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CHOOSING THE RIGHT LONG-TERM CARE INSURANCE

Benjamin Lipson

John Wiley & Sons, Inc.

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Published by John Wiley & Sons, Inc.
Published simultaneously in Canada.

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ISBN 0-471-15205-6

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

This book is dedicated to my grandaughters Janie and Amy with the fervent wish that when they become seniors traditional doctoring will be the accepted norm for the delivery of health care and they will be able to live independently with dignity in their golden years.

Acknowledgments

My internist, Dr. John Goodson, of Massachusetts General Hospital, prodded me for years to write a book about long-term care insurance. This work would be a natural extension of my *Boston Globe* columns and opinion pieces, where I have always advocated for health care reform and patient rights. This book reflects Dr. Goodson's concern with the plight of seniors and their families who often confront the loss of independence in addition to the need for specialized care that accompany growing older. I am grateful for the doctor's encouragement.

When I sat down to write the text, I depended on my 50 years of experience in the industry and upon the information I uncovered writing for the *Globe*. But no book of this importance can be based on one person's knowledge. Many people contributed to this effort.

I am indebted to several insurance industry experts who generously shared their insights and their time during extensive interviews. Thank you, especially, to an exemplarily corporate citizen, Richard Wolfe, senior vice president of field operations for UnumProvident Corporation. As a result of his efforts I was furnished with reams of invaluable data to help consumers make informed choices. He and those under his direct supervision gave me straight answers to all my questions—even those that were irritating and involved sensitive issues. Their candor reflects the way a first-class insurance company does business.

Those who study the industry outside corporate offices were also central to this effort. Marc Cohen, Ph.D., vice president of LifePlans, Inc., in Waltham, Massachusetts, provided me with industry, academic, and government sources, as well as an honest, detailed interview. Lisa McAree, managing general agent for nine long-term care insurers, offered an inside look at long-term care policy provisions and practices. Meredith Beit Patterson, elder care consultant, explained the role of professional care managers in long-term care. Joseph Belth, Ph.D., publisher of *The Insurance Forum*, outlined a clear explanation of ratings firms. Richard Albert, regional sales director of MetLife Individual Long-Term Care Sales Group, provided encouragement. June Saltzberg, Bodimedex president, let me in on the truth about the cognitive impairment test. Diane Paulson, managing attorney, Medicare Advocacy Project of the Greater Boston Legal Services, gave helpful insights for beneficiaries wishing to access their long-term care rights. Jay Menario, former head of long-term care product development for UnumProvident Corporation, for supplying underwriting and statistical data, and Chris Goetcheus, communications officer of the Massachusetts Division of Insurance for providing important consumer information.

Several people helped me with the writing of this book. David Pugh, my editor at John Wiley & Sons, Inc., assisted me in the development of the manuscript. Judy Budz provided editing and encouragement along the way; and Geraldina DeBenedictis put up with my lengthy typing assignments and deciphered my tapes.

My daughter, Judy Lipson, good-naturedly sacrificed her few leisure hours to help me with last-minute typing and e-mailing.

And, of course, my wife Ellie supported my hectic schedule even though it meant time away from our activities during the summer. She tolerated my preoccupations, listened to my concerns, and praised my efforts.

Contents

Foreword

Yung-Ping Chen, PhD
Frank J. Manning Eminent Scholar's Chair Professor of Gerontology
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J.K. Lasser's Choosing the Right Long-Term Care Insurance by Benjamin Lipson fills more than the proverbial gap in information; it is a valuable addition to J.K. Lasser's long list of practical guides for financial needs.

How to pay for long-term care services is an issue that promises (or more accurately, threatens) to become increasingly challenging in the next several decades as a result of the aging of the elderly population. By comparison, funding long-term care will be even more daunting than funding Social Security and Medicare, partly because long-term care entails issues more complex than supplying retirement income or providing acute health care, and partly because, although Social Security and Medicare's funding model needs reform, it is still functioning, whereas the system of funding long-term care is widely acknowledged to be in a state of serious disrepair.

