). Medical underwriting is more extensive.

Both permanent life insurance policies (for example, whole life and universal life) and, to a lesser extent at this point, term life insurance policies can now be purchased with ADBs. Some policies allow the insured to access the death benefit at a rate of between 1 and 4 percent per month should long-term care services be needed. Others discount the death benefit if it is accessed for a chronic illness. Most allow the benefit to be paid as an indemnity benefit that can be used for anyone's care, including family members. These policies accelerate the benefits using the same benefit triggers as the other forms of LTC protection described above: two or more of six ADLs or cognitive impairment.

Some of the most attractive attributes of life insurance solutions with ADBs may include: guaranteed premiums and/or cost of insurance (not all policies include such guarantees), a death benefit is paid to beneficiaries if care is not needed, and cash values upon surrender (not available with term life). Perhaps most importantly, life insurance may be available to some people who cannot qualify for traditional LTC insurance due to their health.

There are three important drawbacks to relying on life insurance for LTC funding. First, some ADBs require that the condition causing the need for care is deemed to be permanent. This may impact someone who has had an accident or a stroke and may recover. Second, a family, estate, or business may be heavily depending on the death benefit. Finally, the death benefit and resulting LTC benefits do not increase over time — there is no inflation protection.

7-18. Hybrid Policies

The previous two sections above featured life insurance policies that allow the insured to use the death benefit to pay for care. Hybrid policies go a step further: if the death benefit has been depleted, instead of benefits for care ceasing, funds continue to flow for long-term care through an extension or continuation of benefit rider. Such policies are referred to as “combination,” “asset-based,” or “hybrid” policies and marry long-term care insurance to life insurance or an annuity. We begin by focusing on hybrid life/LTC.

The foundation of a hybrid life/LTC policy is life insurance. If the insured does not accelerate the death benefit for care, the death benefit is paid to beneficiaries. If care is needed, like linked-benefit life policies, the death benefit may be accessed to fund care services. Unlike linked-benefit life, once the death benefit has been exhausted paying for care, benefits do not cease. Instead the LTC portion of the coverage kicks in and continues to pay for care until a specified dollar amount has been depleted. One company offers a lifetime benefit on its LTC portion as well as the ability to put two people on one shared policy.

In the past, most hybrid life/LTC solutions required a one-time, single premium to fund the policy. Today, these combination policies can be purchased using a number of payment methods: single premiums, premiums paid over a set number of years (*e.g.*, 10 or 20 years), or ongoing annual premiums, making this form of LTC protection available to more people.

Additional features of life/LTC hybrids are guaranteed premiums and strong cash surrender values are available if coverage is canceled. Policies may include inflation protection on benefits, and medical underwriting might be less stringent than stand-alone LTCi as well as linked-benefit life with LTC riders. The author knows of five prominent carriers offering life/LTC hybrids.

A second form of hybrid policy is an annuity/LTC insurance combination policy. While a life/LTC hybrid starts with life insurance, the annuity/LTC policy requires the purchase of a single premium deferred annuity. If care is needed, the funds in the annuity, plus any growth, are used to reimburse long-term care expenses, tax free, until depleted. If care is not needed and the insured passes away, the remaining balance of the annuity passes on to beneficiaries, who would pay taxes on any gains.

If the insured depletes the annuity paying for care, the LTC insurance rider continues to fund care until depleted or, in the case of one company, for life. Premiums for the LTC insurance rider may be funded by the single premium used to buy the coverage, or may be a separate premium from the investment in the annuity. Two companies offer joint, shared coverage for spouses, and the ability to use Qualified (IRA) funds to purchase the policy (which causes all benefits to be taxable).

This form of LTC insurance involves a good deal of self-funding, as the initial benefits for care are taken from the annuity account, which was in most cases funded by the insured. This fact allows the insurance carriers to be more lenient in medical underwriting.

It is important to realize that an annuity that is not an annuity/LTCi combination policy does not provide tax-free withdrawals to pay for care. Therefore, many people with existing annuities *not needed for retirement income* and with decent or significant gains inside the contract consider a tax-free 1035 Exchange (or a partial 1035 Exchange) from an existing annuity to an annuity/LTC hybrid. Then if care is needed and the annuity portion is accessed paying for qualified care expenses, gains come out tax free.

