



SHOULD I HAVE NURSING HOME INSURANCE?

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Introduction

The prospect of being in a nursing home is great. With increasing life expectancies and better health care, more and more people have found it necessary to enter nursing homes. More than half of women and nearly one-third of men will go to a nursing home in their lifetimes.

Although some have sufficient assets to pay the costs of nursing home care, others do not. For that reason, planning is necessary for nursing home expenses. Among the ways to help provide for nursing home expenses is nursing home or long term care insurance. This material provides some basic information to determine whether nursing home insurance should be purchased.

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Do I Have Sufficient Assets to Pay Nursing Home Expenses?

Determine whether you have sufficient assets to pay for nursing home care without special planning. Check out the costs of nursing homes you would consider. Are your income, social security, and retirement plans sufficient to pay for monthly care? If not, are your investments that

may be liquidated sufficient to supplement income? Take a realistic look at where you would be financially if you were to enter a nursing home.

When determining whether you have sufficient assets to pay for nursing home care, take into account expenses that will be reduced or eliminated. Where a spouse remains at home, these “savings” may be limited. But where one person is involved, there may well be reductions in expenses – food, transportation, household expenses, etc. The ability to pay for nursing home care needs to take into account funds that will no longer be required to be devoted to other expenses.

Doesn't Medicare Take Care of Nursing Home Expenses?

Medicare does provide for some nursing home expenses. But, the benefits are quite limited.

If certain eligibility requirements are met, Medicare will pay for approved nursing home care for a period of 20 days. For an additional 80 days, Medicare will pay for approved nursing home care to the extent the cost exceeds a substantial per day co-payment which may be paid by the individual or the individual's health insurer. The co-payment is over \$100 a day and is adjusted upward annually. Most Medicare supplements pick up only deductibles and co-payments.

The Medicare benefit is not automatic. Restrictive requirements are established. To be eligible, a person must have first been hospitalized for at least three nights and must go to a nursing facility that participates in the Medicare program within 30 days of discharge from the hospital. The stay must be for a condition treated in the hospital and must be skilled rehabilitative services (which means that it is expected that the person will improve significantly within a reasonable period of time) or involve skilled nursing care. A physician must approve the care on a daily basis. Other requirements also exist.

What should be clear is that Medicare provides only a limited benefit. Medicare provides no assurance that nursing care will be paid.

Should I Consider Nursing Home Insurance?

Many plan for nursing home expenses by purchasing nursing home insurance. This type of insurance is also called long term care insurance. It pays a daily benefit when you need care in a nursing home.

Whether nursing home insurance is appropriate depends on the circumstances. The most likely candidates for nursing home insurance are those who have some reasonable amount of assets, but not sufficient to pay the costs of nursing home care without using a significant amount of those assets. There are no hard and fixed rules. However, it is typical that a person or couple purchasing nursing home insurance has at least \$150,000 or more in assets other than a home, and that not more than approximately three percent of the value of these assets would be used to purchase nursing home insurance. As an example, if a person or couple has \$300,000 in assets, no more than \$9,000 should be used to purchase nursing home insurance.

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In deciding whether to purchase nursing home insurance, keep in mind the likelihood whether it will be used:

- What is the likelihood you will enter a nursing home?
- What is your health and family health history?
- What is the reason that you would most likely be in a nursing home and what is the likely length of stay?

When considering nursing home insurance, it is worth noting the average length of stay. While these statistics sometimes vary, the average stay is roughly 2½ years. There are, most certainly, situations where a stay in a nursing home will be far longer (and, of course, far shorter). Like so many things, hindsight is always in focus. What is important is that the purchase of nursing home insurance be evaluated from a realistic and economic perspective. The likely length of stay is a significant factor in the analysis. In the end, the decision must be made whether purchasing nursing home insurance is or is not a good financial decision.

For many, nursing home insurance gives a certain peace of mind. If this is the case and you can afford the coverage, it is often a sound decision. However, make certain you clearly understand what you are getting.

Can I Afford Nursing Home Insurance?

Needing nursing home insurance is one thing ... affording it is quite another. Nursing home insurance is usually expensive, particularly for a good policy. Check out the costs and determine whether it is something that you can afford. As important, decide whether you can afford it in the future when you are most likely to need it. All too often, a person buys nursing home insurance while working but then has to drop in after retirement when the policy is most likely needed.

What Should I Look For When Purchasing Nursing Home Insurance?

The terms and provisions of nursing home insurance vary. Some policies, quite frankly, border on wastes of money. Other policies provide genuine protection and benefit. It is important to carefully review the coverage you are considering.

These are some things to consider:

- Did you have an ongoing relationship with the insurance company or agent you are considering dealing with?
- What is the rating of the insurance company (usually the A.M. Best rating)?

- Has the nursing home you are considering had any experience with the insurance company? What was its experience?
- Do you know anyone else who has the policy or made a claim under the policy?
- Have you seen and read the actual policy ... not just the brochures?
- Should you check with the Illinois Department of Insurance to make certain that the insurance company is licensed to write insurance in Illinois?
- Should you check with the Illinois Department of Insurance, the Illinois Attorney General, the Chamber of Commerce, or Senior Citizen Center, to determine if they have any information about the insurance company that would be helpful?

