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# **THE IMPORTANCE OF LONG TERM CARE INSURANCE**

by Jeff Sadler

## **Course Reading Assignment**

### **WHAT IS LONG-TERM CARE?**

Long-term care is the industry name for medical expenses associated with an extended illness or injury, and its rehabilitation and maintenance. Advances in medical technology make it possible today to recover from medical conditions, usually with a lengthy period of disability and treatment.

### **WHY IS THIS A PROBLEM?**

Because this is a relatively new phenomenon, our traditional sources of financial help for these expenses do not address periods of long-term care. Private health insurance and disability income coverage do not reimburse these costs, nor does traditional government program assistance such as Medicare. These programs were established to help fund short-term medical expenses. This has left a gap in most people's financial planning.

## WHAT HAS BEEN THE RESULT?

The costs for long-term care treatment are still being incurred, and people are forced to pay out of pocket to continue to receiving medical care. When they've spent the great majority of their savings, it's possible that Medicaid, a welfare plan, could assist with further expenses. Today, the two largest sources of funds for LTC costs are savings and Medicaid. The U.S. Department of Labor has called long-term care expenses the greatest uninsured risk for most Americans. (1)

## WHAT ARE THE COSTS OF LONG-TERM CARE?

This often depends on where in the country you reside. Looking at nationwide averages, however, according to some studies, the average hourly rate for a home health aide is \$20/hour. The average rate for care in an assisted living facility is \$3,031 /month. The average daily rate for care in a skilled nursing facility is \$ 191/day, or \$69,715 annually for a semi-private room. The daily cost for adult day care is now \$64. (2)

## WHAT CAN BE DONE ABOUT IT?

Planning in advance is the best strategy to tackle this problem. Waiting until a medical event occurs is often too late to take advantage of the best financing options. Two out of every five Americans using some form of long-term care medical assistance (in-home care, assisted living, nursing home care) are between the ages of 18 and 65 (3) So, the sooner you review your own situation with regard to these expenses the better.

## WHAT ARE MY FINANCING OPTIONS?

Several sources that might provide some financial help with long-term care costs. These include:

1. **Savings.** Because most people have not planned ahead for this expenditure, they often have no other choice than to spend from their own savings. Depending on the extent of care necessary, you can quickly spend money that took you years to build up. The liquidation, especially, of qualified retirement plans could be very costly. This has become the most expedient option, but not necessarily the financial tactic of choice.
2. **Medicare.** The Medicare program was originally designed in 1965 and, as such, addressed the overwhelming financial problems of its day – hospital and doctor costs. The program is set up to reimburse over a *short* period of time. There is coverage for both skilled care in a nursing home and home care. Skilled care is reimbursed in full for the first 20 days of care if you meet certain eligibility requirements including a prior 3-day hospital stay. There is some coverage for an additional 80 days once you pay (in 2009) \$133.50 /day first. After

100 days, there is no further Medicare reimbursement. Home health care is possibly reimbursable if the care needed is part-time and skilled care and your condition is improving. Home health agencies are paid a flat amount now based on the medical condition you have. The Medicare literature published by the government states: “Generally, Medicare does not pay for LTC.”<sup>(4)</sup>

