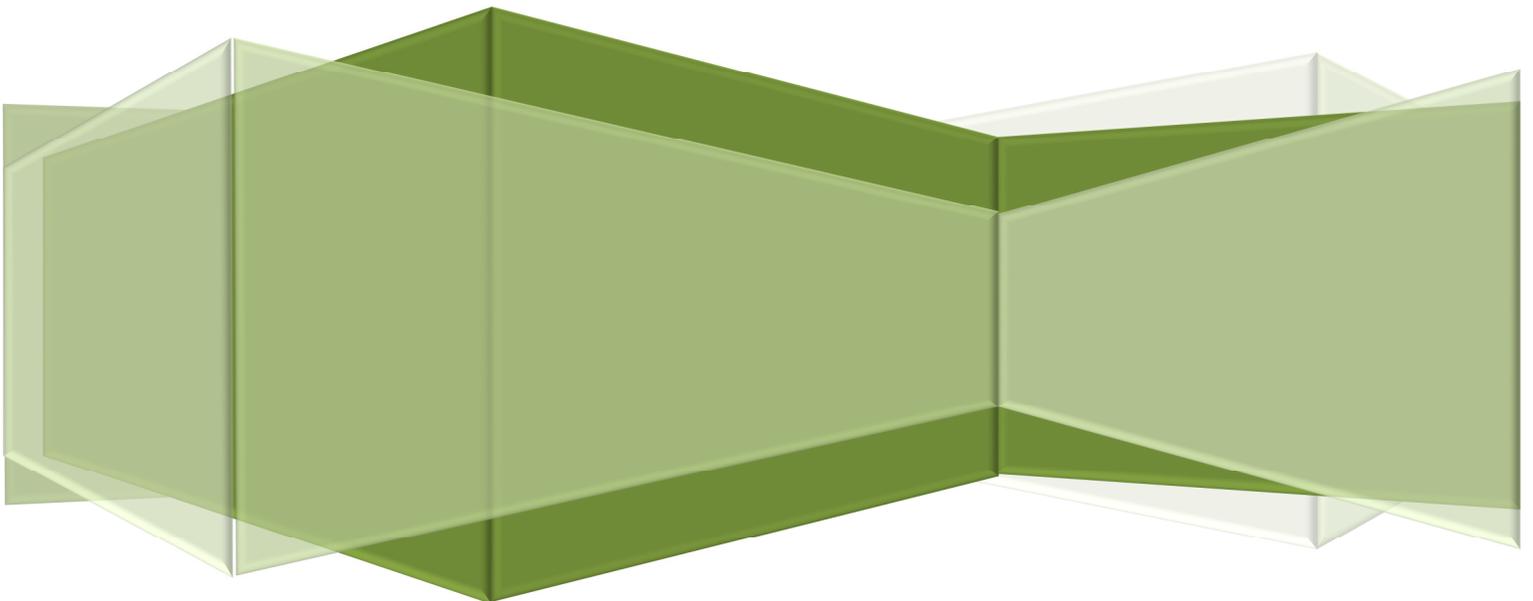




VERMONT DEPARTMENT OF BANKING, INSURANCE,
SECURITIES AND HEALTH CARE ADMINISTRATION

Shopping for Long-Term Care Insurance

Vermont Consumer Handbook – January 2011



OTHER FORMATS FOR THIS PUBLICATION

This publication is available on the Department's website, www.bishca.state.vt.us, under the Division of Health Care Administration's "Consumer Publications" link.

To speak with a health insurance Consumer Services Specialist, call 1-800-631-7788.

People with hearing impairments may contact the Vermont Relay Service at 1-800-253-0191 (TTY), or 1-800-253-0195 (voice).

People with reading or visual impairments may contact the Vermont Association for the Blind and Visually Impaired (VABVI) at:

1-877-350-8840 Brattleboro

1-877-350-8838 Montpelier

1-877-350-8839 Rutland

1-800-639-5861 South Burlington

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Introduction

LONG-TERM CARE INSURANCE

Long-term care insurance covers a wide range of health services for people who become unable to care for themselves because of prolonged illness or disability.