The need for long-term care services is a risk that is best protected by insurance, yet the current funding for these services relies heavily on personal out-of-pocket payment and public welfare (Medicaid) but only lightly on social insurance and private insurance. This method is akin to sitting on a two-legged stool that is unlikely to be stable and sustainable, because it tends to impoverish many people and thereby severely strains the Medicaid budget nationwide. Some regard it as a catastrophe waiting to happen.

To incorporate insurance as a key component of funding and to mobilize public and private resources more effectively, an argument may be made for a

three-legged-stool funding model, with social insurance providing a basic protection that would be supplemented by private insurance and personal payment. When these measures do not provide sufficient protection for some individuals, Medicaid as public welfare would serve its traditional role of helping the poor. But the implementation of this funding model must await the alignment of many stars. Meantime, private insurance should be promoted.

However, private long-term care insurance has many strikes against it. This insurance is perceived to be for the purpose of staying in a nursing home, because policies in earlier days were designed to cover nursing home expenses. People do not want to think about being in a nursing home, so they do nothing that makes them think of it. Today's long-term care policies cover almost all forms of services including home care and assisted living, but this market, though slowly growing, has not taken off. Why not?

A long-term care policy is expensive when people buy it at older ages; they do not buy it while younger, when premiums are lower, because at that time they are not concerned about the problem. Sometimes people do not buy it because they dread the thought of "use it or lose it," and even when they use it they can win (receive benefits) only when they lose (become disabled—a less than fulfilling proposition.) Sometimes people do not purchase it because they don't think they will ever need such care, and should they do, Medicare or Medicaid will pay or they can self-pay. Sometimes they just plain put it off because it is too complicated a product that brings no joy from spending; with enough procrastination people eventually become uninsurable. In addition, sometimes people are wary about buying because some companies deny payment due to fine-print exclusions. Long-term care insurance also poses problems for the insurance agent, who may find it difficult and time-consuming to convince customers to buy. Then there are those agents who use sales approaches, however well-intentioned, that tend to frighten people away. There is also occasional deliberate misselling, as in other trades or professions.

Here is where Benjamin Lipson comes in. In clear, nontechnical language, he explains a great deal of technical information that will help people understand their needs and options. To the extent he makes it easier for consumers to decide, he also helps the insurance agents. To the extent he helps the insurance agents, he also helps the insurance industry. To the extent private insurance can supplant public funds, he helps reduce costs to government, thereby benefiting taxpayers. To the extent insurance payments replace the out-of-pocket personal payments, he helps people conserve their income and savings. Finally, because any illness is a family affair, especially those disabilities that require care in the long term, he helps individuals and their families acquire peace of mind when he makes it easier for them to learn how to protect themselves through insurance. For all these reasons, I believe Mr. Lipson is making a valuable contribution.

Preface

All the proceeds from this book are going to the Marjorie E. Lipson Memorial Fund within the John D. Stoeckle Center for Primary Care at the Massachusetts General Hospital. I donate these proceeds in gratitude for Dr. John Stoeckle's treatment of my daughter, Marjorie, and in her loving memory.

Marjorie died at age 35, after a 20-year battle with anorexia and bulimia. My struggle to support Marjorie during her illness reinforced my recognition that the medical system in this country is breaking down under the weight of bottom-line medicine that puts profits before patients.

I was not a naive advocate; I knew my way around the giant insurance bureaucracy. But I am an insurance man, not a physician. On my own, even my very best efforts seemed to achieve little. I found myself turning more and more to Dr. Stoeckle, Marjorie's primary care physician.

Margie was denied treatment by many physicians who were then unfamiliar with eating disorders. But Dr. Stoeckle accepted her as a patient, he connected with her, and was able to establish a treatment plan for the unique characteristics of her illness.

Dr. Stoeckle helped us through the heartbreaking maze of treatment decisions and insurance requirements. Dr. Stoeckle was my family's rock, supporter, and nurturer—a true caregiver.

Thirty years ago we would have called a physician of this type a family

doctor. Today we call them primary care doctors. Thirty years ago, our family doctor would have come to our christenings, Bar Mitzvahs, graduations, weddings, wakes, and funerals; today they hardly recognize us in their examining rooms.

Our society needs a return to the values of traditional doctoring, in which the physician focuses on patients and their families, not the regulations of the health care or insurance bureaucracies.

I couldn't save Marjorie, but I vowed that for the rest of my life I would work for other patients.

