


Why You Might Need Long-Term Care Insurance

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Do you ever think about who is going to take care of you when you can't take care of yourself? Is it something you want your family or kids to have to do? What if you don't have family close by?

According to an April 2019 report by the Urban Institute and the U.S. Department of Health and Human Services, 70% of adults over 65 will develop a need for some kind of long-term services and support. Nearly half will receive some paid care during their lifetime, with 24% needing more than two years of care.

Home health care, assisted living facilities and nursing homes are expensive, and most health and disability insurance policies won't help pay for them.

Long-term care insurance is one way to defray the — often exorbitant — cost.

Long-Term Care Costs *How Much?*

Each year, Genworth, a company that sells long-term care insurance, conducts a survey of more than 49,000 providers to find out how much different types of care cost. Results from the 2018 survey showed the annual median costs for various services.

- Adult day care: \$18,720
- Assisted living: \$48,000
- Homemaker services: \$48,048, or \$21 an hour
- Home health aide: \$50,336, or \$22 an hour
- Semi-private room in a nursing home: \$89,297
- Private room in a nursing home: \$100,375

During the 15 years of the study, the cost of care in an assisted living facility, also known as a residential care facility, has gone up 67%, and private rooms in nursing homes have increased 54%.

What is Long-Term Care Insurance?

Long-term care insurance covers the things regular health insurance or Medicare does not, like nursing home care, assisted living facilities, in-home medical care, in-home assistance for routine daily activities, adult day care, home modification and more.

“Most people actually get family or friends to do the helping, so there's no money changing hands in that case. But many times, people who need this help don't have family or friends who are available to do this, or don't want to do it. And so if they do need help, they have to hire someone,” said Steven Weisbart, senior vice president and chief economist of the Insurance Information Institute.

In a 2016 study, The National Association of Insurance Commissioners and the Center for Insurance Policy Research reported 7.2 million long-term care insurance policies were in effect in 2014.

Benefits kick in when the covered person suffers from dementia or another cognitive impairment or can no longer do at least two of six “activities of daily living” on their own such as bathing, dressing, eating, getting out of bed and using the toilet.

A doctor usually needs to show that a patient needs long-term care before a policy would kick in. Each policy has an elimination period before benefits begin, a monthly maximum benefit and a total benefit period. Some policies include inflation protection and a lifetime maximum. Once you buy a policy, as long as you pay your premiums, the company cannot cancel it.

How Much is Long-Term Care Insurance?

There is no way around it. Long-term care insurance can be pricey. According to 2019 data from the American Association for Long-Term Care Insurance, about 350,000 Americans bought some type of long-term care protection in 2018. They paid an average annual premium of \$2,050 for a 55-year-old single male, \$2,700 for a 55-year-old single female and \$3,050 for a male and female married couple, both age 55.

The same data shows long-term care insurance companies paid out \$10.3 billion in claims in 2018. Most were for home care followed by assisted living care.

Premiums depend on a variety of factors.

- **Age and health:** The older you are and the health problems you have impact the price.
- **Gender:** Women usually pay more because they often live longer and therefore have a greater chance of making a claim.
- **Marital status:** Single people pay more than married couples. Couples can also get a shared rider allowing them to share a pool of benefits, lowering the individual cost for both.
- **The insurance company:** Companies charge different prices for similar policies.
- **Coverage:** You'll pay more for a shorter elimination period, higher daily and monthly limits, longer coverage period, inflation adjustments, etc.

Once you have a policy, the insurance company cannot raise the premium just for you, but they can raise it for everyone in a particular classification, and they often do.

During the past several years, the number of companies selling long-term care policies has dwindled, and companies have increased rates on older policies as they made assumptions about how people would use their policies. Many companies thought people would progress from living at home and needing care, to assisted living, to nursing care. Instead most claims are ending in the same place where they began. Also, fewer people dropped policies and insurance companies paid out more claims than they expected.

The one good thing about long-term care insurance premiums is they are tax deductible. The amount you can deduct depends on your age, increasing as you get older.

