



Exploring Long-Term Care Insurance

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To buy or not to buy

Insuring any financial risk is worthwhile if the premiums are reasonable, the benefits are adequate to the purpose, and the need for protection is warranted. Certainly, long-term care is a risk that threatens the financial security of many elderly people. The costs of an extended nursing home stay are high now and may well become staggering in the future. But the need for LTC care is not certain, and the payment of high premiums for many years may not be affordable.



What risks threaten you?

As with many types of insurance, each of us needs to assess the best use of our scarce resources in light of the various risks and challenges we face. Are you in danger of outliving your retirement funds? Will inflation bring your purchasing power to a dangerously low level? Will you be paying the high costs of a home mortgage during your retirement? Will you have to pay the spiraling costs of prescription drugs on a fixed income? Will you need Medicare supplement insurance to pay your Medicare deductibles and co-insurance payments? How will you handle property taxes, major home repairs, and other essential expenses?

What about long-term care?

Long-term care represents a considerable risk, but how grave is this risk for you? Has anyone in your family needed long-term care? Have your parents, grandparents, or other close relatives needed long-term care? Has stroke, Alzheimer's disease, or other forms of dementia been a part of your family's medical history? What is your family's situation, and what might be their response to your need for care? Would family members or friends be willing and able to help out when care is needed? Would they be willing to help out financially when expenses must be paid for? Moreover, what income and assets are you able and willing to use for your own care, if needed?

Who should buy LTC insurance?

Anyone who wants LTC protection, is likely to need it, and can afford it should probably buy it. But people who have very limited retirement resources to begin with, few assets to protect before qualifying for Medicaid, and a variety of more pressing needs and potential risks to contend with should probably save and invest as best they can to meet their future needs. Remember, premiums paid for LTC insurance only pay benefits if the insured needs long-term care.

Protection worth the premiums

If you have all the money in the world, just buy the best policy on the market. But if you want good value at a more reasonable price, you might seek the following features:

- Elimination period of 90–100 days. Longer elimination periods lower the premium, but you must pay the costs during this period.
- Inclusive coverage. You want to be covered for all types of care, in all types of facilities, by all types of caregivers, including unpaid friends and family members. Be sure there is no exclusion for any type of dementia.
- Adequate daily benefit. If costs average near \$200 per day now, then it does little good to have a policy that pays \$100 per day. You will simply go broke more slowly.
- Reasonable benefit duration. Three years duration will cost less, get your foot into a facility, and cover the risk faced by most.
- Compound inflation protection. It may cost more, but it will maintain the value of your benefits. Simple inflation protection will simply not maintain the policy's value.
- Inflation-protected lifetime benefit. If your maximum lifetime benefit does not increase at the same rate as your daily benefit, your benefit duration will be gravely shortened.