Supporting the John D. Stoeckle Center at Massachusetts General Hospital is the cornerstone of this vow.

Dr. Stoeckle, who retired in 2001 after more than 50 years as a primary care physician, centered his practice of medicine on the notion that "the secret to caring for the patient is to care for him." He believed that the best doctoring happens when the physician brings the family into the planning process. His career, both practice and research, addressed the vital interactions among doctor, patient, and family.

The Massachusetts General Hospital has established the Stoeckle Center for Primary Care to honor Dr. Stoeckle's contributions and perpetuate his philosophy. The Center "seeks to improve the general care of patients by promoting the professional ideals, values, and behaviors in which medicine's science and art, the technical and the personal, are conspicuously joined in the care of the individual patient."

The driving force behind the Stoeckle Center is his associate, Dr. John D. Goodson, who says, "There must be an unwavering focus on the health of each individual. . . . Traditional doctoring skills, the humanistic application of science with full and complete mutual sharing of decision-making, must be sustained, nurtured, and supported in the modern health care environment."

The Stoeckle Center for Primary Care "focuses on the decision-making process with the clear and explicit mission of guaranteeing that each and every decision is in the individual patient's best interest."

To this end, the Marjorie E. Lipson Memorial Fund within the Stoeckle Center will be used to promote patient advocacy and patients' rights within health care and insurance bureaucracies. The Fund will support physician training through seminars, lectures, publications, and other sources for physician and staff awareness.

My daughter, Marjorie, was fun loving, smart, athletic, and popular. Her mother, sister, nieces, and I will always miss her. We choose to remember her in life, not in her illness. We are happy to support the well-being of other patients through the work of the Stoeckle Center.

If you would like more information, write to:

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Introduction

Informing the public about the facts of long-term care insurance is a personal mission for me; and this book is my informed and personal statement. During my 50-year career in the insurance business, I have been a broker, a consultant, and always an ardent advocate for patients' rights and senior health concerns. For the past 20 years, my columns and opinion pieces on insurance have appeared in the *Boston Globe*. My earlier book, *How to Collect More on Your Insurance Claims*, told consumers exactly how to manage the multibillion-dollar insurance industry before it managed them right out of their homes, cars, and bank accounts. Today consumers need to scrutinize their long-term care insurance options just as carefully.

Except for making a will, there may be no other financial or insurance decision that comes with the same emotionally loaded preconceptions and unpalatable alternatives as does planning for our old age, not to mention our very, very old age. The insurance industry complicates our decision making by producing jargon-ridden, statistically complex, and flashy brochures and complex policies. It encourages its sales representatives to push products in the agent's best interest, and to arouse potential customers with doomsday scenarios about institutional nursing homes and dripping bedpans.

As a son, an adviser to senior citizens on health care matters, and a senior myself, I understand the fear of losing one's independence and the concern over financial impoverishment. But these darkly legitimate fears and concerns

pale in the face of our ignorance about what our long-term care needs may actually be. While the consumer sweats, scrambles, and spends, the insurance industry develops more and more complex long-term care product lines. After all, insurance companies are businesses, pushed by shareholders and accountable for their bottom lines. Meanwhile, their product development is being pulled by a rapidly expanding customer base of aging baby boomers and mid-career children caring for parents in decline.

Health care insurance on its own is not a long-term care solution. Dad's Medicare coverage will not keep him in the hospital a few extra days so that his broken hip can set. Health insurance policies dole out hospital days like gruel, using complex formulas to justify sending poor Dad home in a wheelchair if he is barely able to make an independent transfer from his wheelchair back into his own bed.

Where is the government in all of this? Often, we wish that Congress and our statehouses would simply stay out of our business. Federal entitlement programs like Medicare and Social Security weigh down the national budget. Who remembers the overreach of Clinton's universal health care task force? Tax law is already so complex that most of us hire an expert to decode and deduct dollars on our Form 1040s.

In fact, the Health Insurance Portability and Accountability Act of 1996, known as HIPAA, indirectly made a statement about the federal government's role in long-term care insurance. The answer: That role will be as small as possible. If you are unfortunate enough, or maybe fortunate enough, to spend virtually all your annual income on food, rent, and clothing, you may expect that Medicaid will foot your long-term care needs, subsidizing your nursing home bed or home health care professional.

