Learn the Risks and Benefits of Long-Term Care Insurance

Description

Is LTC insurance a good investment? Long-term care (LTC) for the elderly can quickly deplete a lifetime’s savings.

Unfortunately, Medicare pays very little for long-term care, and Medicaid typically requires very few assets and income to qualify.

Long-term care insurance can offer an additional option in a landscape of limited options if you’re looking for a way to cover the risk of needing long-term care later in life. It is, however, expensive.

What Is LTC Insurance?

Long-term care insurance pays a portion of your long-term care costs if you require it. Traditional LTC insurance (also known as standalone LTC insurance) and hybrid LTC insurance are the two types.

Traditional LTC insurance policies require a monthly premium for coverage that you may or may not require. Long-term care insurance policies that are hybrids combine long-term care coverage with whole (permanent) life insurance.

If you require long-term care, the cost will be deducted from your death benefit (the payout to your loved ones under your life insurance policy). Your death benefit will be preserved if you do not require long-term care.

While traditional LTC insurance is use-it-or-lose-it, hybrid LTC insurance allows you to keep at least some of the money you paid. Hybrid LTC insurance, on the other hand, is typically more expensive.

Choosing Whether to Purchase Long-Term Care Insurance

Is it worthwhile to invest in long-term care? Before deciding on long-term care insurance, you should be aware of the following:

You won't be able to get around without it. If you require extensive long-term care, such as several years in a nursing home, and spend the majority of your assets on that care, you may be eligible for Medicaid.

You could be paying premiums for many years. Even if you do require long-term care, which many people do, you may not require as much as you thought.

The benefits provided by long-term care insurance policies are restricted. Most policies, for example, only cover a limited period of time, such as three years of long-term care.

Some, but not all, policies cover at-home care or assisted living in addition to nursing facility care. Make sure you understand both the benefits and limitations of each policy you're thinking about purchasing.

Only if you also require whole life insurance does hybrid LTC insurance make sense.

While hybrid LTC insurance may appear appealing—after all, you won't lose all of your premium money if you don't need long-term care—it is typically much more expensive than traditional LTC insurance. If you weren't considering whole life insurance in the first place, or if you value money more during your lifetime than at death, you should think carefully about whether hybrid LTC insurance is right for you.

The Chances of a Long Nursing Home Stay

While it is true that many people will require long-term care as they age (and insurance agents frequently emphasize this fact), the question you should really be asking when considering LTC insurance is: Will you require so much care that the money you spend on premiums over time will be worth it?

Also, would it be better to simply save that money?

Consider the following scenario:

Naomi, who is 55 years old, purchases a traditional LTC insurance policy. For up to three years, the policy pays benefits of $200 per day for nursing home care and $100 per day for home care. This policy costs Naomi $300 per month.

Naomi requires significant long-term care, beginning with one year of home care at the age of 75, followed by one year of nursing home care. This means she paid $72,000 in premiums over the course of 20 years and received $108,000 in benefits ($36,000 for a year of home care plus $72,000 for a year of nursing home care).

This appears to be a good trade-off for Mary, but consider whether she could have done better by simply investing her $300 monthly premiums in safe investments over the course of those 20 years.

Assuming a 5% return on investment, she would have been better off “self-insuring,” or putting money aside in case she needed long-term care. (For the sake of simplicity, this example ignores both rising care costs and rising premiums.)

Long-term care insurance may be a good idea for some people, particularly those with a high income and significant assets. This is especially true if long-term care insurance is seen as a safety net rather than a financial investment. Even those who can afford it should be aware of the wide range of policies and services available.

The 5% Income Limit

Given the wide range of policies, there is no one-size-fits-all rule for when LTC insurance is appropriate. However, some consumer and financial experts advise against buying LTCI unless you can afford to pay the monthly premium with no more than 5% of your income.

When calculating this 5% figure for future years, keep in mind that your premiums are likely to rise at least slightly over the life of the policy, while your income will most likely drop at some point—for many people, when they formally “retire.”

When do people decide to purchase long-term care insurance?

When it comes to buying LTC insurance, there is a sweet spot. If you buy it too young, your premiums will be lower, but you will have to pay them for a very long time.

Most people before their fifties are also unable to predict their finances and health in sufficient detail to make an informed decision. However, if you buy LTC insurance after a certain age, your premiums will be so high that LTC insurance will become unaffordable. Your chances of being denied coverage increase as you get older. Most people in their fifties and sixties purchase long-term care insurance.

Long-Term Care Insurance Past Performance

Knowing the history of long-term care insurance is beneficial. LTC insurance policies (such as those sold in the 1990s) have historically performed quite poorly:

Approximately half of all LTC policies lapsed before any benefits were paid because policyholders were unable or unwilling to pay their premiums.

Approximately half of those who purchased insurance and later entered a nursing facility never received a penny from their LTC policies.

Many people who purchased nursing facility coverage but instead received home care or entered a residential facility not covered by the insurance received no benefits. LTC benefits were usually far below the actual cost of care by the time they were paid (which rose astronomically over the last few decades).

Many of the longest-term residents had their benefits exhausted before their stay in the nursing home.

In these cases, LTC insurance fell short of its promise of preventing people from depleting their savings or relying on Medicaid to pay for long-term care. In other words, it was a waste of money.

Enhancements to Long-Term Care Insurance

LTC policies have improved slightly in recent years in response to consumer pressure, embarrassing media exposure, and increased competition from new insurers entering the market.

Clearer terms and conditions, for example, give consumers a better idea of what to expect for their money. Many policies now include some types of assisted living residences as well as regular nursing facilities.

Several policies allow seniors to use a pool of benefit funds for either home care or residential long-term care, rather than just one. Requirements to qualify for benefits have also been relaxed slightly, and policies now routinely allow the policyholder to “step down” to lower levels of coverage for a lower premium if continuing to pay for the higher benefits becomes financially burdensome.

What to Look for in Long-Term Care Insurance

If you decide that LTC insurance is right for you, research your options thoroughly. In particular, inquire about: Is it comprehensive enough to cover the various types of care you may require? Does it cover at-home care and assisted living as well as nursing facilities?

What is the amount of the benefit?

Benefits can range from $50 to $500 per day, depending on whether you require care in a nursing home or at home.

What types of inflation protection are available? LTC policies frequently do not pay out for decades, so getting inflation protection, which adjusts the benefit amount to account for inflation, is critical.

How long will the coverage last?

Almost all policies provide benefits for a limited time, such as two or three years of long-term care.

What causes the benefits to occur?

Most policies require a physician’s certification that you have lost the ability to perform a certain number of ADLs (activities of daily living), such as bathing, eating, dressing, toileting, getting in and out of bed or a chair, taking medication, and maintaining continence. Some policies are more restrictive than others, and the manner in which benefits are triggered can have a significant impact on when you can start receiving benefits.

What is the period of elimination (waiting)?

Even if you qualify for benefits, most policies require you to wait for a certain period of time before filing a claim.

Category

1. Insurance

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tcanoah