

Benefit Fact Sheet

What is it?

Long-term care (LTC) insurance offers financial protection against the potentially high costs associated with chronic or long-term medical or mental conditions. LTC insurance generally covers Nursing Home Care, Home Health Care, Adult Day Care and Respite Care. Benefits are usually based on the loss of two or more Activities of Daily Living (ADLs -- feeding, toileting, transferring, bathing, dressing or continence) and/or severe cognitive impairment. Benefits can either indemnify an insured for out-of-pocket expenses or pay a specified dollar amount when an insured meets the loss of ADL trigger.

Group LTC insurance can be 100% funded by employees, or employers can contribute toward the cost of base level LTC insurance, or carve out an employer funded executive plan. Generally, plans that include a base level of employer contribution have lower premiums for employees that participate or buy up to additional coverage.

Why offer it?

- Private medical plans don't offer extended coverage for skilled nursing, hospice care and home care. Custodial care is almost always excluded.
- Most governmental plans that do offer long term care assistance usually require the recipient to deplete their assets to poverty level prior to accessing benefits.
- American Health Care Association studies show that two out of every five Americans will need nursing home care in their lives.
- The national average annual cost of a private nursing home is \$74,208, according to the Genworth 2009 Cost of Care Survey. In San Francisco, the average cost is \$102,000 annually. The national average cost of home health care is \$31 an hour. In San Francisco, the cost is approximately \$59 an hour.
- Most worksite LTC plans allow employees to obtain coverage on behalf of spouses, parents and grandparents, children and siblings over the age of 18.
- Employer-paid premiums are tax deductible.
- Employee-paid premiums are deductible if the employee's total unreimbursed medical expenses exceed 7.5% of the employee's adjusted gross income.
- Employer offered group LTC plans typically offer some level of guarantee issue coverage where employees are accepted regardless of medical condition.
- Plans are 100% portable for employee and family members at group rates upon employee termination.

What types of employers offer it?

Any employer who wants to offer progressive benefits or any employer with an executive class or older population.

What size employers offer it?

- Employer funded plans with as few as 15 employees.
- Employee funded plans must meet minimum participation requirements, which are typically achievable for groups with higher incomes and older employees.

What are the critical underwriting or participation requirements?

- Most carriers have minimum participation requirements of 15 employees or 10% of employer population, whichever is greater

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- Employer location, size and industry
- Employee demographics
- Each family member will be medically underwritten

What's new in this area?

- Increasingly, employers are electing plans which use simple inflation over compound inflation. This helps to keep rates low, making the plans more attractive to employees.
- The Health Care Reform legislation currently includes provisions to provide a federal long term care benefit. This benefit would be a voluntary program that would provide support for some home care services but is not expected to be sufficient to cover the majority of long-term care costs.
- There have been discussions to allow LTC premiums as part of a Section 125 plan, however such change is not anticipated in the near future.
- The return of premium feature in some contracts allows policyholders to get back all or part of their premiums paid, if they die prior to receiving benefits.
- A family home care benefit option may be available which pays benefits for care provided by a family member.

How much does it cost?

Cost is based on the age of the individual, level of coverage and benefit waiting period, as well as the method for increasing the benefit to keep up with inflation. Rates are locked in at entry age creating an incentive to start coverage at an earlier age. Typical annual premiums for a standard voluntary indemnity plan with 3-year facility duration, \$2,000 monthly nursing home maximum, \$1,500 monthly home health care maximum, and 5% compounded inflation protection, are:

Age 30 - \$550
Age 40 - \$750
Age 50 - \$1,100
Age 60 - \$1,900

By comparison, rates for the same plan using simple inflation rather than compound inflation are significantly lower:

Age 30 - \$200
Age 40 - \$350
Age 50 - \$550
Age 60 - \$1000

These rates will decrease approximately 10-15% if funded by the employer. (Source: UNUM)

Informational link(s)

- [Genworth 2009 Cost of Care Survey](http://www.aahsa.org/) (http://www.aahsa.org/)
- [An Employer's Guide to Long Term Care Insurance](http://www.hiaa.org) (www.hiaa.org)
- [The National Clearinghouse for Long-Term Care](http://www.longtermcare.gov) (www.longtermcare.gov)

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Pros and cons

Pros

- Helps address significant financial and lifestyle issues for employees
- Portable coverage
- Guarantee issue for employees
- Premiums may be tax-deductible
- Attract and retain key employees

Cons

- Complex to communicate both the need and the solution to the employee
- Difficult to implement - LTC should be implemented at a different time than other benefit coverages
- All employees may not value benefit

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.