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Should You Buy Long-Term Care Insurance? Maybe Not

Private long-term care insurance can be an important tool to protect against the risk of needing costly personal assistance in old age. But two respected financial economists conclude it is very expensive relative to the benefits it provides and may not be appropriate for many buyers. At the same time, a new consumer brief from the Society of Actuaries suggests how much wealth you should have for coverage to make sense.

The [research paper](#) from economists Jeff Brown and Amy Finkelstein describes many reasons why so few people buy long-term care coverage. They focus on two important issues: the effect of Medicaid's long-term care benefit on people's decision to buy private insurance, and the pricing and value of those policies. Their paper, in the *Journal of Economic Perspectives*, concludes that it does not make a lot of sense for people with few assets and little income to buy insurance, since they'll be covered by Medicaid anyway—a phenomenon economists call “crowd-out.”

But they also find that private LTC insurance is very expensive relative to its benefits. For instance, Jeff and Amy found that 65-year-old buyers of a typical policy would get back only 68 cents for every dollar they pay in premiums. By comparison, the same buyer of a life annuity would get 75 cents to 85 cents. It is also important to note that long-term care insurance is a much better deal for women, who get back 87 cents for every dollar in premium they pay, than for men—who get only 45 cents.

The deal is even worse when Jeff and Amy include people who let their coverage lapse before they ever get benefits. In that case, a typical buyer at age 65 would get only 50 cents back on the dollar, with men getting less than 33 cents and women about 64 cents.

For several years, Jeff and Amy have also looked at how Medicaid, which provides long-term care benefits for those with very low incomes and few assets, affects people's decision to buy insurance. They found that for many potential buyers, private insurance provides coverage they would have received from Medicaid anyway. Jeff and Amy estimate that

Medicaid would cover three-quarters of long-term care benefits for a typical woman buyer of private insurance.

I have questioned how much this calculation effect matters to real people, who often have no idea that Medicaid provides a long-term care benefit. And those who do, understand how restrictive Medicaid rules are and how poor the benefit often is. Medicaid is no bargain. Still, why buy insurance for something you can get for “free” from the government?

And that helps explain why the report from the Society of Actuaries suggests that those with savings of less than \$250,000 may not want to buy private insurance, while those with assets exceeding \$2 million may not need to.

These are by no means hard and fast rules. For instance, wealthier people may still want to purchase insurance to preserve assets for their heirs. But, unless they face an unusually long period of care, they are probably able to self insure. Other research suggests that only 5 percent of those 65 and older will incur long-term care costs that exceed \$250,000.

When it comes to long-term care insurance, I am often asked the same question: Should I buy? As these two reports suggest, the right answer is: It depends.



Hidden Truths About Long Term Care Insurance



Carolyn Rosenblatt, Contributor

Should you or shouldn't you? Seems as if someone is always promoting the purchase of long term care insurance.

Most of us don't want to think about getting old and needing anything like that. If we ever think about it, it's a thing we want to defer until later.

The insurance industry really wants our premium dollars and has done extensive research and aggressive marketing to get us, especially Boomers, to buy these products. Do we need it? Is it worth the cost?

I am not connected to the insurance industry and have no affiliation with any company. I endorse no products. I do not speak for anyone else. I am a consumer, and I'm in the business of consulting with elders and their families. I help them figure out what to do with their aging loved ones. Because the cost of care for aging parents kept coming up so often, I needed to know more about long term care insurance. So, I set about finding out as much as I thought would be helpful for me in my role as advisor.

I talked to brokers. I read literature. I compared costs. I talked to my own clients about how much it costs them to care for spouses, parents, and other relatives at home or in assisted living or nursing homes.

At the risk of annoying some who are in the industry, I am providing my opinions here.

Here's my take:

Generally, unless you have a very large amount in liquid assets squirreled away and you don't mind spending a significant chunk of it on long term care for yourself, and spouse, partner, or disabled other loved one, long term care insurance is a good thing.

I say that only because we just don't have any other resource to pay for help at home, assisted living or nursing home care. Most of us wouldn't be happy paying out a six figure bill in cash each year for long term care.

Medicare doesn't cover long term care of the "custodial" variety most people need in the long run. The U.S. Department of Health reports that 70% of people who reach age 65 will need long term care services at some point in their lives.

Health insurance does not cover long term care either. That leaves you, your savings and your retirement income to pay for it for as long as it takes.

My friend's mother has had dementia for 13 years. She and her sister pay out of pocket each month to support their mom, at an annual cost of over \$100,000 per year. How long does it take to burn through a million dollars at that rate? Physically, mom is in pretty good shape for 92. This could go on for a lot longer. Do you want this to be your kids, paying for you?

Now for the caveats.

If you decide to go forward and look into getting long term care insurance for yourself, here are some things to keep in mind.

First, **get a broker who is a specialist in the field** of long term care insurance (LTCi). Generalists may not know all the essential details. There are a lot of details to understand and many product choices on the market.

Next, **compare prices**. As with auto insurance, for approximately the same coverage for the same length of time, you can pay thousands of dollars more if you pick the wrong company. If you're inclined, buy before age 60, when prices are automatically higher. Just because.

Look carefully at the concept of "elimination period". That's code for deductible. Some are huge and very burdensome. Maybe the insurers who created these hope you'll die off before you can collect, once you need the help. A three month elimination period for a frail elder can be a long and risky time. In any case, no elimination period or a very short one is best.

If you are considering a particular insurance company, **ask the broker about the claims history** of the company. Find out what the insurer has actually paid out in benefits and for how long. If the company has only been in the business of LTCi for a few years, there may not be enough history to rely on. Bigger amounts paid out in claims over many years is an indication of a more honest claims philosophy.

Ask if the company has ever been on the receiving end of a "bad faith" lawsuit, especially a class action case. One of my own clients was insured with one of these bad apple insurers. I had to do some serious cage rattling to get her husband's benefits flowing. The nasty folks at this insurer seemed to be doing all they could to keep their insured from actually getting anything he'd been paying premiums for 25 years. Now he does receive payments, but it is an ongoing fight to keep them flowing.

The class action bad faith case against the company was in full swing at the time I was helping the client. I could see exactly why. They were doing just what they were accused of doing, and to my own client!

Finally, **decide how much risk you are willing to assume** for yourself and anyone else for whom you would be responsible for long term care. The chances are, we'll all need some kind of help in our future. As with any insurance, you are protecting yourself against risk. You either take on the risk yourself, which is fine if you can afford it, or not. If you want the protection of insurance, above all, be a savvy consumer and study what you are buying.

Here is a resource, to which I was referred by a local broker (suzanne@suzanneinsures.com): Kiplinger's, November, 2010: A 3-Step Guide to Smarter Long-Term Care Planning, www.aaltci.org/guide.

Long term care insurance is a complicated product. You will need to read, listen, ask questions and think it through. If you're wondering if I bought some for myself, the answer is "yes". I did the math. It made sense to me. It's not for everyone and it doesn't cover everything. But it looks to me like good planning to have it, for many of us.