LONG-TERM CARE

Long-term care is a variety of services which help meet medical and non-medical needs. Long-term care includes skilled care, personal care, and supportive services provided in nursing homes, assisted living facilities and a person's home.

Cost of Long-Term Care

The cost of long-term care varies depending on the extent and type needed. In most instances, costs for long-term care will be substantial. Below are some 2010 average costs for care provided in Vermont:

	Average Daily/Annual Nursing Home Room Rate: Private ¹	Average Daily/Annual Nursing Home Room Rate: Semi-Private ¹	Average Monthly/Annual Vermont Cost for Assisted Living: Base Rates ²	Home Health Aide: Vermont's Average Hourly Rate ²	Homemaker Services: Vermont's Average Hourly Rate ²	Adult Day Services: Vermont's Average Daily Rate ²
State Average	\$261/ \$95,265	\$243/ \$89,425	\$4,627/ \$55,524	\$23	\$21	\$140

Sources: ¹ Verified by VT Division of Rate Setting (DRS)

² The 2010 MetLife Market Survey of Nursing Homes, Assisted Living, Adult Day Services, and Home Health Care Costs

To make the best decisions about how to pay for long-term care you need to understand the cost of services and public and private financing programs for which you might be eligible.

Ways to Pay for Long-Term Care

People pay for long-term care in a variety of ways. Some ways in which people pay for long-term care include:

- Using their own *resources*,
- Assistance from *Medicaid* for those who qualify, and
- Purchasing *long-term care insurance*.

Medicare, *Medicare Supplement Insurance*, and the health insurance you have at work usually do not cover long-term care. *Medicare* primarily covers short-term stays following hospitalization. *Medicare Supplement Insurance* helps pay for some of the gaps in Medicare coverage, such as hospital deductibles.

Individuals and their families generally pay for part or all of the costs of long-term care from their own savings or by selling their assets. Even if there is a modest level of need for assistance, using *personal resources* to pay for long-term care can be a challenge.

Medicaid is the State and Federal program that pays for certain health services and nursing home care for older people with low incomes and limited assets. Although Medicaid may pay for nursing home care, some individuals have to “spend down” their assets to qualify for Medicaid. “Spending down” means that a person has depleted all cash assets, including stocks, except for a small amount (usually \$2,000). Spending down assets by transferring them to children may not be an option because, in reviewing applications for Medicaid, reviewers look for gifts within the 5 years prior to eligibility. They may deny coverage for the number of months the gifts could have paid for nursing home care.

Long-term care insurance is another way to pay for long-term care. The rest of this publication will provide detailed information to help you decide if you would like to buy long-term care insurance.

More information about Long-Term Insurance can be found in the National Association of Insurance Commissioners (NAIC) publication, “A Shopper’s Guide to Long-Term Care Insurance.” Visit www.naic.org for a copy of this publication.

How Do I Know If I Need Long-Term Care Insurance?

The decision to buy a long-term care insurance policy is a personal decision. For some people, a policy is affordable and worth the cost. For others, the cost is too great and does not offer enough benefits to make it worthwhile.

YOU SHOULD NOT CONSIDER BUYING LONG-TERM CARE INSURANCE IF YOU:

- Have trouble stretching your income to pay for utilities, food, and/or medicine;
- Cannot afford the premiums (and potential increases in premiums); and/or
- Are on Medicaid.

YOU MAY WANT TO CONSIDER BUYING A LONG-TERM CARE INSURANCE POLICY IF YOU:

- Can afford to pay the premiums, including premium increases;
- Want to have the flexibility of choosing care in the setting you prefer;
- Have significant assets and income and want to protect them; and/or
- Want to have more control of your future care.

What Factors Impact the Cost of Long-Term Care Insurance?