3. **Medicare Supplements.** These policies address the short-term gaps left by the Medicare program. Several of the standard Medicare Supplement plans will pay the \$133.50/day co-pay for days 21-100 in a skilled nursing facility. Like Medicare, these policies offer no help beyond that 100-day period. Thus, these plans are also short-term in nature.
4. **Medicaid.** Medicaid was also established in 1965 as a welfare program to help those with few assets and income pay for medical expenses. This has become a primary payer of long-term care expenses because people have spent their own money and thus reduced their financial circumstances down to welfare levels to qualify for reimbursement. The Medicaid program generally reimburses only for care received in a nursing facility, and only in those homes that accept Medicaid reimbursement, limiting both the type of treatment and where this care can be sought. Medicaid is a joint federal-state funded program and each state administers its own Medicaid plan, meaning eligibility and benefit rules vary considerably from state to state. In general, a single person must spend down to \$2,000 in assets, while the rules are more generous for a married couple. As noted, this has become a default option for reimbursement of long-term care expenses after one exhausts their personal savings.
5. **Veterans.** Our veterans in the armed forces may be eligible for care in a Veterans Administration facility if the need for long-term care arises. The VA has a priority list of treatment, however, that limits who is first in line to qualify for any LTC assistance. Generally, those veterans with service-related disabilities are the most likely to be eligible for LTC treatment first. Those veterans who incur a need for long-term care services independent of any service-related problem are well down the priority-ranking list.
6. **LTC insurance.** Developed over the last two decades, long-term care insurance offers a viable financing option for people who plan ahead for the possibility of an extended illness or injury. These policies are specifically designed to fill the gap that has been created by the need for long-term care services. As you can see, there is no other vehicle that has been introduced to handle this specific financial problem. This coverage offers asset and income protection when the need for long-term care treatment becomes necessary. Premiums for these policies are based on age at enrollment; the younger you are when you apply for coverage, the lower the premium will be throughout the life of the policy.

## WHY DO PEOPLE BUY LONG-TERM CARE INSURANCE (LTCI)?

They do so for several reasons.

1. **Control:** Simply put, buying LTCI means that you (and/or your family) can retain the control over your care. Without this source of dollars, individuals with a chronic disability are at the mercy of whatever they can afford and/or a government program that provides some financial assistance. Owning LTCI means you play an instrumental part in the plan of care selected and who will deliver this service. This is important to many people.
2. **Choice:** Comprehensive LTCI coverage means the insured will have many options after a disability strikes. Disability is very arbitrary. You won't know the extent or scope of it until after it happens. This inability to predict means it's better to have flexibility on your side in order to adapt to whatever situation one finds oneself after an injury or illness.
3. **Independence:** People want to stay on their own and in their own home for as long as possible. LTCI coverage gives them that opportunity. The disabled insured is not obligated to go anywhere. If they wish to stay at home, that is what they can do. In addition, many do not want to interrupt their children's lives by forcing them to become caregivers. Ownership of a LTCI policy ensures that this doesn't need to occur. Children can play whatever role they wish, and parents need not feel guilty that they had little choice in the matter.
4. **Asset Protection:** LTCI is a straightforward financial choice. It saves folks a substantial amount of money and ensures assets will be used for the purpose they were originally intended, not to pay unwanted LTC health expenses. It truly is asset protection insurance.
5. **Security:** Since 9/11, our assumptions about safety and the future have changed. It's easier to see that misfortunes can and do happen here. LTCI can be a great "piece of mind" purchase a consumer might make. LTCI provides financial security for a family in a time of real stress. It is not subject to stock market drops and oil prices.
6. **Taxes:** There is the possibility of a deduction for your LTC insurance premium payment. It is more likely this deduction can be realized by a business owner than an individual, but there are some guidelines to what can be deducted, based on your age, should you itemize medical expenses as an individual taxpayer. If you have a Health Savings Account, your LTCI premiums may be paid from it. Consult your accountant for more specific information.

## **DESIGNING YOUR LTC INSURANCE PLAN**

There are four important coverage selections you will need to make:

### **WHAT AMOUNT OF COVERAGE SHOULD I HAVE?**

Generally, the amount of coverage you elect is expressed in a daily benefit amount. This is because facilities typically charge a daily rate for room and board. Home health care varies dramatically depending on your need. Therefore, choose a daily rate that is typical of what is being charged in the area where you would seek out long-term care assistance. The national average is currently \$191/day. You should start as close to that as possible, adjusting up or down depending on your local area's costs. \$191/day of coverage would generate over \$69,000 in annual benefits.

### **HOW SOON AFTER A DISABILITY SHOULD LONG-TERM COVERAGE COMMENCE?**

The number of days you must self-insure before your LTC insurance starts paying for your assistance is called an "elimination period." The longer you wait for the insurance coverage to begin, the lower the premium payment you will pay. Coverage can begin as early as the first day. Other elimination period options include 20, 30, 60, 90, 180 and 365 days.

