

"Planning for Eldercare" February 20, 2008

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Long Term Care Insurance

Why buy long term care insurance?

1. It will help you keep your independence and dignity and allow you to make choices. When the time comes for paying for your long term care needs, you may end up spending your savings and then relying on Medicaid for assistance. Medicaid typically pays for a semi-private room in a nursing home, but not all nursing homes take Medicaid. In many states it is not easy to get Medicaid to cover home care or pay for assisted living. Many people want to stay at home, but with Medicaid may not be able to. Insurance allows you to have a choice of where you want to live.
2. If you are married and you have a need for long term care, your spouse may be forced to pay for an outside caregiver. The cost is likely to come from your combined income and assets. This may leave your spouse with minimal funds in the future. Insurance solves this problem and allows the healthy spouse to keep the assets.
3. Many healthy caregiving spouses won't spend their money and choose to "tough it out" on their own without help. If care of a disabled spouse drags on too long, this can have a devastating effect on the physical and emotion health of the caregiver. Insurance will pay for professional care for the disabled spouse and allow the caregiver spouse needed rest.
4. If your children promise to take care of you when the time comes that you need care, insurance will help them do that. Probably neither you nor your children have thought of the prospects of moving you from place to place, changing your dirty diapers, cleaning up after "accidents" in the bathroom or helping you with bathing and dressing. Insurance will pay for aides to help your children with these tasks.
5. If you are single and a need for long term care arises, insurance can pay for and coordinate that care. With insurance you won't have to feel you would be a burden for family or friends.
6. If you have the desire to leave assets behind when you die, insurance will help preserve those assets from the cost of long term care.

Buy Long Term Care Insurance When You Are Younger

There is a bonus to buying long term care insurance at a younger age. The yearly premium is lower and the total premium over the life of the policy is also less. For example, a person in good health, currently age 45, buying a typical policy with inflation protection, could spend \$42,075 in total premiums to age 78. The yearly premium for this policy is \$1,275.

Suppose this same person chooses to wait to buy the equivalent coverage-- adjusted for inflation -- at age 65. If that same policy were available in the future, he could pay \$44,759 in total premiums over his 13 remaining years to age 78. His premium is also considerably higher and in this case is \$3,443 a year. By waiting, he saves no money in total cost, he will have a much higher yearly cost and in addition will definitely incur the following risks:

1. The same policies only stick around about three years and historically, new policies invariably have higher rates for the same ages as older ones. This means, all else being

equal, he could pay two or three times more in total cost for an equivalent policy in the future.

2. The policy at age 45 is based on the best health rating and someone age 65 is very unlikely to get that same rating which means a much more expensive total cost in the future.
3. By waiting, his health may deteriorate to a point where he can't even qualify for a policy. Unfortunately, we have seen this happen time and time again to people who wait and all of a sudden desperately want coverage because of a change in health and can't get it.
4. He may need long term care before he turns 65. The chances of incurring a disability prior to age 65 are quite high.

We recommend you work with a long term care insurance specialist who understands the policy provisions and the coverage needed and can help you determine the best policy for what you want.

You can read more about long term care insurance and locate a specialist in your area at www.longtermcarelink.net.

How to buy long term care insurance

There are dozens of long term care insurance companies selling hundreds of different types of policies. It can become very confusing. There are various benefit options for home care and nursing home care, waiting periods, qualifying periods, inflation riders, and the list goes on. Here is a checklist of some of the things you need to know before you purchase a policy.

LONG TERM CARE INSURANCE BUYING CHECKLIST the more "yes" answers you get the better off you are.

- 1) Is the insurance company rated by A. M. Best (the rating company) with a rating of at least A, A+ or A++?
- 2) Is it a large diversified company with deep pockets and selling more than just long term care insurance?
- 3) Is the insurance representative an expert in long term care insurance? (Because of its complexity, almost all LTCi experts only sell LTCi; they seldom sell anything else.)
- 4) Does the representative have a degree and/or industry financial designations?
- 5) Does the representative own a personal long term care insurance policy for himself or herself?
- 6) Is the policy you like tax qualified, and if not, do you understand the ramifications?
- 7) Are there at least 6 ADL's (Activities of Daily Living) allowed for in the benefit certification?
- 8) Does it allow "standby assistance"?
- 9) Is it a "pool of money" as opposed to a "stated period"?
- 10) Is it "integrated" as opposed to "2-pool"? (2-pool is not allowed in some states and very few companies sell these policies anymore but you must be aware of this.)

- 11) Do you understand how the elimination period works? (This is extremely important.)
- 12) Does it have prohibitive cost containment provisions?
- 13) Is there any "capping" of automatic benefit increase riders?
- 14) Do you understand how the waiver of premium works?
- 15) Does the assisted living facility benefit pay the same as for nursing home?
- 16) Are you buying adequate home care coverage?
- 17) Does the company have a history of premium rate stability without large periodic increases?
- 18) Does the policy pay for homemaker services and other nonmedical home care services?
- 19) Does the policy offer an alternative plan of care for services that don't exist today?