Payments (called *premiums*) for insurance vary and are based on a variety of factors including age, health, benefits, services you choose, optional riders and provisions that you select for your policy. Buying a long-term care insurance policy can cost from several hundred to several thousand dollars per year.

PRICING LONG-TERM CARE INSURANCE

Pricing of long-term care insurance policies is complex. In a *Guaranteed Renewable* policy, rates cannot be increased due to advancing age or declining health; however, rates may increase based on the experience of all policyholders with a policy similar to yours. For example, rates will rise in the future if the company believes it needs to increase premiums to pay claims that are greater than the company expected. This has been a common occurrence for some insurance companies.

The Vermont Department of Banking, Insurance, Securities and Health Care Administration reviews long-term care policy rates and must approve a rate increase prior to implementation.

FACTORS RELATED TO AGE AND HEALTH

Initial long-term care insurance premiums are typically based on your age and health at the time you buy the policy.

Buying Early

Insurance premiums will typically be lower if you buy when you are younger. However, coverage may be insufficient when you need to use it, and new types of care might have emerged that may not be covered under your policy. You might pay into your policy many years before knowing whether you will actually use the policy. If premiums rise, you may need to discontinue the policy, particularly if you retire, lose a spouse, or live on a reduced income. If you do discontinue the policy, you could risk losing all the money you paid into it. To avoid that, you may purchase a non-forfeiture of benefits feature (see page 11 for more information).

Buying Later

Long-term care insurance annual premiums typically increase as you get older. For example, a policy that costs a 50 year-old person \$1,625 annually may cost a 60 year-old person \$3,100 annually. Long-term care insurers may refuse to sell a policy to an individual who is in poor health. However, if you become sick after you have purchased a policy, an insurer cannot refuse to renew your policy.

BENEFIT LIMITS AND PROTECTIONS

Maximum “Benefit Time Period” Limit

Most policies limit the total benefits they will pay over the life of the policy. When you buy a policy, you will need to decide the length of the *benefit time period*. Insurers do offer lifetime coverage, but costs are higher. To reduce premiums, people may choose to purchase a specified benefit payout time period. In Vermont, you will be offered a benefit time period of two, three, or five years. Nearly 90 percent of all people over age 65 who enter a nursing home stay fewer than five years, thus those shorter payout periods may be sufficient.

Daily/Weekly/Monthly Benefit Limit

Policies normally pay benefits by the day, week or month. When you buy a policy, you will need to decide on a benefit amount. In Vermont, you will be offered a minimum of three benefit choices that include a 90 or 100-day *elimination period* (see page 6) and a \$100, \$150, or \$200 maximum daily benefit.

Inflation Protection

People often purchase long-term care insurance many years before health benefits are used. During that time, the costs of long-term care continue to increase and will outpace inflation. Inflation protection ensures that long-term care insurance products retain meaningful benefits into the future. Studies have shown that people typically underestimate the impact inflation will have on the value of their benefits. Inflation protection can be one of the most

important additions you can make to a long-term care insurance policy, but it can increase your premiums by 25% to 40%.

The insurer will offer you the opportunity to elect the following inflation protection options: *simple*, *compound*, or *no inflation protection*.

A national publication called “A Shopper’s Guide to Long-Term Care Insurance” explains the difference between simple and compound interest: “The dollar amount of the increase depends on whether the inflation adjustment is ‘simple’ or ‘compound’. If the inflation increase is simple, the benefit increases by the same dollar amount each year. If the increase is compounded, the dollar amount increase goes up each year. For example, a \$100 daily benefit that increases by a simple 5% a year will go up \$5 a year and will be \$200 a day in 20 years. If the increase is compounded, the annual increase will be higher each year and the \$100 daily benefit will be \$265 a day in 20 years.”¹

Elimination Period

Long-term care policies have an *elimination period*, sometimes called a deductible, which is the number of days you must wait before your policy begins to pay benefits. During this wait, you must pay for your care out of your own pocket. For example, if you have a 90-day elimination period you will pay for the first 90 days in a nursing home. If an Adult Day Service costs \$150 per day, you will pay \$13,500 before the policy will begin to pay. If you leave the Adult Day Service before the 90 days expires, the policy will pay nothing.