### **HOW LONG CAN BENEFITS BE PAID UNDER THE POLICY?**

This is another choice for you, called a "benefit period." The longer the policy pays benefits, the greater the premium. LTC insurance policies can pay an unlimited lifetime benefit, with other options typically being 2, 3, 4, 5 and 6 years. Some medical problems such as Alzheimer's disease can last several years, so it's best to elect as long a benefit period as one can afford.

### **WILL INFLATION ERODE MY LONG-TERM CARE INSURANCE BENEFITS?**

Certainly the costs to furnish long-term care services will continue to increase in the future. Buying a flat daily benefit amount without considering the rising prices in medical care could leave you underinsured for these expenses a few years from now. There are several ways you can increase the daily benefit you select to help to offset the inflation problem.

1. **Guaranteed Purchase Option.** This policy feature allows you to buy more daily benefit amounts at specified future dates, usually annually. You need not provide any medical evidence of insurability to obtain the increased benefit. You will pay for the additional benefits selected at the price charged for your age at the time you elect the increase.

2. **Inflation-specific riders.** For an extra premium, a specific Inflation Benefit rider will increase your daily benefit each year. The rider cost is built into the premium so there is no additional premium charge as benefits increase annually. The amount of the daily benefit is increased each year by a specific percentage (5% is very common). You will also have the choice to elect to have your daily benefit increase on a simple or compound method.
3. **Buy higher daily benefit than presently needed.** At some ages, it may make more sense to buy a higher daily benefit than currently needed, based on costs in your area, than to pay extra for an inflation option. By example, instead of buying \$200/day, you select \$400/day. That may be a sufficient inflation hedge, especially to those in their 60s and 70s.

### **WHAT LONG-TERM CARE SERVICES DO I WANT TO HAVE COVERED IN MY POLICY?**

Today, it's recommended you consider a comprehensive policy covering all present and future LTC services delivered in a variety of settings. The nature of disability makes it difficult to predict its course, and the continuing evolution in medical technology also calls for one to stay as flexible as possible with a comprehensive LTC plan. This way, whether you want home care, facility care, a physical therapist or an aide to assist with daily activities, your policy can help finance this care.

### **IS THERE ANYTHING THAT LONG-TERM CARE INSURANCE DOES NOT COVER?**

There are very few exclusions in these policies. Conditions caused by war, or an act of war, or attempted suicide, or substance abuse is generally not covered. Duplication of benefits paid under other programs such as Medicare and Workers' Compensation will not be made. International coverage may be limited.

### **DO I HAVE TO QUALIFY FOR THE INSURANCE COVERAGE?**

For individual long-term care insurance, there will be a number of financial and medical questions that you must answer. An insurance underwriter then evaluates your responses to measure your risk level. Acceptable risks will be offered coverage; unacceptable ones will not.

### **WHAT IF I AM UNABLE TO OBTAIN COVERAGE?**

If an insurance policy is not a valid option, then additional financial planning is necessary to ensure that you will have some funds to cover long-term care services should you need them in the future. There are a number of strategies that can be employed to help you plan in advance for this risk.

## **LONG LIFE**

Much has been made in the recent discussions about the uncertain future of Social Security, that life expectancy in the decade the program was developed was 58 for men and 62 for women. That's a far cry from what it is today, early in the 21<sup>st</sup> Century, as life expectancy from birth nudges towards age 80 overall.

These increasing numbers mean that many people will enjoy another whole life in retirement, in far better health than any previous generation. But is this a good thing or a bad thing?

A recent survey by the National Association for Variable Annuities (NAVA) resulted in 95 percent of those surveyed were uneasy about their financial situation in retirement. Concerns about having enough income and high health care costs were the two major issues expressed in the NAVA survey.

What good is a longer life if people are afraid of it for financial reasons? How can one expect to enjoy those healthy retirement years if there is a constant fear about the type of lifestyle it will be?

