

The Benefit Maximum

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The benefit maximum defines the maximum amount of money you can collect from the policy during a specific period of time. This time period may be daily, weekly, or monthly. The most common is daily.

If you have a \$100 daily maximum the most you can collect from the policy on any day is \$100. It doesn't matter if your care costs \$120 that day, the policy will not pay more than the benefit maximum.

If you chose to include an automatic benefit increase option in your policy (often called an inflation rider or a COLA), it will increase the benefit maximum every year, beginning at the end of the first year.

In another article I refer to the benefit period as a bucket (or pool) of money. To expand this analogy, you could view the benefit maximum as a ladle. With a \$100 daily benefit maximum, your ladle will hold at most \$100 and you can only dip it into the bucket once each day. If you need \$120 there is no way to fit more than \$100 into a \$100 ladle. You have to pay the difference yourself "out of pocket".

Another way to look at it is as if your policy was a checking account and your benefit maximum as a checkbook. With a \$100 daily benefit maximum you cannot write a check for more than \$100. It is as if the check was imprinted with the motto "Not valid for more than \$100". Since it is a daily maximum, you can only write one check each day.

You might well be asking what happens if the actual cost of care (services received) is less than \$100? The answer depends on what type of policy you buy. One type of policy, called an indemnity policy, does not ask about the cost of the care. It only asks whether you needed care (specifically covered services) that day. If you received covered services, you collect the full daily maximum. It is as if the ladle not only could not contain more than \$100 but also could not contain less. The checkbook analogy is probably clearer. It is as if every check is already filled out for \$100. All that determines whether you can cash the check is whether you received covered services.

It is important to note that if you did not receive covered services, you cannot cash a check. That is true even if you received covered services the previous day that cost more than your benefit maximum.

The other type of policy is called a reimbursement policy. This type of policy does ask what the cost of services was. If the cost of services was less than the benefit maximum, you can only write a check for the actual cost of services up to the benefit maximum. Just as with the indemnity policy, if you have a \$100 per day benefit maximum and the services you received

yesterday cost \$120, you cannot catch up by writing a check today for the \$20 that wasn't covered the day before.

If you are receiving facility care (nursing home or assisted living), this is a much less important issue than it is with home care since the cost of services is much less likely to vary from day to day with facility care. It is a much more important issue with home care where it is not at all uncommon to have the cost of services vary, sometimes dramatically, from day to day and it is also not uncommon to need covered services some days and not others.

This highlights one advantage of the indemnity policy over the reimbursement policy. As long as you receive some covered services every day, you will collect the full benefit maximum every day. With a \$100 daily benefit maximum, where services cost \$120 one day and \$80 the next, you collect \$100 the first day from either the indemnity or reimbursement policy, but on the second day you only collect \$80 from the reimbursement policy, the actual cost of services, while with the indemnity policy you collect the full benefit maximum, \$100. As long as you receive at least some covered services every day, you collect the full benefit every day from the indemnity policy. This is also why, when everything else is identical, an indemnity policy usually costs more than a reimbursement policy.

Do not assume that if your indemnity policy expresses the benefit maximum as a monthly amount that this means you will receive the full monthly benefit maximum even if you only receive covered services one day that month. Read the entire policy very carefully. Such policies are extremely rare and often cost twice as much as other policies.

One of the most popular indemnity policies in recent years, is an indemnity policy which does express the benefit maximum as a monthly benefit. However the policy explicitly states that it pays $1/30^{\text{th}}$ of the monthly benefit for each day that covered services are received from a home care agency. For home care, it is a daily benefit maximum. It also does not cover informal care. It only covers care provided by a home care agency.

Another approach to dealing with the fluctuating daily cost of care is to buy a policy, which truly does have a weekly or, even better, monthly benefit maximum. In my opinion, this is a better solution than indemnity. With such an option, you accumulate the cost of services over a period of a week or a month and then "write out a check" from the policy once a week or once a month. These policies are almost always reimbursement policies, but you could have very high expenses some days and none other days and the full cost for the week or month would still be paid as long as the total did not exceed the weekly or monthly maximum.

Let us suppose you had a \$3000 monthly benefit maximum (the equivalent of a \$100 daily maximum) and you required \$200 of services every Monday, Wednesday and Friday but none the rest of the week. With a daily benefit maximum you would have collected \$100 each Monday, Wednesday and Friday, and nothing any other day. You would end up with \$300 out of pocket every week, approximately \$1200 per month (approximating a month as containing 4

weeks). The actual cost of services every month would be \$2400. Since this is less than the \$3000 monthly maximum, the policy with a monthly benefit maximum would pay the entire bill.

You might well ask, "wouldn't the ideal policy be an indemnity policy with a true monthly benefit"? Perhaps, but it is also likely to be very, very expensive.

Another important thing to consider is that a policy will not necessarily have the same benefit maximum for all covered services. For example, one currently very popular policy has a benefit maximum for the assisted living facility that is 80% of the nursing home daily maximum. It also offers you the choice of a home care benefit maximum that is either 100% or 80% or 50% of the nursing home daily maximum. You choose what you want. The lower maximums cost less than the 100% option.

By now you are probably saying "Enough theory. What should I buy"?

I recommend starting with a benefit maximum today that is equal to the cost of nursing home care in your area. The only reason for buying less is if you can't afford a policy that covers the full cost of care. I discuss some caveats to this in the article on inflation options and in the article on partial self-insurance.

If you buy enough to cover the full cost of a nursing home, you will probably have more than you need for an assisted living facility since they usually cost less than a nursing home. You will usually not have enough to pay the full cost for "around the clock" home care. Three full shifts from a home care agency usually costs two to three times as much as the daily cost of a nursing home. Fortunately, most of us do not have to rely solely on paid services. As long as you have a strong network of informal, unpaid caregivers, (friends and family) you will probably be able to get by on 6 - 8 hours per day of paid services. That is approximately the amount of care the 100% home care option will pay for.

Since anything less runs a serious risk of placing too much of a burden on your informal (unpaid) caregiving network, I normally do not recommend anything less than the 100% home care option. The lower home care benefit maximum does not usually save enough money to be worth considering.

Please note that I also discuss the home care benefit maximum and the cost of home care in the article on informal (paid) caregivers.

Conclusion

If it is affordable, buy enough coverage to pay the full cost of care in your area. Buy a 100% home care benefit. Look for a weekly or monthly benefit maximum.

Not intended to provide legal or accounting advice. Long Term Care is a complicated subject. It takes time to consider the implications of many of the options available. In addition to any necessary legal or accounting advice from the appropriate professional you should discuss your financial situation and objectives regarding long term care with a knowledgeable agent.