LTC Definitions - Designing Coverage

Accumulation Period

An Accumulation Period is a limited period of time in which a person must "accumulate" all the days required to satisfy his or her Elimination Period. Depending upon the insurance company, the Accumulation Period can be a set series of time (for instance, one year), or it can be expressed as a factor of the Elimination Period (four times the Elimination Period itself).

Not all companies or policies utilize Accumulation Periods. For those policies that do not utilize Accumulation Periods, the insured generally has an indefinite period of time in which to accumulate his or her Elimination Period days.

Benefit Period

The Benefit Period is the number of years for which daily benefits are payable under the policy contract. The Benefit Period is used to calculate the Policy Maximum. Benefit periods are typically measured in years and range from two years to lifetime. Some policies use flat dollar amounts in lieu of a number of years, i.e. $500,000 or $1,000,000.

Calendar Day Waiting Period

In lieu of an Elimination Period, some companies utilize a Calendar Day Waiting period. This means that once the insured has been certified as chronically ill each actual calendar day counts toward the satisfaction of their waiting period regardless if they incur expense.

Indemnity Contracts

Indemnity contracts pay the full amount of the daily benefit to the insured regardless of the actual costs of care incurred on any given day.

Integrated Coverage

Integrated Coverage provides coverage for benefits received in a Nursing Facility, an Assisted Living Facility and for Home & Community-Based Services.

Other types of policies are Nursing Facility Only policies and Home Care Only policies, both of which are decreasing in popularity.

Joint Coverage

Some insurance companies offer Joint Coverage or Joint Policies which offer LTCI coverage to married couples under one policy. The spouses share the same pool of available benefit dollars and may both receive benefits under the policy if both are eligible for benefits.

Premiums for Joint Coverage are typically calculated at 1.5 times the older spouse's individual policy premiums.

Maximum Daily Benefit (MDB)

The MDB is the maximum amount your policy will pay for expenses incurred on any one given day. If you choose a fully integrated policy, it will be the maximum benefit paid on any given day for services received in a Nursing Home, Assisted Living Facility, Hospice Facility or Respite Care.

Maximum Monthly Benefit

The Maximum Monthly Benefit is equal to the actual number of days in each month times the Maximum Daily Benefit, that the contract will pay for expenses incurred in any one calendar month for Home & Community Based Services.

It is generally preferable to own a contract that pays for Home & Community Based Services on a monthly basis as it can result in less out-of-pocket expenses for the insured.

To illustrate, a policy that pays Home & Community Based Services on a Daily Basis would pay up to the policy's Daily Benefit and the rest would be owed by the insured. If the Daily Benefit were $100, any expenses in excess of $100 would be the responsibility of the insured. Thus if the insured were incurring $150 in expenses three days per week, the insured would have to pay $150 out-of-pocket each week for the entire month, for a total of $600.

However, a policy that pays Home & Community Based Services on a Monthly Basis would first add up the insured expenses for the entire month. In this case, the insured's monthly expenses are $1,800 ($150/day x 3 days/wk. x 4 wks./mo.). Because the insured's monthly expenses are less than the insured Maximum Monthly Benefit, $3,000 (30 days/mo. x $100 DB), the policy would pay the insured total expenses, and the insured would have no out-of-pocket expenses for that month.

Partnership Plans

The Partnership for Long-Term Care is a joint venture between insurance companies and individual state governments in which special Partnership LTCI policies are offered. For every dollar in benefits paid by the Partnership LTCI policy, the insured can retain one dollar in assets in the event the insured exhausts policy benefits and applies for Medicaid assistance. Thus, if the insured's policy pays out $300,000 in benefits on behalf of the insured, the State would allow the insured to protect $300,000 in excess of the normal state Medicaid asset retention limits.

Partnership Plans are available in California, Connecticut, Indiana, Iowa and New York. Partnership variants are available in Illinois, Massachusetts and Washington State.

Policy Maximum

The Policy Maximum is the maximum amount that the contract will pay over the entire term of the policy. The Policy Maximum can be thought of as a pool or bucket of money available for benefits. The amount in the bucket is determined by multiplying the Maximum Daily Benefit (MDB) x the selected Benefit Period.

For example, if the insured selected a 5-year Benefit Period and a $150 MDB, the bucket of money would start with $273,750 worth of benefits.

5 Years x 365 days per year = 1825 days x $100 = $273,750

If the insured selects a Benefit Increase Option, the Policy Maximum will grow each year. The policy will pay benefits as long as there is money in the bucket. If the insured selected an unlimited or lifetime option, then the policy will pay the MDB as long as the insured qualifies for care.

Some insurance companies state the Policy Maximum as a dollar amount, like $1,000,000 or $5,000,000. These amounts may not be subject to inflation options.

Reimbursement Contracts

Many long-term care insurance policies are reimbursement contracts. This means that the insured incurs expenses and then submits them to the insurance company for reimbursement. The insurance company then sends a check to the insured in the amount of the actual expenses incurred up to the policy limits.

Some companies will allow the insured to Assign Benefits directly to the long-term care provider. In this scenario, the insurance company would send the reimbursement payments directly to the long-term care provider.

Suitability

Suitability is the concept of tailoring each client's coverage to his or her care needs and income and asset levels. Many states require that each applicant complete a suitability worksheet that helps the applicant assess whether or not LTCI is an appropriate product purchase.