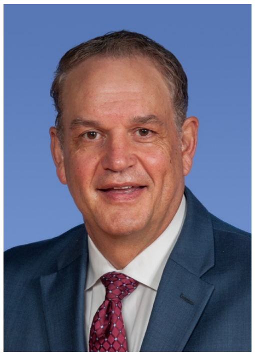

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Types of Long-Term Care Insurance (LTCI) Policies

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Introduction

Long-term care insurance (LTCI) policies offered by insurance companies can be purchased directly from the companies, through an insurance agent, through your employer, or through an association.

If you work for the federal government (including the military), you may be able to obtain coverage under the Federal Long Term Care Insurance Program. Active and retired federal employees, their spouses, and their adult children are eligible to apply for coverage.

Tip: *All 50 states have the option of enacting long-term care partnership programs that combine private LTCI with Medicaid coverage. Partnership programs enable individuals to pay for long-term care and preserve some of their wealth. Although state programs vary, individuals who purchase partnership-approved LTCI policies, then exhaust policy benefits on long-term care services, will generally qualify for Medicaid without having to first spend down all or part of their assets (assuming they meet income and other eligibility requirements). Although partnership programs are currently available in just a few states, it's likely that many more states will offer them in the future.*

Individual policies

Most LTCI policies sold today are sold to individuals. An individual can purchase an LTCI policy through an insurance agent, can take advantage of mail solicitations, or can sign up through direct telemarketing efforts. Individual policies offer a wide range of coverage; in fact, one significant advantage of individual policies is that they afford you the opportunity to compare various companies. Thus, you can purchase the precise coverage you need.

Group policies

In general

Basically, group policies can be broken down into three categories: (1) those you purchase through your employer, (2) those you purchase from an association, and (3) those you purchase from an insurance company.

Employer policies

Your employer may provide you with an opportunity to enroll in a group LTCI plan. You (as the employee) would pay the premiums for this coverage, and the policy will typically offer protection for you without your having to pass a medical examination. Some plans also will let your spouse (and even parents) buy protection, although these other individuals typically must pass the insurance company's medical screening process to qualify. The type of coverage provided by employer-sponsored group plans is similar to that provided in individual policies. If you're considering joining such a plan, however, make sure that the policy contains an option for you to continue coverage if you retire or if your employment is otherwise terminated. Group plans may have certain advantages. For instance, when deciding to go with a plan, the employer's benefits manager presumably will compare a number of different companies and plans and negotiate the best value for the employees. In addition, employees often have the convenience of contacting the employer if they have any questions or complaints regarding the LTCI policy's benefits. In some cases, however, employees must deal directly with the insurance company. Naturally, group policies possess some disadvantages as well, as discussed below.

Association policies

LTCI is also available on a group basis through various organizations, such as the American Association of Retired Persons (AARP). Often, insurance companies pay these associations fees or commissions from the sale of LTCI to association members. Therefore, the association may have a financial interest in encouraging its members to buy coverage. Be aware that large organizations with many elderly members may be able to negotiate better rates and coverage than would be available to consumers through employer-sponsored or individual policies. In general, policies insured through an association are fairly similar to other types of LTCI policies. Members typically have a choice of benefit periods and deductible or waiting periods. In most states, association policies must allow members to maintain coverage after they leave the organization. This is an advantage over the typical employer-sponsored plan, although conversion or continuation provisions may be required in some states.

Insurance policies

Groups can also purchase policies directly from insurance companies.

How do group plans differ from individual policies?

There are some significant differences between group policies and individual policies. In group policies, for example, the sponsoring organization (i.e., the employer or association) and the insurance company usually reserve the right to change benefits and premiums without the consent of the individual policyholder. In fact, sometimes they even reserve the right to cancel the master policy or individual policies without the consent of the individual policyholder. As a result, consumers are somewhat at the mercy of the sponsoring organization, particularly if the sponsoring organization is an employer. Therefore, you need to review all policy provisions and rights to continue the policy after departure from your employer.

However, the group's large membership often helps it to negotiate lower premiums and perhaps better coverage, so there can be some significant advantages. In fact, it's likely that the cost of a group policy may be 5 to 10 percent less than the cost of an individual policy.

LTCI as part of an annuity or life insurance policy

Sometimes, long-term care (LTC) coverage can also be combined with an annuity or a life insurance policy. These hybrid products allow the policy owner to use the annuity cash value or the life insurance death benefit for long-term care expenses. As of 2010, LTCI benefits paid from a combination policy are tax-free, if certain conditions are met. Also, cash values can be withdrawn from annuities or life insurance tax free to pay for qualified long-term care insurance.

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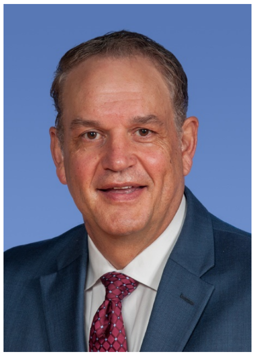

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