This book is for the rest of us, since long-term care will be our problem and no one else's. We are the ones who have 7 percent of our income left over at the end of the year. We are the qualified customers who are being courted by the insurance industry.

I hope you use this book to become a truly qualified customer. Take it to the beach, read it in your bedroom, share it with your spouse, your parents, and your children. Give it to your wedding attendants. Everyone must learn to make sensible and rational decisions about long-term care, to cut through the complexity of brochures, competing policies, and persuasive sales pitches. Plan properly now, and you'll have the "dollars to stay at home" when you are ready to do so. Plan poorly, and your very old age will not be the golden years you anticipate and deserve.

CHAPTER 1

Independence for All

This book is not intended to scare you. On the contrary, when you've finished reading you will be equipped to make wise choices about the long-term care you want. You'll understand where long-term care coverage stands in your financial planning universe, how taxes impact your decisions, which type of policy might be best for you, what secrets lie buried inside your policy, and how to deflect an emotional sales pitch. You'll know what to expect if you have preexisting conditions that might disqualify you from coverage, and you'll understand the implications behind the dreaded cognitive impairment test. You will have a hard-hitting list of questions for yourself and your insurance agent, along with a set of guidelines to follow as you make your long-term care planning choices.

This book, then, is based on four assumptions, which have been the basis of my 50-year career as an advocate for patients' rights and senior health insurance concerns:

1. We recognize that government dollars for health and long-term care are shrinking. We know, without being constantly reminded by the insurance industry, that our long-term care costs might impoverish us.
2. We expect to plan carefully for our futures, whether we're just out of college or just into retirement.
3. We are educated consumers, already expert at reading computer specifications, comparing colleges, and analyzing mortgage rates. We know how

to read the fine print and are not impressed with bells and whistles designed to confuse us.

4. The most important goal for our very old age is to preserve our priceless independence and dignity.

Many of us are unsettled by the thought of aging, but life rewards the forward thinker. Long-term care planning effectively starts on the first rung of the career ladder, often as a benefit of employment. In midlife it becomes intergenerational, as adult children worry about advising their parents and assessing their own options. In later years, long-term care considerations become a foundation of preretirement financial planning, and the cornerstone of a senior citizen's well-being.

This book offers you, your parents, your children, and your advisers the tools to make rational and prudent decisions about long-term care options. It will steer you away from a prescription for long-term pain and suffering and lead you toward the preservation of your most valued assets, dignity and independence.

Those Misleading Statistics

The insurance industry has taken its time recognizing the intelligence of its customers. One promotional brochure now stresses that the company's goal is to "help you maintain your independence."[1] Another offers "facts that can help you understand the risks associated with long-term care and our solutions for helping you maintain your personal and financial independence should you need long-term care."[2] But often these promises about "independence," whether by design or not, tend to be misleading. The insurance brochures are not promising to keep you out of a nursing home. Rather, the brochures are careful not to offend the nursing home industry, which itself wants people to buy long-term care coverage. This way, when they are admitted to a home as private pay or insured residents, they will be subjected to a higher room rate than those supported only by Medicaid.

If you are over 60, chances are that you have been repeatedly bombarded with lunch and seminar invitations from insurance agents selling long-term care policies. If you're under 60, your dinner is frequently interrupted by phone calls with the same appeal. Despite their apparent interest in helping you maintain your independence, these insurance agents are intent on letting you know what you can expect in your old age: inevitable impoverishment.

It's enough to make you lose your appetite.

The pitch goes this way: Don't worry about fire insurance; your risk of making a claim on your homeowner's insurance is 1 in 88. A car accident? Overall, your probability for a car accident is about 1 in 47, which is why you bought an automobile liability and collision insurance policy when you purchased your first car.[3]

Take a deep breath, says the insurance agent, and listen to these much more ominous predictions and statistics about your old age. If you make it past 50, you have a one in five probability of eventually needing long-term care.[4] If you reach 65, your chances of spending time in a nursing home increase to 43 percent.[5] Make it past 80, and you have a one in two chance of joining your remaining friends and neighbors in a long-term care facility.[6]

This frightening pitch became so troubling for the executive director of a large trade association that he wrote to the CEO of the insurance company. Long-term care coverage was meant to be an attractive perk of membership, said the director, but the agents who were presenting the plan during home visits were scaring the members right out of the association. Why should the insurance company salespeople be the agents of such woe? Who anointed them the bearers of such bad tidings? Why would anyone want to hear that because of the high "statistical probability of ending up in a nursing home" they could expect to see their "life savings wiped out" and their caretakers debilitated?