If you decide to consider purchasing insurance, get a copy of the actual form of policy. Keep in mind that there is a great variation in nursing home insurance policies.

Here are some questions you may want to consider in reviewing the insurance:

- ***What type of nursing care is included – custodial, intermediate or skilled?*** Nursing home insurance does not necessarily apply to all levels of nursing care. Make certain you realize what level or levels of care are offered at the nursing home you might wish to enter and whether each of these levels would be covered by the policy. Be especially careful where only skilled care is covered because custodial care is the frequent level of care received in nursing homes.
- ***Is home care included?*** Most long term care insurance applies only if you enter a nursing home. Some policies may provide coverage if you remain at home. This has become more common. If this sort of coverage is important, this should be considered.
- ***What qualifying circumstances are required to trigger benefits?*** Just what circumstances are required to be met varies. Make certain that they are clearly understood. Some policies require that placement in a nursing home be “medically necessary.” This is a rather restrictive approach, subject to greater discretion on the part of the insurance company. A more desirable approach considers a person’s ability to perform specific activities such as being able to perform personal activities such as bathing, dressing, and the like, without assistance. Benefits are more likely to be paid under these policies.
- ***Who makes the medical decision?*** Where a medical decision is to be made, know who will be making the determination. Some policies allow your own physician to do so. This is best. Your physician will know you and the care you need. Other policies are less desirable because the insurance company will use its own physician to decide.

- ***Is a hospital stay required before benefits may be received?*** Some nursing home policies, similar to Medicare, require a hospital stay in order to receive benefits. This requirement is no longer common. Still, it is important to make certain that this requirement does not exist.
- ***What is the daily benefit under the policy, that is, the amount to be paid each day nursing home care is received?*** This is important and should be compared with the daily cost of nursing home care.
- ***Is the benefit an indemnity payment or reimbursement?*** There are two types of policies. Some are indemnity policies, which means there is a daily benefit paid regardless of the actual cost of care. This is common. Others are reimbursement policies; this means that the actual cost of care or the maximum daily benefit, whichever is lower, will be paid.
- ***What is the benefit period? Stated otherwise, how long will the policy pay benefits?*** Is it two years, three years, four years, five years, lifetime or unlimited, or limited to a dollar amount? This is important because it will tell you the maximum amount that will be paid and help you decide whether you really need the coverage.
- ***Is the maximum benefit worth the annual cost of coverage?*** This is important to determine whether you really get much of a benefit. The annual cost of nursing home insurance must be compared with the benefit. This is a personal decision. If, for example, the maximum benefit is \$50,000, a person in good health might not consider an annual cost for nursing home insurance of \$3,000 to \$3,500 to be an economically sound purchase.
- ***Does the policy include an elimination period, that is, a period of time you must be in a nursing home before benefits will be paid?*** This is important because during this time, you will not receive benefits. Elimination periods are typically 30, 60, 90 or 180 days. Some policies have a zero day elimination period. The lesser of elimination period, the greater the cost of the policy. It is not uncommon for nursing home policies to be coordinated with Medicare benefits.
- ***Is there inflation protection?*** Some policies include inflation protection. Where inflation protection is included, the daily benefit increases either on a simple basis (*i.e.*, 4% a year on the original amount) or on a compounded basis (*i.e.*, the percentage growth is compounded yearly). Compounding is important the younger a person starts to purchase a policy.
- ***Will the premium rate stay the same?*** Find out what changes may be made to the premium. Most policies allow increases resulting from general rate increases (*e.g.*, all 70 year olds). What you usually don't want is a policy that allows the premium

to be raised because of your individual health conditions or circumstances. Even better, of course, would be a policy where the premium stays the same.

These questions are some of the most important questions that should be considered in evaluating a policy. Keep in mind that if the circumstances under which benefits are payable are very restrictive, the policy may be of little true benefit.

What is the Tax Treatment of Nursing Home Insurance?

If tax issues are important, discuss these with your tax advisor. Tax law has provided favorable tax treatment of premiums and benefits for nursing home insurance. In general, nursing home insurance is now treated as a type of health insurance. Premiums generally may be deducted in the same fashion as other medical expenses and benefits paid are not considered income for tax purposes.

Are There Alternatives to Nursing Home Insurance?

Nursing home insurance is a common approach. For others, alternatives may be available.

If healthy, purchasing life insurance may well prove a useful alternative to nursing home insurance. This is especially the case where the nursing home policy has a maximum benefit. Life insurance often may be purchased for less cost than nursing home insurance. The life insurance policy may permit the insured to receive benefits if confined to a nursing home, often one-half of the death benefit. If, for example, a nursing home policy has a maximum benefit of \$50,000, a life insurance policy of \$100,000 may provide access to a pre-death benefit of the maximum benefit under the nursing home policy. The added feature of life insurance, of course, is that a death benefit will be paid if you never enter a nursing home. Life insurance is an especially appropriate alternative for younger individuals.

<p>Please note that this discussion provides general information. It is not intended to provide specific or personal legal advice.</p>
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Last Updated: 7/2012