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Understanding Long-term Care Riders and Options



There's no such thing as a standard long-term care insurance (LTCI) policy. Some policies are comprehensive (including most group LTCI policies), building many important features into the base plan--while charging a higher premium. Other lower-priced policies provide only basic coverage but offer you the choice of buying greater benefits at an additional cost. That's why it's important when comparing policies to look at both the basic coverage an LTCI policy offers and the optional benefits you can add.

A quick look at long-term care insurance basics

Most LTCI policies today cover a full range of services, including full-time nursing home care (skilled care), part-time nursing home care (intermediate care), or assistance with daily living activities (custodial care). Coverage for mental incapacity (including Alzheimer's disease) is now standard in most policies. Also, a good basic policy won't require you to spend time in a hospital before receiving long-term care benefits. And nearly all LTCI policies are renewable, as long as premium payments continue. You should be able to find a basic LTCI package that includes many of these features. If not, find out how much it will cost to add these provisions.

Now that you have an idea of what a good basic LTCI policy should include, consider some of the following options and riders. But because they can significantly increase your LTCI premium, you'll need to balance the cost of these options with their importance to you.

Home health care and other alternative care options

Most LTCI policies will cover care in alternative care settings, such as the home, adult day-care facilities, and assisted-living facilities. But this important option is not standard in every policy. Alternative care makes sense when you don't require the constant skilled nursing care that a nursing home provides but still need the services of a health aide at least a few times a week. It can also help you transition from a hospital or nursing home and become self-sufficient. So what's the price tag? Home care and other alternative care coverage that provides half the benefit of full nursing home care can increase your premium by 30 percent. Coverage that equals the nursing home benefit could raise the premium by 50 percent.

Inflation protection

When you buy an LTCI policy, you choose a daily benefit level--the amount the policy will pay for your daily care if you need it. But how do you know this will be enough to adequately cover your costs? An inflation rider automatically increases your benefit amount by a specific percentage each year, either by simple interest or compound interest to help your benefit amount keep pace with rising costs. Five percent is a typical inflation factor. The younger you are when you buy an LTCI policy, the more important inflation protection may be. Keep in mind, though, that a simple-interest inflation rider can increase your premium by 20 to 30 percent or more, while a compound-interest inflation rider could more than double your premium. A possible alternative is to buy a policy with a larger benefit amount today in anticipation of rising nursing home costs in the future.

Nonforfeiture of premium feature

Should you decide you no longer need LTCI or if you are unable to keep up the premium payments, you may be able to salvage a portion of the policy's benefits. Some contracts contain a return-of-premium option whereby the insurer returns all of the premiums you have paid beyond a certain date, minus any benefits used up to that point. Others may pay a stipulated percentage of the paid premiums, depending on the number of years you've held the contract. Aside from the cash option, another method of preserving the benefits of your LTCI policy is through a nonforfeiture conversion. This involves changing your policy to one with a lower coverage amount or coverage for a shorter period of time compared with your original policy. These reduced benefits will be available when needed, and no further premium payments are necessary.

Waiver of premium

This provision allows you to stop paying premiums once you are in a nursing home and the insurance company has started paying benefits to you. Depending on the provisions of your contract, the insurance company may waive the premium as soon as it makes your first benefit payment, or you may have to wait 60 to 100 days after the onset of your nursing care. Note that the waiver of premium might not apply if you are receiving home care.

Guaranteed insurability

With this rider, you may increase your level of coverage without submitting to further health questions. This may be important to you if you're concerned that your health condition may change after you purchase your LTCI policy and you may want to purchase more insurance in the future. This option is particularly attractive if you're buying your LTCI policy when you're young.

Third-party notification

This benefit allows you to name a third party who would be notified by the insurance company if your policy is about to lapse because of your nonpayment of the premium due to mental or cognitive impairment. Many states require that insurance companies offer this option at no additional cost to you.

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