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Investment Guide

Ten Things You Need To Know About Long-Term-Care Insurance

By Carrie Coolidge, Electronically reprinted from May 22, 2008

Now living longer than ever before, two out of five Americans will eventually need long-term care at some point in their lives.

Neither health nor disability insurance covers long-term care, leaving long-term-care insurance as the only option besides paying out of pocket.

"Long-term-care insurance is not about getting cured, it is about staying alive," says Don Grimes, executive director of Long-Term-Care Education Specialists, a Laguna Niguel, Calif.-based nonprofit that provides impartial information on long-term care and long-term-care insurance. "The good news is that you will live longer than ever, but the bad news is that you are going to live longer than ever."

Long-term-care insurance may not be right for every situation. It may not be the answer for people who can rely on family members to provide care for them at home, says Michael Haubrich, a fee-only certified financial planner in Racine, Wis.

"Most of my clients have family members who are willing and able to assist in keeping them out of institutional care," Haubrich explains. "In those cases, the most valuable asset is cash, not insurance. Having that cash will allow the family to be unconstrained by policy limitations that exclude payments to family members and unlicensed service providers."

The flipside of this argument is that having long-term-care insurance alleviates the pressure on a spouse or family member to be the primary caregiver, says Don R. Campfield, the national sales director of Guardian's long-term-care division. "This shifts the emotional burden," he adds.

When shopping around for a long-term-care insurance policy, buy only from an insurer with at least $1 billion in assets as well as an A.M. Best rating of at least A-.

In addition to John Hancock and Genworth, some of the best carriers include Guardian, Met Life, New York Life, Northwest Mutual and Mass Mutual. All long-term-care policies are guaranteed renewable as long as you pay your premiums.

"This is a policy that people typically own forever," says Buck M. Stinson, president of Genworth's long-term-care insurance division. "The older you get, the more valuable it becomes."

In Pictures: 10 Things You Need To Know About Long-Term-Care Insurance

Medicaid Only Pays For The Indigent–And Don't Count On Medicare

Medicaid only pays for the indigent, and won't help middle-class health care consumers, who will quickly go through retirement savings if they should end up needing nursing care in their 60s or 70s. Don't look to Medicare to pay for it, either. Only if a Medicare enrollee spends at least three days in a hospital and then goes to a nursing home for the same condition that put him or her in the hospital will it cover the care. In these cases, Medicare will pay for 100% of the costs for the first 20 days (with a co-payment after that). Medicare won't pay for any care given at home or an assisted-living facility.

Long-Term-Care Insurance Protects Retirement Assets

"Without it, a person could go through his savings and retirement nest egg pretty quickly," says David Weinstock of Weiser Capital Management, a New York-based financial services firm. Self-insuring requires assets that generate at least $100,000 to $150,000 a year in funds available specifically for long-term-care costs, he adds.

Buy It Sooner, Rather Than Later
Today, the average age of a long-term-care insurance buyer is 56. Fifteen years ago, the average age of the buyer was 69. The younger you are when you apply for a policy, the more likely it is you will be approved–57% of those who apply for long-term-care insurance at age 80 or older are declined by insurers, while only 11% of those who apply between the ages of 50 and 59 are turned down. "The time to start thinking about long-term-care insurance is when you turn 50," says Buck M. Stinson, president of Genworth's long-term-care insurance division. "That doesn't mean buy it, but at that point, you really need to start accessing your goals and retirement plan."

Choose Your Benefit Period Wisely
Most policies have benefit periods that range from two to 10 years and offer a lifetime benefit option designed to cover diseases like Alzheimer's or Parkinson's, in which case you might be in a facility for many years. A policy offered by Guardian that covers lifetime benefits costs 25% more than one with a five-year benefit period. According to Buck M. Stinson, president of Genworth's long-term-care insurance division, the average claim lasts two-and-a-half to three years. However, 20% of the people who file a claim will need long term care for more than five years, says Don R. Campfield, national sales director of Guardian's long-term-care division. "It is important to know you won't outlive your benefit," he adds.

Pools Of Money
"You are buying a pool of money with these policies," says Weiser's Weinstock. For example, if you buy a policy that pays benefits for 10 years (or total benefits of $600,000), but in the first year, you only use $30,000 in benefits, you will have $570,000 left to use. If, after 10 years, you haven't used all of the money available to you, the policy's life will be extended until the pool of money available to you is gone, he adds.

Plan For Inflation
If the daily benefit is $200 and you opt for the 5% inflation protection, the benefit in 15 years will be $400 and the daily benefit in 30 years will be $800. "No one should go without the inflation protection," says James M. Glickman, chief executive of LifeCare Assurance, a long-term-care reinsurer and founder of the Society of Actuaries' Long Term Care Insurance Section. "You are buying a product for the future, and prices will go up. So you need to have a benefit that will cover future increases."

Get A Comprehensive Plan That Is Flexible
A comprehensive policy pays for care at a facility but also offers the option of receiving care in your own home or community. "You want your care to be paid for regardless of the setting you are in," advises Joan Antoniello, vice president of personal and corporate insurance at Weiser Capital Management. Less expensive plans, called "facility-only," cover only care given in a nursing home or assisted-living facility. Be sure to ask about the elimination period, which is how long you must wait after buying the policy before a benefit can be paid.

Paying For It
Consider getting a "10 pay" option. It costs more in the short term, but may be less expensive over the long run. This option requires premiums be paid for 10 years, after which you will have a paid-up policy which protects you from rate increases that might occur down the road (although you are exposed to rate increases during the 10-year payment period). This premium is typically three times the cost of an annual pay policy, depending on your age. Most policies have a "waiver of premium" clause, which means that when you are in a facility and receiving claims, you won't have to pay a premium (but if you are receiving care at home, you will pay premiums). Some companies will charge a small extra premium if you want the home health care waiver of premium. Every carrier offers a spousal discount of 25% to 40% (that also applies to any two people who live together). Some insurers offer "shared benefits" policies for couples, which means the pool of money will be available to either party.

Getting Paid For Using It
When you buy a long-term-care policy, you will choose between a reimbursement and an indemnity option. The reimbursement option is for actual expenses up to a daily limit. The indemnity option, which is more expensive, pays a daily benefit of a specific amount, regardless of how much you spend. Daily benefits range from $100 to $400, but the higher the daily benefit, the more you will pay in premiums. Keep in mind that the average nursing home in the U.S. costs $75,000 a year, while a full-time home health aid costs $34,000 a year on average.

Uncle Sam Will Reward You For Buying It
There are some tax incentives for those who buy long-term-care insurance. No taxes are owed on benefits paid out, and there are 35 states that offer a tax credit to long-term-care policyholders. In New York, tax filers are eligible for a tax credit equal to 20% of their annual premium. Alabama residents may deduct the value of all premiums for qualified long-term-care insurance policies paid in a given tax year, while Wisconsin residents are able to deduct 100% of the annual cost of a long-term-care insurance policy (spouses are also eligible), minus the federal gross-income deduction for long-term-care insurance. If you are self-employed and between the ages of 51 and 60, you can get a federal tax deduction of as much as $1,150; as much as $3,080 if you are 61 to 70, or $3,850 if 71 or older, says Joan Antoniello, vice president of personal and corporate insurance at Weiser Capital Management.