Long-Term Care:

Insuring Your Future

Health insurance and medicare don't cover many of the costs associated with basic long-term care needs. The costs can be distressing and are the primary reason that planning and saving early makes a difference in your retirement lifestyle.

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Why Long-Term Care Insurance?

Long-term care refers to the services and support that an individual might need to maintain their quality of life in the event of illness, disability, or sudden impairment.[1] Medical care concentrates on treating illnesses, whereas long-term care concentrates on helping maintain a person's daily functionality and routine such as:

Household chores
Medication management
Grocery shopping and meal preparation
Bathing and dressing

The industry often reports that seven out of ten Americans past age 65 will need some form of long-term care. Additionally, coverage may become more complicated and more costly as you age. It's never too late, but it makes sense that you start researching your options as you head into your mid-life.

If you're wondering why you need to bother with insurance to help pay for long-term care, consider the cost of care. According to Genworth's 2021 Cost of Care Survey, the median monthly fee for an assisted living facility is $4,300, and if you prefer care in the comfort of your home, you could be closer to $4,576 per month.[2]

Deciding whether long-term care insurance is right for you can take a significant amount of time but starting now is time well spent. Your dedicated financial partner should be a welcome resource throughout your research journey.

WHAT MEDICAL DIAGNOSES ACCOUNT FOR THE MOST LTCi CLAIMS?

Milliman LTCi 2020 Survey

Alzheimer's	Leading Cause of claims for ages 65+ (longest and most expensive too)
Cancer, Alzheimer's, and Nervous System	Leading cause of claims for those under age 65
Arthritis, Osteoporosis	Most used days for home care per week

About 41% of working adults below age 65 will need long-term care services and supports because of a chronic illness, mental condition, or an injury from an accident. Given these numbers, it seems apparent that coverage before the age of 65 can significantly impact the financial and lifestyle of someone going into their retirement years.

A traditional stand-alone policy serves one purpose[3]

Traditional LTCi policies cover some or all of your costs if you need long-term care. This policy's benefits leap into action if you become ill enough to require long-term care—it's more of a use-it-or-lose-it type of insurance. Two additional group policies you may also have access to include employer-sponsored and service-organization. The upside to this option may be they provide a group discount, but you must research what happens should the employer or organization stop providing service.

Four components of stand-alone policies you should consider, and which will be determined by the insurance company you choose:

1. **Monthly Benefit:** Amount of coverage you'll receive per month
2. **Benefit Period:** The length of time your benefits will be in effect
3. **Elimination Period:** The gap of time before your monthly coverage kicks in
4. **Riders:** The optional benefits available to add to your policy*

As you plan for your retirement and paying for costs, you may want to build in a contingency for any LTC premiums that may increase over time.

There are a few downsides to traditional policies, which include:

- If your financial situation means you can't continue the premiums, you'll lose coverage when you need it most
- Paying annual premiums means you may be subject to potential rate hikes
- Unable to pinpoint the extent of benefits you'll need, you could under or over-insure yourself

A hybrid policy potentially serves two different purposes[4]

Hybrid policies serve the traditional long-term care coverage purpose, but also have a built-in death benefit (via a qualifying annuity or permanent life insurance). You can set up a linked-benefit policy which includes both insurance and death benefit or opt for a long-term care rider on your life insurance policy. One more option comes in the form of a chronic illness or critical illness rider,** which allows you to accelerate the death benefit to pay for care for the rest of your life.

There are four substantial advantages of a hybrid policy. Also, if you already have assets in place, you may be able to reallocate them into a long-term care vehicle.

1. **Dual Purpose:** Combine coverage for long-term care and a death benefit
2. **Guarantees:** Premiums will not increase
3. **Flexibility:** Payment premium plans come in either lump sum or annual
4. **Tax Advantage:** Existing assets can be converted via a 1035 exchange

When it comes to planning and living on a fixed income, it's important to note that hybrid policies are sold with "fixed" or level premiums.

There are a few downsides to hybrid policies, which include:

- A hybrid policy can be costly and could provide less coverage
- Using the death benefit as a payout can significantly reduce what you leave to your heirs
- These policies aren't eligible for partnerships (the spend-down needed to qualify) with Medicaid

Similarities between traditional and hybrid policies

Both coverage types can be sold as indemnity or as reimbursement policies . Indemnity policies provide a cash benefit that you can spend as you see fit. Reimbursement policies require you to submit receipts for your care and then reimburse the exact amounts that you paid on approved long-term care services.

- **Daily or monthly caps** are typically placed on all long-term care insurance policies, and they determine how much can be paid over a given time period
- **The benefit period** specifies the number of years you can receive your allowed maximum
- **The benefit pool/lifetime maximum** is the maximum amount of money you can be paid in benefits for the entire time you own the policy. The daily/monthly benefit is paid out until the benefit pool is exhausted and/or until the end of the benefit period is reached.
- **An elimination period** is the time designated before the policy begins paying for your long-term care. You'll pay for your long-term care during the elimination period, and the insurance company steps in after.

Four Tips for Selecting an Insurance Policy and Company

1. Talk with your financial professional and together compile a list of companies approved to sell long-term care insurance policies in your state.
2. Check the Better Business Bureau for insurance company ratings, any complaints filed against them, and the company history with this type of insurance.
3. Compare information and costs from at least three major insurance companies. Find out how often and by how much the companies have increased their premiums.
4. Review the written copy of any policy you're considering and submit your questions. Know the grace period allowed to review your signed policy and if you can cancel a policy for a full refund if you change your mind.

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* LTCi Riders are an optional benefit available at an additional premium
** A Critical Illness Accelerated Benefit Rider is a benefit that also gives you the option to accelerate some of the death benefit in the event that you meet the criteria for a qualifying event described in your policy. Rider provisions may vary by state.

1 “What is Long Term Care?” Association for Long Term Care Planning. https://www.altcp.org/long-term-care/#who-needs-ltc {Accessed October 2021]
2 “Cost of Care Survey” Genworth. https://www.genworth.com/aging-and-you/finances/cost-of-care.html [Accessed October 15, 2021]
3 “Types of Long Term Care Insurance” MAGA. https://www.magaltc.com/types-of-long-term-care-insurance/ [Accessed October 2021]
4 “A Guide to Long Term Care Insurance” Caring.com https://www.caring.com/caregivers/long-term-care-insurance/ [Accessed August 10, 2021]