Long-Term Care Insurance Policies

As health-care costs soar and longevity increases, should you invest in a plan?

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As the baby boom generation ages into its golden years, we find one of their primary concerns is the possibility that failing health will require long-term care either at home or in a health-care facility. Meanwhile, Gen X watches their parents age and wrestles with how to plan for their own health care later in life.

The fact is we're living longer than our ancestors and the cost of long-term health care continues to rise. According to a recent study by Genworth, the average annual cost for care in a private room in an assisted-living facility was $51,600 and $105,850 for a private room in a nursing home. (The cost can be higher in major metropolitan cities.) Recent data suggests the average stay for women is 3.7 years, while men average 2.2 years in a facility.

Unlike medical policies that reimburse you for a portion of a covered medical expense, long-term care insurance pays a daily benefit to help offset costs when care is needed. The long-term care coverage available today has fewer restrictions and offers more types of care than was offered in the past. Currently, covered expenses include not only those for nursing homes but also ones for home care, adult day care and assisted living. As with any insurance policy, you can be declined coverage, especially if you have a health issue that will make claims on the policy more likely.

KEY DECISIONS TO MAKE WHEN SELECTING LONG-TERM CARE INSURANCE

In a typical long-term care policy, you will have several policy options to consider, each of which affects both your premiums and how benefits are paid.

■ **Elimination Period:** The length of time you must be in a nursing home or receiving home care before the insurance company starts paying benefits. Typically, you may select 30, 60, 90 or 180 days. The longer the waiting period, the lower the premium.

■ **Daily Benefit:** The dollar amount of the daily or monthly benefit. Coverage for long-term care should be 100% of the daily or monthly benefit up to the amount of actual charges for room and board. Typically, you can select a monthly benefit ranging in increments from $1,500 to $15,000 or a daily benefit from $50 to $500.

We recommend calling care facilities in your area and ask for their average daily costs. Depending on the number of hours required, home care could be more expensive than nursing home coverage.

■ **Inflation Protection:** The rate at which benefits are increased annually for inflation. Typically benefits will increase between 1% and 5% per year to keep up with inflation. This inflation rider may be "simple" or "compound," with compound increasing your benefits more rapidly, while at the same time raising your premium more.

Skilled care costs are increasing at an annual rate of roughly 4% per year. If you take out this insurance when you're 55, you may not use it for 20 to 30 years. Costs could easily triple during that time. An inflation rider enables you to keep up with rising costs.

■ **Length of Coverage:** This can range from one year of benefits to coverage that provides benefits for the rest of your life. Here again, the longer time period you choose to receive benefits, the more costly the insurance. In our experience, policies offering three years of coverage are a common sweet spot.

■ **Qualification to Receive Benefits:** To qualify for benefits, you must require substantial assistance with two or more activities of daily living (such as bathing or dressing) for a period expected to last 90 days or have a cognitive impairment (memory loss) requiring substantial supervision.

This assessment for benefits is completed by an independent health care professional.

■ **Type of Long-Term Care to Be Reimbursed:** Coverage should apply at home, in an adult day care center, nursing home or assisted-living facility up to the maximum benefit selected. Many policies cover "care advisory" services, which allow you to hire and pay for a trained representative who can work on your behalf to develop the optimal plan of care to address your specific needs. If the nursing home stay is interrupted for any reason, actual benefits should continue to be paid for up to 60 days per calendar year to assure that your facility bed is held for you.

■ **Premium Reductions:** Some companies will offer reduced premiums if you're in good health or if you're married, or if both you and your spouse have applied and are eligible for coverage. Make certain to find out whether the insurance carrier allows you to maintain all applicable discounts for the duration of coverage. Some insurance companies withdraw marital discounts at death or divorce.

CURRENT CHALLENGES WITH LONG-TERM CARE INSURANCE

According to the National Association of Insurance Commissioners, there were more than 100 insurers selling LTC policies in 2004. Today there are closer to 10. You want a company that's demonstrated long-term commitment to the long-term care industry. It's important to seek the advice of a financial planner or insurance agent who really understands this kind of coverage and knows which companies have demonstrated their reliability.

In addition, the cost of insurance has risen substantially, due to a variety of factors including low interest rates, increasing health care costs and longer lifespans, among others. This has resulted in new policies being priced substantially higher than similar offerings from the prior decade. At the same time, existing policies are seeing regular and significant premium increases.

If you already own a policy and are presented with a premium increase, you do have options to reduce your costs. Typically, you can reduce the daily benefit, the inflation rider or increase the elimination period in order to keep your premium level. But this is a trade-off as you will then have lower benefits should you need care. It's important to consider the trade-off and whether it may be better to simply pay the higher premium.

GROUP OR INDIVIDUAL COVERAGE

Individual coverage is more expensive than group insurance but group coverage tends to cover less. Specifically, group insurance tends to include more gatekeepers (reasons to refuse you coverage) and is more stringent about which preexisting conditions they'll accept before you're insured. Individual long-term care insurance can have some tax advantages if you itemize deductions, especially as you get older. Federal and some state tax codes let you count part or all of long-term care insurance premiums as medical expenses, which are tax-deductible if the policy meets the requirements necessary to be considered a "tax-qualified plan."

ALTERNATIVES TO LONG-TERM CARE INSURANCE

Many think that Medicare will pay for these costs, but Medicare pays for just 20 days in a skilled nursing home after hospitalization and then a small percentage of the next 80 days. Medicaid meanwhile will pay for nursing home care, but only after you have depleted the majority of your other assets.

One option is to simply "self-insure," which is just another word for paying out of pocket. But to do this you must have the ability to set aside a significant amount of money. As noted above, the median annual cost of a private room was $105,850 in 2020. Over three years, this would add up to more than $315,000 in room and board expenses alone.

If you have a permanent life insurance policy, such as whole life, you may be able to tap the benefits early, either through the cash value in the policy or via an "accelerated death benefit," if your policy includes that provision. Doing so would mean reduced benefits to your beneficiaries when you pass.

You can also sell your permanent life insurance policy via a viatical or life settlement, which usually provides more in proceeds than the policy cash value. But these settlements can be tricky to navigate as the proceeds may be subject to tax and they carry a number of risks beyond the scope of this article.

One development to keep an eye on is state-run long-term care programs, as Washington became the first state to implement one of these plans in 2022. The plan is funded by a mandatory 0.58% tax withheld by Washington-based companies from employee paychecks. Services were set to begin Jan. 1, 2025.

Of all the alternatives, perhaps the newest and most popular is the hybrid, or life/long-term care insurance policy. In essence, the policy builds cash value for long-term care expenses if necessary, and if those are not exhausted, a death benefit is paid out to your beneficiaries. Thus, there will be a benefit ultimately paid, whether or not you need long-term care.

The challenge with these policies is that they typically require a single lump sum premium up front, or else premiums accelerated over 10 years or less, so you have to make a larger cash commitment up front.

A WAY TO PROTECT YOUR ASSETS

As you can see, conditions for long-term care insurance can vary widely. The coverage you buy should be renewable for life and noncancelable except for nonpayment of premiums. We suggest clients look into coverage when they're in their fifties, when there is less chance of having a preexisting health condition that

Continued on Page 38