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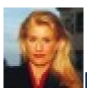
Demystifying Long-Term Care



Liz Davidson, Contributor

November is Long-Term Care Awareness Month so it was fitting that we recently received a question from a woman who was having trouble filling out an application for long-term care insurance. She had already decided to purchase the policy but wanted help deciding which options to choose, especially because she may get stuck with those decisions if her future health made it impossible to buy a new policy. Long-term care policies can be confusing so here are some questions you may have:

What exactly is long-term care? Long-term care isn't exactly traditional health care. Instead, it refers to a wide variety of resources for people who are mentally impaired or need assistance with "activities of daily living" like bathing, dressing, and eating due to an injury or disease.

Who needs long-term care? Almost 70% of people turning 65 are projected to need long-term care at some point in their lives. That being said, long-term care isn't just for the elderly. Christopher Reeve, who was literally the symbol of strength and invulnerability as Superman, needed 9 years of long-term care after being paralyzed in an accident at age 42. In fact, 40% of people receiving long-term care are between the ages of 18 and 64.

Do you need long-term care insurance? Medicare's coverage of long-term care expenses is extremely limited. You can pay out of pocket but it's very expensive. Where I live in California, average annual costs range from about $20k for 8 hours a day for 5 days a week of adult day health care to over $90k for a private room in a nursing home. That's already unaffordable for most people and costs have been rising faster than inflation. Another option is to rely on Medicaid but that program has limited facilities and requires you to spend down practically all of your assets to qualify. That means if you have $250k or more in assets, you may want to purchase long-term care insurance. On the other hand, it may not be worth it to spend several thousand dollars a year in premiums if you only have a few thousand dollars in savings to protect.

When should you buy it? Most people buy it in their 50s for several reasons. First, most people don't accumulate significant assets until then. Second, the younger you are, the cheaper it is. A policy that costs $2k a year in your 50s can be $8k a year in your 70s. Finally, if your health deteriorates you may no longer be insurable at all. Almost half of people in their 70s and about 70% of people over 80 are declined coverage so try to buy it while you still can.

Where should you buy it? Long-term care insurance can be complicated so consider working with an insurance agent who specializes in it. You'll also want to shop around from multiple companies or work with an independent agent who can shop around for you.

Who is the insurer? A lot of insurance companies have exited the business so look for a company that has been around for a while and has strong ratings.

Is the policy tax-qualified? This means that the premiums can be deductible as a medical expense and the benefits are tax free.

Is it part of your state's long-term care partnership program? If so, you won't need to spend down the amount that your policy paid for to qualify for Medicaid if you run out of benefits. For example, let's say that you have $250k in savings and investments. If your policy is part of your state's partnership program and it pays $240k in long-term care costs before being exhausted, you would only have to pay the $10k difference to qualify for Medicaid. This way you can buy just enough coverage to equal your assets rather than a more expensive unlimited benefit.

What's the elimination period? This is the time period you have to pay for care before the policy kicks in. The longer the period, the lower the premiums are so you may want to pick the longest period you can comfortably afford based on your savings.

What's the daily benefit? Make sure your benefit is sufficient to cover typical costs in the area you live minus any income you can use toward your care.

Is there inflation protection? While your benefit may be enough now, it may no longer be when you need it. You can choose to have your benefits grow with inflation or by a fixed percentage since costs have been increasing about 5-7% a year, which is higher than the general inflation rate of about 3%.

How does it pay? An indemnity plan pays you full benefits regardless of your expenses while a reimbursement plan only reimburses your actual expenses. The latter is cheaper since you're not paying for insurance you don't need.

What's the maximum lifetime benefit? This may be a dollar amount or a length of time. The average nursing home stay is about 2 1/2 years but you may want something longer in case your stay is above average. Keep in mind that if your policy is part of your state's partnership program you may only need it to cover your assets. If the maximum is a period of time, simply divide your assets by the daily benefit to see how long you'll need it to be before relying on Medicaid.

What about my spouse? If you're married, you can get a better deal with a joint policy. When one of you passes away, the other can have the unused benefits added to their policy.

As you can see, there are lots of considerations when it comes to long-term care insurance. This is certainly not a decision to be taken lightly. Just don't make that an excuse to procrastinate. No one likes having to think about, much less pay for, something you hope you'll never use, but the time to buy insurance is before you need it.