Income is a major concern and nearly everyone in America knows it. Great efforts are being made to accumulate dollars to have enough to live on during an expected lengthy period of time after leaving full-time work.

But focusing solely on income is doing only half the job. If people are concerned about being able to stretch their retirement dollar, what effect do out-of-pocket health care costs have on this income?

With expenses associated with a long-term illness or injury being most responsible for cutting into the retirement income stream and altering lifestyles as a result, it makes sense to look into an alternative funding vehicle to handling these costs. Enter long-term care insurance.

It is long-term care insurance that can protect the retirement portfolio so that money can be used for what it was intended for – lifestyle expenses. Long-term care insurance safeguards the retirement plan people are spending time on now to be sure they can enjoy those extra years of a long life. Long-term care insurance provides money that eases the pressure of another family member having to give up their personal lifestyle and retirement savings plan to assist with care.

Long life is a gift – one intended for enjoyment and celebration. Taking the extra precaution of helping to protect that retirement income with a long-term care insurance policy, and begin changing those retirement fears to joys.

## **EMPLOYERS AND LONG TERM CARE INSURANCE**

More than two decades ago, employers confronted a growing employee issue – what to do with their children. The workforce was suddenly inundated with two working family members, as much

out of income necessity as it was a burning desire to jump-start a career. This left no one to care for the youngsters, especially those of pre-school age.

Employers saw productivity drop off when an employee was forced to miss work because one of the children was ill, or the day care service was unable to accommodate. The employee was healthy, but missing from work just the same. Employers responded by making day care and after-school arrangements as convenient as possible, some even having these programs on-site. This saved many lost workdays, made life somewhat easier for the employee, and became a key consideration for staying with a particular employer.

In the 21<sup>st</sup> Century, it's less a child concern than it is a dependent adult issue. Working families have been assuming a new burden – looking after a parent or relative who can no longer live on their own. This new responsibility is the result of a lack of planning ahead for this contingency. Caught unprepared, families are doing the best they can to minimize care expenses by assuming some of the care giving duties.

Employers are seeing this effect, much as they did with child care. Employees miss work because an adult dependent is ill and can't be dropped off at the adult day care center. A new term has also risen amongst employers – “presentee-ism.” This is when employees come to work but spend countless time on the phone arranging and checking on various medical and custodial appointments for the dependent adult.

How will employers deal with this problem going forward? Will they provide on-site adult day care centers? Will they help to pay for some of the costs of hiring qualified people to look after the dependent adult while the employee comes to work?

They may not be aware that this is an insurable event and long-term care insurance can provide some of the key answers for them in this growing business crisis. Long-term care insurance pays for adult day care, home care and supportive equipment and other needs to make it financially easier.

Long-term care insurance is available in both voluntary individual payroll deduction and group contracts. There is typically an extra discount for purchasing long-term care insurance through an employer. Perhaps more important, family members can buy coverage through this employer-sponsored program. Spouses, parents, grandparents, in-laws, brothers, sisters and other extended family members can access LTC insurance through their employee relation.

Congress and the IRS has given employers tax breaks for contributing dollars towards the payment of LTC insurance premium, increasing the incentive to explore the insurance solution in response to the increasing elder care responsibility. This gives one plenty to talk about with an employer in terms of expanding the employee benefit universe to include long-term care insurance.

Don't miss the opportunity to talk to your employer clients and prospects about long-term care insurance!

## LTC PROSPECTS

Younger prospects for this coverage abound. I'm not suggesting we completely ignore our elders. There is still plenty of work to be done in the over-age-65 market with respect to LTC coverage. Yet there are many more ways to work LTC into your regular sales efforts.