This elimination period can range from 0 to 100 days (In Vermont, the elimination period cannot be more than 100 days). The shorter the elimination period, the higher your cost for a policy. For example, you may pay 15% less per year for a policy with a 90-day elimination period than for one with a 30-day elimination period.

¹ The National Association of Insurance Commissioners (NAIC), 2009, “A Shopper’s Guide to Long-Term Care Insurance”, page 22.

CHOICE OF LONG-TERM CARE INSURANCE BENEFITS

Long-term care insurance benefits vary considerably. Companies sell policies with many combinations of benefits and coverage for services. All long-term care policies sold in Vermont must offer basic coverage. While all policies offer the same basic coverage for services, some may offer additional benefits, so you can choose which one best meets your needs. There can be significant differences in cost from company to company for policies that offer similar benefits and coverage for services.

Shop around and ask questions to understand what kinds of policies will provide what you need, then compare the policies and pick the one that is best for you.

Required Long-Term Care Insurance Coverage (Basic Coverage)

In Vermont, every long-term care policy must provide at least coverage for the following basic services:

- *Home health care services* are skilled nursing or other professional services provided in the residence.
- *Personal care* helps one with activities of daily living (ADLs), under a plan of care developed by a licensed or certified professional. Some examples of ADLs include: bathing, dressing, transferring (getting from a bed to a chair), toileting, eating, and taking medications.
- *Adult day care services* are medical or nonmedical care on a less than 24-hour basis provided in a licensed facility outside the residence.
- *Hospice services* provide specialized care to relieve pain, other symptoms and stress during the last phases of life due to the existence of a terminal disease.

Additional Long-Term Care Insurance Coverage (Optional Coverage)

Additional coverage selected beyond basic services increases the cost of the policy. Insurers may offer policies with the following optional services:

- *Respite care* that relieves a family caregiver for a few hours to several days.
- Services in *other community facilities*.
- Services in *assisted living facilities*, which are residential arrangements designed to provide individualized personal care and health services for people who require assistance with activities of daily living.
- *Nursing home care (skilled nursing facility or long-term facility care)*, which is general nursing care provided in a licensed facility to those who are chronically ill or unable to perform activities of daily living.
- *Services or devices* to support people living at home (e.g., in-home electronic monitoring systems, grab bars and ramps, transportation to medical appointments).

Services Not Usually Covered (Limitations and Exclusions)

All policies contain limitations and exclusions. Limitations and exclusions are likely to differ from policy to policy. Before you buy, be sure you understand exactly what is, or is not, covered under a particular policy.

OPTIONAL FEATURES

Non-Forfeiture of Benefits

Under Vermont's long-term care insurance regulation, the insurer must offer you a *non-forfeiture of benefits feature*. Non-forfeiture of benefits is a policy feature that returns part of your premium payments if you cancel the policy before you claim benefits. Check with the long-term care insurance carrier to see if this feature is available to you. A non-forfeiture of benefits policy feature can increase premiums by 10% to 100%.

Questions and Answers

How do I purchase a long-term care insurance policy?

There are several ways to purchase a long-term care insurance policy. You may purchase coverage through an individual policy, or a group policy sponsored by your employer. At the end of this publication, we have listed insurance companies that are currently authorized to sell individual long-term care policies in Vermont. You may also contact an insurance agent. If you have questions about a particular agent or company, contact the Vermont Department of Banking, Insurance, Securities, and Health Care Administration at 1-800-631-7788 (toll free) or (802)-828-2900, or visit the Department's website at www.bishca.state.vt.us.

How do I know if I can purchase coverage?

Companies selling long-term care insurance *underwrite* their coverage, meaning the company assesses your age, health and health history before issuing a policy. If you do not meet the criteria established by the company, you may not qualify for coverage.