Medicare and Medicaid Limitations

For people age 65 and over, Medicare covers only short nursing home stays, mainly for rehabilitation, and limited home health care options. It does not pay for long-term care.

Medicaid will pay for some long-term care, but only kicks in if a person has depleted financial resources. It does not pay for assisted living and there are long waiting lists and limited availability for nursing homes because low reimbursement rates make care facilities reluctant to accept Medicaid patients.

Some states have what they call partnership plans with insurance companies to encourage people to plan for the expenses that go along with long-term care. These plans often involve a way to keep some assets and still qualify for Medicaid. Call your state's insurance department to find out if your state has a partnership plan.

Should I Buy Long-Term Care Insurance?

Thinking through how you will pay for long-term care is an important part of any financial plan. Don't wait until you need care to figure it all out.

Long-term care insurance can protect your savings and give you more choices for care. In the bigger picture, it can provide peace of mind knowing that you won't be putting the burden of your care on family or friends.

If you feel you can cover the cost of long-term care, you might not want to buy long-term care insurance. You can probably afford to self-insure if you use less than 4% of your savings each year for living expenses.

If you have no assets, Medicaid might provide you the care you need.

"So all of us who are in the middle, not too poor, and not too rich, are the potential long-term care [insurance] audience," Weisbart said. "If long-term care services can be provided by family and friends, then you don't need long-term care insurance. But, if there is no family or friends, if there isn't a way that you can be sure that you will be able to handle these things, or if you're in the middle income group, those kinds of conditions suggest that you might take a shot at some long-term care insurance."

In addition to looking at finances, assess your risk by looking at your health, hereditary conditions, and longevity in your family.

Buying Long-Term Care Insurance

If you have made the choice to buy long-term care insurance, buying it earlier might mean lower premiums and an increased chance of acceptance. Even though most claims do not happen until after age 85, many people choose to buy it in their 50s and 60s and some companies will not issue a new policy to people who are 75 or older.

Expect a medical questionnaire, exam, or blood test. Most long-term care insurance companies will exclude people with pre-existing conditions or a family history of certain medical issues. Data from the American Association for Long-Term Care Insurance says companies rejected 44% of applicants ages 70-79, 30% of ages 60-69, 22% of ages 50-59, and 20% of applicants younger than 50.

When shopping for plans, make sure you know:

- The amount of coverage you want on an annual and monthly basis.
- How much you can afford for out-of-pocket expenses. Knowing this will help you decide the elimination period length you can afford, 30, 60, or 90 days.
- The number of years you want to be covered.

Changing these amounts can influence the policy premium.

“If you want to cut the premium down, what I recommend is to buy a long waiting period and a pretty good-sized benefit period,” Weisbart said. “But many people will buy a short waiting period and a small benefit period, which I think defeats the whole point of buying long-term care insurance.”

Alternatives to Long-Term Care Insurance

Long-term care insurance isn't the only way to pay for care. There are other options, each with their own limitations.

1. Hybrid policies

These policies combine life insurance with long-term care insurance. With a single premium, the policy will pay benefits if you need them to pay for long-term care or a death benefit if you don't. They often require a hefty up-front investment.

2. Short-term care insurance

The benefits are similar to long-term care insurance but are capped at one year.

3. Health Savings Accounts (HSAs)

People with a high deductible insurance plan can put pre-tax money aside to pay for health expenses like long-term care. You can also pay the premiums for long-term care insurance using money from an HSA.

4. Long-term care annuities

These require a large up-front investment and do not pay much interest.

5. Home equity

A home equity line of credit, a reverse mortgage, or selling a home can provide money for long-term care.

“Some coverage is always going to be better than having no coverage,” said Jesse Slome, executive director of the American Association for Long-Term Care Insurance. “If you have some insurance, you're going to use it to augment either your own money, or whatever care your spouse or your children give you.

“So you allow your loved ones or your spouse to care about you, not to have to care for you. That's a big difference.”

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