What did the CEO say? Granted, these dinner-hour visits may not be pleasant, but such predictions are necessary to explain the risks of aging.

The executive director explained to the CEO that such "scare tactics" insulted the intelligence of the association's membership, already accustomed to prudent, thoughtful decision making. The executive director had lost his appetite along with his members.

Long-Term Care Insurance Meets the ER

My neighbor, Jane, called me one day from the local emergency room. Her father had fallen, and Jane might be facing another care crisis. Jane was an only child; since her mother's death she had been responsible for her father. Above all, she did not want him to be forced to go into a nursing home prematurely.

Her father had worked hard all his life as a laborer, and her mother had cleaned houses. They had lived from paycheck to paycheck, scrimping to send Jane to college and to drop the remaining dollar on the collection plate each Sunday. Jane wanted her father to live his last years at home, with dignity and independence.

For three years, Jane had been the personal assistant to the regional manager of a home furniture chain. Jane's boss was very sympathetic to her role as a multitasking caretaker, allowing her to leave work to tend to her father's emergencies, take her kids to soccer practice, attend their dental appointments, and confer with their teachers. In turn, Jane was very conscientious about her job, coming in early and often skipping lunch hours to make up for the hours she had to take for her personal commitments.

Katie, the boss, understood Jane's situation because she had been there. Years earlier, Katie herself had been forced by the demands of her job to move her own mother, who previously lived alone, to a nursing home. The nursing

home placement felt premature, but Katie had no choice. Her job required that she travel her region regularly, and she was on track for an executive position in the home office.

The day Jane called me, her father had slipped, fallen, and cut his head. He was dizzy and bleeding. Jane was swamped at work; the annual reviews for the store managers were due. She couldn't leave immediately to attend to her father so she told him to call 911. She would meet him at the hospital in an hour.

Rush hour traffic slowed her further, and she arrived to find that her father had been seen by the triage nurse. Now he was sitting in the ER waiting room, expecting to be called for an X ray. He had been waiting alone for an hour and a half, and the ER secretary warned Jane that the X ray department was so backed up that she might as well pick up a hamburger since they would be sitting for another two hours.

Jane was frustrated, but she was also relieved. When she called me, she said, "I'm lucky this time. They think Dad is okay, and nothing seems to be broken. I guess the X ray is a precaution. But what if he slips again? I'm afraid that Dad is going to need round-the-clock care fairly soon. I'm worried that he'll fall out of bed, or get lost and disoriented in the neighborhood. I don't even know how I'll manage to help him dress in the morning or get to the toilet."

She paused, then said, "What am I going to say to my mother when I visit her grave? I promised to take care of Dad."

For Jane, payback time had come. She wanted desperately to help her father live the rest of his life as he deserved to, in his own home and surrounded by familiar cronies. But Jane simply didn't have the money. Besides, her husband, who had been patient about the time Jane gave to Dad, gently pointed out that she was spending hours away from her kids. The boy was already in middle school; he needed his parents at home in the evenings to help with his homework. Her husband also asked where they would find the extra money to pay for a caregiver for Dad. They would be looking at colleges for the kids in three years.

What a painful double bind! Her father was a proud man who did not want to go on what he called the "public dole." Dad and Mom had never accepted charity, and Dad had proudly resisted spending down his assets to qualify for Medicaid nursing home coverage. He did not qualify for admission to a VA hospital, either. For the time being, Jane could help her dad manage his costs. Together they could probably cover 90 days of home care. They might even be able to squeeze out another few months of paying for a nighttime companion, in case he fell out of bed. After that, Dad would have to spend the money he had left. He would end up in a nursing home paid for by Medicaid. He didn't need that level of care, but there was no alternative to the premature placement.

"I suppose it's too late to buy long-term care insurance for him," she said to me.