

## **Five Cost Factors to Consider When Buying Long-Term Care Insurance**

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As our population ages it becomes more likely that we will either have someone in our family or know of someone who will need the services of a full time nursing home facility. I will never forget the Herculean efforts of a husband in his 70's, who provided 24-hour care to his wife over a number of years. Finally, at the age of 76, Wally was physically unable to adequately meet her 24-hour needs and so he turned to a nursing home. This is probably not an uncommon situation where family members become the first support system we turn to when another family member becomes ill. However, there are times when the family needs to turn to other support systems. When considering a long-term care insurance policy, spouses often worry about the financial strain that could occur should one or both need full time care.

Buying a long-term care (LTC) insurance policy is a complicated process involving many decisions about which features are right for you. If you are like most people, price plays a key role when weighing your options. According to the Financial Planning Association, there are five key factors with the largest impact on price: your age, daily benefits, inflation protection, benefit period, and the elimination period.

**Your age.** The younger you are when you buy the LTC policy, the less expensive the premiums. You can pay off the premiums over a set period of time, such as ten years, or pay level premiums for the remainder of your life, assuming you keep the policy in force. (Your state insurance commission can approve rate increases for an entire class of policyholders.)

**Daily Benefits.** Determining how much daily benefit you need should take into account several factors. First, what does LTC care cost where you expect to receive care? A 2003 MetLife study pegged the average national cost for a private nursing home room at \$181 per day – but daily costs varied widely depending on the area and the quality of the facility. At-home care usually costs considerably more than a private nursing home room.

Are you insuring for two people or one? If one moves into a nursing home, remember that you still have expenses associated with the spouse remaining at home. What if both of you end up needing care at the same time? Some companies offer “shared benefits” where two people are covered by a single policy, or discounts may be available if both spouses buy separate policies with the same company at the same time.

**Inflation protection.** This is a very important feature, especially for younger buyers. Nursing home rates have been going up five percent or more a year, according to the American Council of Life Insurers. That means a nursing home that costs \$180 a day today would cost \$480 a day 20 years from now – a likely scenario for a 60-year old buying a policy but not needing it until he or she turns 80.

Be careful which type of inflation protection you buy. Some policies offer a choice between a compounding inflation rider and a simple inflation rider. The simple version will cost less, but results in smaller annual increases in the daily benefit, potentially leaving you short of benefits.

**Length of benefit period.** How long do you want the policy to pay for coverage: two years, three, five, eight, a lifetime? The longer the period, the more expensive the premiums. Average stay in a nursing home is 2.4 years, according to government estimates, but of course, some patients remain much longer.

Some professionals recommend buying lifetime benefits if you can afford them, others feel comfortable with five to eight years. One factor to consider is family health. For example, if your family has a history of Alzheimer's disease, which can result in many more years of care, you may want to consider a longer benefit period. (Consider the experiences of President Reagan.)

**Elimination period.** This is the number of months you choose to wait before benefits begin. Benefits might begin immediately or within 30, 60, or 90 days, or half a year or longer. Unless coverage begins immediately, you'll have to pay out of pocket until coverage begins.

Naturally, the longer the elimination period, the lower the premiums. Usually there is a "sweet" spot where you get the best trade-off between savings and the benefits you give up. With newer policies, you also may not have to pay for all the days in an elimination period because of their generous crediting options.

But run the numbers before choosing the waiting period. Let's say the period is 90 days. At \$180 a day, you'll pay out of pocket \$16,200. But 20 years from now, at five percent annual inflation, that 90-day period will cost \$43,200! Will you have the funds?

What other financial resources, such as retirement income or savings, do you have should you end up needing care? You can reduce premiums by planning to pay a portion of care out of pocket. But will those resources be adequate when you need them? What if they are resources you want to leave to your children or may otherwise need?

Remember, these are just some of the points you should consider before buying LTC insurance. There are many others and you may want to consider sitting down with your financial advisor and discussing whether or not LTC fits into your financial picture.