

Long-term care issues and answers

New estimates suggest that 70% of Americans who reach age 65 will, at some point, need extended health care. The U.S. Department of Health and Human Services projects that some 20% of retirees could require five or more years of such care. To pay for this care, many are turning to long-term care insurance (LTCI). However, these policies come with a profusion of confusing choices.

Here are five sample areas that you need to come to grips with before buying an LTCI policy. There are no right or wrong answers here. If one chooses all the most expensive approaches, the premiums could become unaffordable. A balancing of costs and benefits is needed, with a prudent regard for current and future resources.

Daily or monthly benefits. LTCI benefits are capped at some number of dollars per day for care. The testing for the cap may be done on a daily or a monthly basis. The different approaches may lead to markedly different benefit payments for a given set of circumstances.

Imagine that John's policy has a \$400-per-day benefit, calculated daily. He needs 15 days of care in a month, and the care costs \$600 per day. John's benefit will be limited to \$6,000, the \$400 times the 15 days.

Mary has a \$400-per-day benefit, but it is calculated on a monthly aggregate basis. If she has the same 15 days of \$600 expense for care that John has, her benefit will cover the entire \$9,000 in expenses. In effect, she gets some credit for the days in the month with no expenses.

Elimination period. LTCI benefits typically start being paid after an "elimination period." The period begins once an individual becomes unable to perform one or more of the activities of daily life as a result of injury or disease. Some policies define the elimination period in terms of service days, that is, days when services are received. Days when no services are received don't count. Thus, if care is required only every other day, a policy owner will have to wait much longer before receiving benefits. A policy that does not link the elimination period to service days will begin paying benefits sooner.

Reimbursements versus cash benefits. Some policies reimburse the owners for expenses as they are incurred and submitted to the insurance company for approval. Others simply pay a stated cash benefit each month once the conditions for making the claim are satisfied. With the cash approach, the owner can use the money for expenses, such as copays, that usually are not covered in reimbursement plans.

Partial payment for home care. Some policies pay only 50% or 75% of the stated benefit if the care is received in the home. At first blush, this may seem reasonable because home care is much less expensive than care in a nursing home. But let's say that an individual incurs \$5,000 of monthly expenses for in-home care. With a 100% benefit, those costs would be covered in full. If the benefit is reduced by 50%, the policy owner must pay the \$2,500 difference.

Cost-of-living adjustments. Although inflation has been pretty tame in recent years, health care costs have been rising steadily. Most observers expect health care costs to continue to grow in the coming years. Therefore, a cost-of-living feature can be a very important safeguard against having an LTCI policy provide inadequate benefits in the future. Alternatively, some advisors recommend the "guaranteed purchase option." In this approach, there is no automatic inflation adjustment. Instead, the insured has the opportunity to increase benefits every three years without having to prove insurability. This approach postpones the higher premiums needed to support the higher benefits.

Over the course of our financial lives, we buy many types of insurance—life, auto, homeowner’s. By shopping for insurance over the years, we become familiar with the choices and tradeoffs. We might change policies many times. LTCI policies are different; most people will buy this policy only once. Therefore, it is especially important to read the fine print on any LTCI policy, or to work with an advisor who understands the ins and outs of these policies and can explain them to your satisfaction.

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