Once I need services, when and how do insurers begin to pay for them?

Long-term care policies have an elimination period, which is the number of days you must wait before your policy begins to pay benefits.

In Vermont, an inability to perform two activities of daily living (ADLs) triggers the time when you are eligible to receive payments (see page 10 for a description of ADLs). Insurers call this a *benefit trigger*. In addition, insurers will pay benefits for the presence of cognitive impairment. Cognitive impairment means that you have issues with short or long-term memory, reasoning, or judgment as it relates to safety awareness. Different policies may have different benefit triggers. A licensed health care practitioner will make the determination of eligibility.

What about switching policies?

In Vermont, long-term care insurers must notify their policyholders of the availability of policies that provide coverage for new long-term care services that were previously unavailable. Also, if a long-term care insurance policy is replaced by another long-term care insurance policy, the replacement policy must waive any time periods applicable to pre-existing conditions, elimination periods and probation periods.

If you do switch your long-term care policy, your premiums may be higher based on your current age and/or the differences in the new policy. You should never switch policies before making sure the new policy is better than the one you already have. You should never drop an old policy before making sure the new one is in place.

What types of policies can I buy?

You can choose between a *tax-qualified* long-term care insurance policy and one that is *non-tax-qualified*.

A tax-qualified long-term care insurance policy offers certain federal income tax advantages. If you have a qualified long-term care policy and you itemize your deductions, you may be able to deduct part or all of your premium payment on your federal taxes. It is important to compare both types of policies before making a decision. You can consult with a tax consultant or legal advisor to help determine which type of policy is best for you.

What are my rights?

- Coverage cannot be cancelled or not renewed as long as you continue to pay premiums as they are due and you have not used up the maximum policy benefits.
- Coverage cannot be denied based on a mistake that you made on the application.
- All long-term care policies must provide a “free look” period of at least 30 days from the purchase of the policy. For a full refund, return the policy before the 30 days are up.
- The privacy of your health information is protected.

- If the insurer is planning to terminate your policy for nonpayment of premium or another reason, insurers must provide written notice. You can also name another person who would be notified by the insurance company if the policy is about to lapse because of nonpayment of the premium. You can arrange to have the premium automatically taken out of your bank account, so that you won't lose coverage if an illness makes you unable to pay your premium.
- If you are not satisfied with the insurer's determination about whether you meet a benefit trigger, you can request an independent review of the determination.
- Policies cannot require a hospital stay prior to providing benefits for nursing home care.

What should I look for in a policy?

- *Outline of Coverage* that clearly describes the policy's benefits, terms and limitations in detail. It is important to understand how much money the policy would pay, and how much you would be responsible for.
- *Pre-existing Condition Exclusions* and *Waiting Periods*. Companies may impose a waiting period for pre-existing conditions. This means that policy benefits will not be paid for services during the waiting period related to conditions that existed before you purchased the policy.
- *Elimination Period*. The number of days you must receive services before your policy starts paying benefits.
- *Right to Cancel* clause that allows cancellation for any reason within 30 days of purchase and refund of premium.
- A *guarantee* that the policy cannot be cancelled or terminated because of the policyholder's age or physical or mental health condition.
- An *inflation protection* option for you to consider, that will periodically increase your benefit level without you having to provide evidence of insurability.

Where can I check on a company's financial stability?

Rating services analyze the financial strength of individual insurance companies. Different rating services use different rating scales. You can get information from the following rating services:

- A.M. Best Company at <http://www.ambest.com>
- Fitch IBCA, Duff & Phelps, Inc. at <http://www.fitchrating.com>
- Moody's Investor Service, Inc. at <http://www.moodys.com>
- Standard & Poor's Insurance Rating Services at <http://www.standardandpoors.com/home/en/us>

What should I know before I sign?

- Be certain that all of your health information on the policy application is accurate. Omitting medical conditions on your application may result in cancellation of the policy by the insurer. Review the application carefully before you sign it. Keep a copy for your records.
- Make sure the insurance company is licensed in Vermont; see page 16 for a list of companies that are licensed to sell long-term care insurance.