- Health insurance prospects. Many people are buying individual health insurance today for a variety of reasons. It is easy to demonstrate that health insurance is geared to acute and intensive care issues, not long-term *chronic* health conditions. Consumers are used to "upgrading" when buying. LTC can be a great add-on sale here simply by reviewing the minimal ways in which health insurance addresses a long-term care need.
- Key employees. Employers are always looking for ways to retain key personnel. Packaging LTC (and a limited pay period) in conjunction with any type of pension or retirement plan can demonstrate that employers are doubling up on behalf of the employees' future. Contributions being made by an employer to a 401(k) can help the employee build up money to live on later, while LTC can help protect these dollars from erosion and use them for the task they were intended. And it's all tax-deductible to the employer.
- Wealth accumulation. Young people today are more into investing and the market than the Boomer generation was at the same age. This is a good thing. Yet typically overlooked is that with all this focus going into accumulating wealth for the future, there is an ongoing assumption that simply because the individual started early in their savings, their future is assured. This ignores the vulnerability of any of us to an extended illness or accident. Why should these forward-thinking people risk all the terrific starts they are off to by not protecting their ability to accumulate? Auto accidents and strokes are significant disablers for people under age 60. Call LTC here: 401(k) protection.
- Life insurance clients. Life insurance is sold to protect assets and provide income. Long-term care, coincidentally, is also asset protection and carries indemnity riders that can provide income. It should be relatively easy – while one is on the subject of assets and income – to introduce LTC into the conversation.
- Tax savings. There are opportunities for individuals to pay for LTC insurance on a tax savings basis. Business owners, even those not in a C Corporation get at least some savings in their LTC premium from a tax break. In 2009, sole proprietors, partners and S-Corporation owners can write off up to the following annual premium amounts on their own personal coverage: Age 40 and under: \$320 ; Ages 41-50: \$600 ; Ages 51-60: \$1,190 ; Ages 61-70: \$3,180 , and Ages 70+: \$3,980. This can help make a sale. Not long ago, a female S-

- HSAs. Certainly the creation of Health Savings Accounts will lead to a swing in the type of health coverage purchased by individuals in the future. Many younger people will not likely need to access their accounts for medical expenses in any significant way for some time, letting money accumulate. These pre-tax dollars can be withdrawn to pay for LTC insurance premiums, giving the individual a tax-deductible way of paying for the coverage. HSAs can represent an easy tie-in with LTC as noted above.

### **Insurance Agent as Counselor**

Today's LTC sale is as much about educating the prospect about the need and the product rather than the traditional presentation where there is an assumption of some understanding on the part of the potential buyer. Experience has shown us that the long-term care buyer is well-educated, but wary about the product, concerned that they have the proper coverage at the best price. They are not sure why they need it or when, but are willing to listen to explanations.

This type of presentation is more counseling than selling. The prospect wants to learn and we must be ready, willing and patient enough to teach. The individual may have personally experienced a long-term care situation in the family or knows of one that had some financial and emotional consequences. They just aren't sure what LTC is and where exactly it fits in between health and disability insurance and Medicare Supplements.

LTC is a family sale, and part of the education process must also involve explaining that the lack of planning will have costs to people other than the individual who needs the care. It might mean that other family members be involved in the discussion of the need and the product so that they, too, can understand it.

As you can see, this may require some time, but it will pay off in the long run. If today's consumer wants to be educated, let's do it. There is no mystery in the need here, just the amount of time you are willing to put on behalf of a sale.

In her regular newspaper column, financial writer Michelle Singletary of *The Washington Post* talked to a couple (ages 58 and 60) about their experiences in looking for long-term care coverage. It took some time for this couple to feel comfortable about the need, the product as solution and the design of their plan, but ultimately they purchased coverage at a combined premium rate of \$3,555 annually.

They wanted to understand the local cost structure for LTC services to see what their spending would be should the need arise. They spent time asking questions about the length of time benefits are paid versus the industry experience in claim longevity. They wanted to understand the different options for inflation and how this affected the premium. Finally, they wanted to see an actual contract to review policy language before they purchased. This led to additional questions for which they received answers.

Once comfortable, they bought. All it took was the on the part of the agent and the willingness to counsel the client as to the best choices they could make in selecting the product features.

Not many agents want to take the time to make this sale. But this is how many people are approaching the purchase of the product today. They know it is going to be in their portfolio for some time to come, and is an expenditure not to be taken lightly. Understand that consumer philosophy and you will have a great sales year.