The author knows of three companies offering hybrid annuity/LTC hybrids. Premiums are guaranteed on two of the three companies in this market. Readers should take into account that such policies are funded with single premiums; ongoing premium payments are not possible. Issue ages are up to age 87.

7-19. Summary of Pros and Cons of LTC Planning Solutions

Stand-Alone Long-Term Care Insurance	
Pros	Cons
Highest degree of leverage/most coverage per dollar of premium	Form of health insurance — premiums not guaranteed
Plentiful inflation options to keep pace with growth of future costs	Strictest medical underwriting
Shared benefits available	No death benefit (use it or lose it)
Ongoing periodic premiums	No cash surrender value
Policy benefits can be tailored to meet a wide range of budgets	Gender-based premiums mean higher prices for females
State Partnership programs	Most policies pay claims using the reimbursement method instead of cash indemnity
Tax incentives, may pay with HSA funds	

Short-Term Care Insurance	
Pros	Cons
<p>Affordable premiums</p> <p>Easier medical underwriting</p> <p>Available up to age 89</p> <p>Shorter elimination periods and faster access to benefits than LTC insurance</p> <p>Some pay benefits even if Medicare is paying</p>	<p>Pays for less than one year of care</p> <p>Not eligible for the Partnership program</p> <p>Not offered in all states</p> <p>Most include a six-month pre-existing condition clause</p> <p>Shared benefits not available</p>

Linked-Benefit Life Insurance with LTC Riders	
Pros	Cons
<p>Pays a death benefit if not used for care</p> <p>Many offer guaranteed premiums</p> <p>May include cash surrender values if policy is cancelled</p> <p>Reimbursement and cash indemnity models available</p> <p>Attractive premiums for females</p>	<p>Inflation protection not available</p> <p>Not eligible for the Partnership program</p> <p>Shared benefits not available</p> <p>Premiums higher for males</p> <p>Beneficiaries may be relying upon death benefit</p>

Linked-Benefit Life Insurance with Chronic Illness Riders	
Pros	Cons
<p>Pays a death benefit if not used for care</p> <p>Many offer guaranteed premiums</p> <p>May include cash surrender values if policy is cancelled</p> <p>Benefits are paid as cash indemnity</p> <p>Attractive premiums for females</p> <p>Medical underwriting is easier if Chronic Illness rider is built in</p>	<p>Many require the chronic illness to be permanent</p> <p>Built-in riders may discount the death benefit if accelerated, sometimes substantially</p> <p>Not eligible for the Partnership program</p> <p>Shared benefits not available</p> <p>Premiums higher for males</p> <p>Beneficiaries may be relying upon death benefit</p>

Hybrid Life/LTC	
Pros	Cons
<p>Guaranteed premiums and cash surrender values</p> <p>Death benefit to beneficiaries if not used for care</p> <p>If death benefit exhausted for care, an LTC extension of benefits continues paying for care</p> <p>Inflation protection available</p> <p>Excellent aide in self-funding</p> <p>Two people may share one policy</p> <p>Lifetime benefits available</p>	<p>Premiums higher than most other solutions</p> <p>Involves a higher degree of self-funding</p> <p>Not eligible for the Partnership program</p> <p>If funding with a single premium, there may be opportunity costs by repositioning the funds</p>

Hybrid Annuity/LTC	
Pros	Cons
<p>Easier medical underwriting</p> <p>Beneficiaries receive annuity value not used for care services</p> <p>Excellent aide in self-funding</p> <p>Gains in non-qualified annuity received as LTC benefits may be received tax free</p> <p>Excellent opportunity to 1035 Exchange existing annuity to hybrid annuity with LTC benefits</p> <p>Two people may share one policy; Lifetime benefits available</p> <p>Lifetime benefits available</p>	<p>Single premiums required</p> <p>Involves a high degree of self-funding</p> <p>Not eligible for the Partnership program</p> <p>If funding with a single premium, there may be opportunity costs by repositioning the funds</p> <p>Current interest rates are historically low and impact policy performance</p>

7-20. When Should One Purchase LTC Protection?