Can I expect changes in long-term care insurance under the federal health insurance law?

The new federal Affordable Care Act does not generally impact Long-Term Care insurance.



The Affordable Care Act includes the Community Living Assistance Services and Supports Act (known as the CLASS Act), which will create a voluntary national long-term care insurance program. The details of this program remain to be determined. Once implemented, the national program will allow employees to contribute towards long term care benefits which will be paid out as cash benefit to help with long-term care needs.

Companies Approved to Sell Long-Term Care Insurance

The Vermont Department of Banking, Insurance, Securities and Health Care Administration has approved the following companies to market and sell long-term care insurance policies in Vermont. Some of these companies only sell group insurance. Call your local insurance agent for more information on long-term care products.

Company Name
Assurity Life Insurance Company
Bankers Life and Casualty Company
Berkshire Life Insurance Company
Genworth Life Insurance Company
John Hancock Life Insurance Company
Massachusetts Mutual Life Insurance Company
MedAmerica Insurance Company
Metropolitan Life Insurance
Mutual of Omaha Insurance Company-United of Omaha
New York Life Insurance Company
Northwestern Long Term Care Insurance Company
Provident Life and Accident Insurance Company
Prudential Insurance Company of America
State Farm Mutual Insurance Company
Unum Life Insurance Company of America

Where to Get Help

The Vermont's State Health Insurance Program (SHIP) Counselors are located within the Area Agency on Aging that serves your county. The SHIP counselors provide free and confidential help. You can call the phone numbers or go to the specific websites listed below.

Agency Name	Phone Number
Area Agency on Aging for Northeastern Vermont 481 Summer Street, Suite 101 St. Johnsbury, VT 05819	802-748-5182 1(800) 642-5119 (toll free) www.nevaaa.org
Central Vermont Council on Aging 30 Washington Street Barre, VT 05641 or 109 Professional Drive Morrisville, VT 05661	802-479-0531 1(800) 642-5119 (toll free) 802-888-2504 1(800) 642-5119 (toll free) www.cvcoa.org
Champlain Valley Agency on Aging 76 Pearl Street, Suite 201 Essex Junction, VT 05452	802-865-0360 1(800)642-5119 (toll free) www.cvaa.org
Council on Aging for Southeastern Vermont Main Street, Suite 202 Springfield, VT 05156	802-885-2655 1(800) 642-5119 (toll free) www.coasevt.org
Southwestern Vermont Council on Aging East Ridge Professional Building 1085 U.S. Route 4 East, Unit 2B Rutland, VT 05701 or 169 North Street Bennington, VT 05201	802-786-5990 1(800) 642-5119 (toll free) 802-442-5436 1(800) 287-3221 (toll free) www.svcoa.org

The following organizations are helpful sources of information:

Organization Name	Phone Number
Medicare	1(800) 633-4227 (toll-free) TTY 1-877-486-2048 Website: www.medicare.gov
Vermont Office of Health Care Ombudsman	1(800) 917-7787 (toll-free)
Vermont Department of Banking, Insurance, Securities and Health Care Administration	1(800) 631-7788 (toll-free) 802-828-2900 Website: www.bishca.state.vt.us
AARP Vermont State Office 199 Main Street Suite 225 Burlington, VT 05401	1(866)227-7451 (toll-free) Website: www.aarp.org/states/vt/
The National Association of Insurance Commissioners (NAIC) NAIC publishes a free publication called "A Shopper's Guide to Long-Term Care Insurance." Get it directly from NAIC, or from the Vermont Department of Banking, Insurance, Securities and Health Care Administration.	www.insureuonline.org . The site is also available in Spanish at www.insureuonline.org/espanol
Vermont Center for Independent Living 11 East State Street Montpelier, VT 05602	1(800) 639-1522 (toll free) 802-229-0501

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