

Benefits Insights

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Miriam Avery Insurance Agency

Long-term Care Insurance

Long-term care insurance is a benefit that allows employers to attract and retain top performers. A recent survey from the Employee Benefit Research Institute revealed that 22 percent of companies offer long-term care insurance to their employees.

What is long-term care?

Long-term care (LTC) refers to a wide array of medical care, personal assistance and social support services for people who are physically or mentally unable to independently care for themselves for an extended period. This care can be provided in a nursing home, an assisted living facility or in one's home. Individuals needing LTC require assistance performing basic activities for daily living or suffer from severe cognitive impairment. Generally, the disabilities requiring LTC are caused by accidents, illnesses or advanced age.

What is long-term care insurance?

To combat the high costs of long-term care, LTC insurance protects individuals against incurring large out-of-pocket expenses in the future by paying affordable monthly premiums now. There are two different types of long-term care insurance policies available:

- Individual long-term care insurance
- Group long-term care insurance

Individual policies are generally purchased by people whose employers do not offer a group policy, or by those who feel that they need to supplement their employer's policy to obtain the most coverage possible. If employers and associations offer long-term care insurance to employees in the form of a group long-term care insurance policy, the policy may not offer the same level of protection afforded by individual long-term care insurance policies. Prior to purchasing a group policy, it is wise to compare the level of

protection offered and the level of protection guaranteed in comparable individual policies. Long-term care insurance policies should also clearly state if they are individual or group policies.

How does long-term care differ from disability insurance?

Although long-term care insurance evolved from income disability insurance, major medical insurance or disability insurance does not protect a policyholder in the same way. Unlike a health plan that may cover 30 days of recuperative time, a long-term plan will cover two years or more. Beyond that, disability insurance replaces only salary at the time of the injury, and does not cover the cost of care. The policyholder would then have to pay out-of-pocket for any ongoing long-term medical care due to his or her accident or injury.

Won't Medicare cover the expenses of long-term care?

Medicare should not be considered as a resource for handling any substantial long-term care expenses. Medicare reimburses the qualified user for a maximum of 100 days, with the average period for repayment of expenses being a mere 28 days. This will not suffice, as long-term care can be extremely expensive.



How are long-term care insurance policies designed?

A long-term care insurance policy covers any or all of the following types of services:

- Nursing home
- Assisted living facility
- Adult day care center
- Home health care
- Personal care

Premiums are generally determined by the employee's age at the time of enrollment and the benefits provided by the policy.

Most long-term care insurance policies pay a daily maximum benefit and a lifetime maximum benefit. Actual benefits are chosen at the time the policy is purchased. The daily maximum benefit for most long-term care insurance policies is usually less than the cost of one average day of long-term care service.

Most carriers offer two types of inflation protection:

- Automatic inflation protection, in which benefits increase at a fixed percentage while the premium does not increase
- Special offer inflation protection, in which the purchaser can choose to increase benefits periodically. The premium will increase if the benefits are increased.

Most states have adopted regulations that require companies to offer inflation protection. Policyholders may decide whether to buy the coverage.

What tax implications are associated with long-term care insurance?

The Health Insurance Portability and Accountability Act (HIPAA) provides some federal income tax advantages for tax-qualified long-term care policies. In general, some of these tax advantages include:

- Long-term care insurance premiums are considered a medical expense. The Affordable Care Act raised the medical expense tax deduction threshold to 10

percent of adjusted gross income, with an exception for individuals who are age 65 or older.

- An individual's maximum annual deduction for long-term care insurance premiums is limited to the premiums paid or, if less, to the eligible premium amount established by the IRS. The eligible premium amount is based on the taxpayer's age, and increases as a taxpayer gets older.
- Self-employed individuals may be able to deduct 100 percent of their premiums up to the eligible premium amounts established by the IRS. Additional rules apply.
- Premium payments that employers make on behalf of employees are typically deductible as a business expense.
- Employer contributions to long-term care insurance are generally not included in employees' compensation.
- Amounts that employees receive under long-term care insurance coverage (other than dividends or premium refunds) are generally tax-free as long as the recipient is chronically ill and the benefits are used for qualified long-term care services. Certain exclusion limits apply to benefits paid on a per diem or other periodic basis.

Some states have differing or additional laws in regards to taxes and long-term care policies. It is wise to check with a tax adviser or insurance agent for specific restrictions and rules that may apply before purchasing a policy or offering one to employees.

Where can I get more information about group long-term care insurance?

Group long-term care insurance may not be the right choice for all employers. Please contact us for more information at (406) 969-2802. We welcome the opportunity to help your organization examine its plan design(s) and make recommendations for improvement.