The best time to purchase any form of insurance is before it is needed, as it is usually too late to obtain coverage once an insurable claim event occurs or becomes likely. LTC insurance is no different. The average age of people purchasing LTC insurance has been dropping steadily for years. Once a product sought after by retirees, LTC insurance is being considered a must-have by an increasing number of Baby Boomers. According to *The 2015-2016 Sourcebook for Long-Term Care Insurance Information*, 55 percent of purchasers in 2011 were ages 55 to 64; 25 percent of buyers were 45 to 54; and only 8 percent were over 65.

Factors impacting the premiums go beyond age. Insurance carriers often sell a policy series for several years before introducing a new generation of coverage, frequently pricing the new plan premiums significantly higher than the premiums enjoyed by those who started earlier. A 50-year-old considering a daily benefit today of \$200 with the 5 percent automatic compound inflation rider would have to buy a \$255 daily benefit at age 55 or \$326 per day at age 60 in order to match the growth due to the automatic inflation adjustment inside the policy. Insurance companies frequently offer 10 to 15 percent discounts for those in excellent health, and a 30 to 40 percent discount for couples both applying and approved. Should the applicant lose one or both of these discounts in the future by waiting, the premiums will be significantly higher.

More important than paying lower premiums by starting young, those waiting until older ages to apply are risking their ability to qualify for coverage with their good health. According to *The 2015-2016 Sourcebook for Long-Term Care Insurance Information*, in 2014, 27 percent of those ages 60 to 69 were declined coverage due to health, and 45 percent of those 70 to 79 were turned down.

7-21. Is Coverage Right for Me?

To answer this question, begin with two basic questions:

- 1) Can I pass the health underwriting required by the insurance company to qualify for a policy?
- 2) Can I afford the premiums for a policy that meets my needs and expectations?

If the answer to one of these questions is “no,” then LTC insurance may not be available or appropriate. If the answer to both questions is “yes,” continue to become educated about this important topic. Talk with an insurance agent with expertise in a number of LTC planning solutions. You may wish to work with an insurance broker who can help you consider more than one insurance carrier. The agent or broker may help you consider ways to pay the premiums, design a policy to fit your budget, compare and contrast the different types of LTC insurance, and more.

7-22. Choosing the Right Carrier

Know that there is no such thing as “the best company” or “the best policy,” as different people have different needs. Clearly, the lowest premium does not necessarily mean the best value. Choose a carrier with high financial ratings from A.M. Best, Moody’s, Standard & Poor’s, and others. Look for a carrier that has written LTC insurance for more than just a few years. Consider whether your needs are best met by a reimbursement, indemnity, or cash indemnity plan.

Insurance carriers differ on underwriting requirements for various medical conditions. One company might approve coverage on an individual with a health concern while another might refuse to insure an applicant for the same condition.

7-23. Resources

A Shopper’s Guide to Long-Term Care Insurance

Published by the National Association of Insurance Commissioners and available from an insurance carrier or agent, or online at www.naic.org/documents/prod_serv_consumer_ltc_lp.pdf. Other information about long-term care insurance is available at www.insureuonline.org/insureu_special_longtermcare.htm.

Colorado’s website dedicated to Partnership Plans

www.colorado.gov/ltcpartnership

Alzheimer’s Association of Colorado

www.alz.org/co

National Clearinghouse for Long-Term Care Information

www.longtermcare.gov

The Centers for Medicare and Medicaid Services

www.cms.gov

Colorado Division of Insurance

(303) 894-7499

www.colorado.gov/dora/division-insurance; click on “For Consumers,” then “Insurance Types,” then “Long-term Care.”

Colorado Senior Health Insurance Assistance Program (SHIP)

(888) 696-7213

www.colorado.gov/dora/division-insurance; click on “Senior Healthcare/Medicare” under “What We Regulate.”

Colorado Division of Aging and Adult Services

(303) 866-2800

www.colorado.gov/pacific/cdhs/state-unit-aging

Veterans' benefits

www.va.gov