#### **NOTES**

1. U.S. Department of Labor, Advisory Council on Employee Welfare and Pension Benefits, 2001
2. Source: MetLife Mature Market Institute, 2008 reports on nursing home, home health care and assisted living costs
3. *Journal of Financial Planning*, 'Putting Long-Term Care on the Radar Screen,' September 2001
4. From the medicare.gov website.

## Unauthorized Entities

### Introduction and Overview

Unauthorized entities engaging in insurance are a serious and growing problem in Florida for consumers and agents. Consumers are substantially harmed with these entities failing to pay claims and defrauding through deception. Agents are unwittingly (sometimes knowingly) representing these entities and placing clients and themselves at risk. Florida law is violated under the guise of these unauthorized entities claiming to be ERISA exempt or some type of association plan that claims to not be insurance or to be exempt from Florida regulation. All of this is simply not true! This is a problem in the state of Florida and other states.

The problem of unauthorized entities selling unauthorized products originated in the health insurance arena, although the problem now seems to be spreading into property-casualty arena as well. These unauthorized entities promised low health insurance premiums, a promise fueled by skyrocketing health insurance premiums with legitimate health insurance carriers. In the current market, low health insurance rates just do not exist. The public and certain agents, apparently, were ripe for the picking by these scam artists. Remember, these *are* scams and the intent is to collect as much premium as possible without having to pay claims, or very few claims.

Unsuspecting licensed insurance agents are also vulnerable to this type of scam because representatives of the unauthorized entity will contact the licensed agents and send them (or give them in person) printed marketing materials touting the unauthorized entity and their bogus products which, again, gives the impression of legitimacy and credibility.

Maybe the agent is asking too many questions of the representative – is just a little too inquisitive – about who they are, where they’re located, how long they’ve been in business, etc. The agent may even question the legitimacy of the product. Some of the scam artists are telling agents that their products do not have to be authorized by the Department because the plan is an ERISA plan, or that the plan is part of a MEWA (multiple employer welfare arrangement) or it’s to be sold to labor unions – all the while stating that under any of these previously-mention circumstances, the products do not have to be approved or authorized by the Department.

The representative of the unauthorized entity might say, “It doesn’t require approval, because this is an ERISA plan.” Or, “It doesn’t require approval because this is plan is part of a MEWA plan.” Or “This plan doesn’t require approval because it’s for labor unions.” None of this is correct! Any product which contains an insurance component is required, by law, to receive authorization of that component by the Department before it can be sold in Florida. Any legitimate company representative who approaches you about selling and representing their products should not mind the scrutiny you put them under by verifying their status with the Department.

### 626.902 Penalty for representing unauthorized insurer.—

(1) In addition to any other penalties provided in the insurance code:

(a) Any insurance agent licensed in this state who in this state represents or aids an unauthorized insurer in violation of s. 626.901 commits a **felony of the third degree**, punishable as provided in s. 775.082 or s. 775.083.

(b) Any person other than an insurance agent licensed in this state who in this state represents or aids an unauthorized insurer in violation of s. 626.901 commits a **felony of the third degree**, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.(2) In addition to the penalties provided for in subsection (1), such violator shall be liable, personally, jointly and severally with any other person or persons liable therefore, for payment of taxes payable on account of such insurance under s. 626.938.

Agents or any other persons are prohibited from representing or aiding an unauthorized insurer. If an agent or any other person represents an unauthorized insurer, they are subject to severe penalties, including possible civil and criminal action. Agents are subject to **suspension or revocation of their licenses** and/or monetary penalties for violation of the unauthorized insurer law. Agents can be held liable for claims and losses not paid by unauthorized insurers. Agents who represent or aid an unauthorized insurer commit a **felony of the third degree**.

**Don't be fooled by phony products that sound too good to be true! Investigate before you sell or buy these plans. Check to see if an entity or plan is an authorized insurer by calling the Department of Financial Services at 800-342-2762.**

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