Long Term Care Insurance: What to Consider Before You Buy

By Jeffry J. Peterson, CLU, Pacific Advisors

Planning is the key to affording long-term care, whether it is through an insurance policy, self-funding, or a combination of both.

The cost of care can be staggering and can deplete assets quickly. Take the cost of a semi-private room in a nursing home in Washington as an example. The average cost is $248 per day or $7,440 per month! While it is a good idea to check costs in specific facilities where you might want to receive care, the Mature Market Instiue (online at www.maturemarketinstitute.com) provides research on the cost of care in most metropolitan areas across the country and is a good place to start the evaluation process.

Long-term care insurance has the most benefit for people who want to protect assets, such as savings, investment and retirement plans from being depleted by care costs. It is especially important to protect a spouse from having to spend assets designed to provide a comfortable retirement on the need for care.

The decision on whether to buy a long-term care insurance policy may depend on age, family history, health status, overall retirement goals, income and assets. If you have adequate assets to fund your retirement or a large number of assets to protect, purchasing a long-term care insurance policy can help preserve all or a portion of those assets. While the policy may not cover all the costs of long-term care, it will help you avoid depleting life savings if you need care, leaving assets for a spouse to maintain their standard of living and/or allow assets to be passed on to children and grandchildren. It is important to keep in mind that while studies show 45% of individuals will need some form of long-term care assistance during their lifetime, you assume the need for protection very much like your purchases of automobile or homeowners insurance--knowing that it may never be utilized and hoping you never need it.

So when should you buy it? The average age of the person that buys a long-term care policy is 57 years old. That said, the younger you are, the less expensive premiums will be, so it's important not to wait too long. It's also important to consider that aging itself often brings additional medical conditions, so buying a policy while you are in good health is also important.

You must ask yourself if you can afford to pay premiums for the balance of your life. With most policies, you will pay premiums for the life of the policy (premiums are waived if you go on claim) so it is important to consider whether you can afford to pay premiums well into retirement. Additionally, companies can increase rates (with state approval) during the life of the policy, so it's important to consider the affordability of the premium if it were to increase by 15-20%. Some companies offer premium payments that are limited to 10 years, where premiums are about 3 times the annual cost of paying over the life of the policy, but after 10 years, the policyholder stops paying premiums and the policy is paid in full. This can be a great option if you can afford the additional up-front cost.

If you decide to purchase a long-term care policy, only consider policies that cover all types and levels of long-term care including skilled, intermiate and custodial care in nursing homes, assisted living facilities or at home. Once you decide on a policy, make sure you understand how the policy works and when it will start to pay benefits.

Benefits usually begin after an elected elimination period and the insured needs assistance with at least two of six Activities of Daily Living (ADLs) or has a cognitive impairment. The ADLs are: eating, toileting, transferring, bathing, dressing or continence. Determination of either is made by the policyholder's physician, and the elimination period stated in the policy must be satisfied before any claims will be paid.

There are many options to consider when designing a policy to fit your needs:

- **Benefit amount** – usually chosen on a daily or monthly basis. For example, $200 per day, or $6,000 per month;
- **Benefit period** – Options range from two years to unlimited lifetime. Five years is the most common
- **Inflation option** – choosing how fast your benefits will grow each year, e.g., 5%, 3%. Age influences this choice; and it is important to hedge against the rising costs of care. Most policies offer some form of inflation protection such as annual benefit increases (5% compound or 5% simple are common) or future purchase options which

allow the insured to purchase additional coverage during the life of the policy. Some companies may not offer each type, but will generally have more than one option.

- **Elimination period/waiting period** – similar to a deductible period. This is how long you will pay your own expenses. Ninety days is the most common, but not always the best choice. Most plans only require you satisfy this period once in your life.
- **Other options** to consider include shared care, restoration of benefits, nonforfeiture and waiver of the home care elimination period.

Qualified long-term care insurance policies also receive special tax treatment. To be "qualified," policies must offer the consumer the options of "inflation" and "nonforfeiture" protection, although the consumer can choose not to purchase these features. The policies must also offer both activities of daily living (ADL) and cognitive impairment triggers.

Premiums for qualified long-term care policies will be treated as a medical expense and will be deductible to the extent that they, along with other unreimbursed medical expenses (including "Medigap" insurance premiums), exceed 7.5 percent of the insured's adjusted gross income. If you are self-employed, the rules are a little different. You can take the amount of the premium as a deduction as long as you made a net profit—your medical expenses do not have to exceed 7.5 percent of your income.

The deductibility of premiums is limited by the age of the taxpayer at the end of the year, as illusrated in the chart at right (the limits are adjusted annually with inflation).

Finally, consider the emotional side of long-term care. Long-term care insurance not only protects your assets and provides the care you may need if you have a long-term care event. It also allows your family members to support you as family members instead of primary caregivers. A family member who is also a caregiver for a relative who needs long term care is more likely to suffer health problems of their own, may need to leave or reduce hours at their regular job to provide care or may not be emotionally or physically capable of providing the care needed.

Age attained before the end of 2010	Amount allowed as a medical expense
40 or under	$330
41 - 50	$620
51 - 60	$1,230
61 - 70	$3,290
71 or older	$4,110

Long-term care insurance can be a valuable addition to your lifelong financial plan and with careful consideration and research, you can protect your assets and be prepared if you should ever need care.

Jeffry Peterson, CLU, is with Pacific Advisors, a brokerage organization specializing in disability and long-term care insurance options. Jeffry can be reached at jeff@pacificadvisors.net.