Choosing the Long Term Care Policy That Is Right For You

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As you approach retirement and, perhaps, for awhile afterwards you will be solicited by insurance agents about buying long term care insurance. You have read much about it in many of the financial magazines and the AARP magazine. So you have probably thought about whether or not you should buy such coverage. And, if you have gone far enough to learn about its cost you are probably even more uncertain as to whether you should buy long term care coverage or not. This article is meant to address that question and many of the ancillary questions that come up as you decide on the scope of coverage you need if you do, indeed, buy long term care insurance.

There are a number of reasons why you should have long term care insurance.

1. Many are living to the age of their incapacity. Medical science has progressed to the point that we are living longer but, often, we tend to survive to the point of becoming incapacitated prior to dying. In past generations we died before becoming incapacitated or shortly thereafter. Such is not the case today.

2. The cost of long-term care whether in an institutional setting or at home is very expensive and can destroy the estate you have worked so hard to accumulate for your benefit and for the benefit of a surviving spouse. The cost of institutional care can easily exceed $77,000 a year today (2008). Home care can be even more expensive.

3. Most spouses and other family members will expend every effort to care for the care-needing spouse themselves. This motivation will exist even if they have the financial capacity to provide for community based or institutional care. However, this should not be the compounding or primary motive in keeping the care-needing spouse at home. It is sad but true that 60% of care-giving spouses often die before the spouse who needed the care. This is due to the stress – emotional, physical and financial – that is part and parcel to giving care to a loved one. It is important to at least remove finances as one of driving forces to provide care in the home. Long-term care insurance can also make it possible to hire help to support the care giving spouse and provide respite care to free up the care-giving spouse for a little R & R once in awhile.

Having long term care insurance has, in my mind, risen in importance to exceed the need for life insurance, liability and property insurance and, certainly, disability insurance for those of you who are approaching retirement and beyond. I am not advocating dropping those coverages, except disability insurance once you stop working, but if you need to cut back somewhere in order to afford long term care insurance you might look to these other coverages to see if any savings or reductions can be made there. There is an ironic dichotomy as you face the decision to buy long-term care insurance. If you can afford it you may not need it and if you can't afford it you most certainly need it.

While I am on the subject of affording the cost of long-term care insurance I should address the fortunate few who have significant discretionary income. In other words, they have lots more money at the end of the month than they need to spend to support their lifestyle. It could be argued that they don't need long term care insurance. Even so, an annual expense of $69,000 to $77,000 for nursing home care that could last for a few years is going to be noticeable to anyone. So even if you know you can afford it you may still want and feel it is prudent, to lay this cost off on the insurance company. You will be protecting your estate against the significant erosion that will take place in the event the insurance is needed. That is why, as I have been told, people like Warren Buffett and Bill Gates have purchased long term care insurance. It just makes prudent sense to them.

On the opposite side of the coin are those people who just cannot afford long term care insurance at all. In this case, it might be very prudent for their children (or one of the children) to buy this insurance for them. The alternative is that the children may very well have to come up with the money to provide the care when the time comes. Again, $69,000 to $77,000 annual expense for a few years is going to hurt more than the cost of the insurance premium. But the thing that will hurt the most is watching your parents suffer and hurt when struggling with the expense of long term care without insurance benefits. Watching them come under the institutional care provided by the state under Medicaid, in my personal experience, is not a pretty thing to witness either.

With all of this as background let's get down to the criteria you should use in choosing the long term care policy that is best for you. But first of all, let's discuss a major preliminary step. It is my strong recommendation that you use the services of an agent, who is a Long Term Care Specialist to help guide you in this selection process. The primary reason is that long term care insurance is a very dynamic, ever changing field. It is very helpful to have an expert guide to take you through the decision making process and to keep you apprised of changes as they occur in the years to come. For this reason alone, I would not recommend working with a single insurance company, a direct writer of insurance or an agent that represents a single company. Your first step in this process will be to interview 2 or 3 agents. Get referrals to long term care specialists from friends and your other advisors. Be sure the agent in fact focuses on long term care as a major element of their insurance business. Because you will be dealing with this agent in future during times of stress – when filing claims or reacting to premium increases, etc. – be sure you (and your spouse and family) and the agent relate well with each other.

The first step you will want to take with the agent you select is to get the agent's recommendation of 2 or 3 different insurance companies from which to select the company to issue your policy. These companies should have a number of criteria in common:

1. They should all be rated in the highest categories by two or more rating services such as A.M. Best and Standard and Poors.

2. They should all have been significantly engaged in the long-term care field for a good number of years and

3. They should have history of few, if any, premium increases over the years they have been in the long-term insurance business. (As this is written – 2009 – it is expected that there will probably be across the board increases by most all companies in the near future.)

4. You might want to check with your state's insurance regulator to learn of the frequency of any complaints against the company you are considering.

You will notice that I have not listed competitive premiums as a criterion. Once you have a list of 2 or 3 companies that meet these criteria then you can compare prices. But that is not the most important criteria even at this stage of the selection process. The next stage of the selection process is to be sure that the companies you are selecting from all offer the range of benefits that you and your agent feel are important to have in your policy. Our view is that your policy should provide the following benefits in addition to the basic benefits (e.g. Nursing Home Care – skilled, intermediate and custodial) all policies offer:

1. Home Care without the necessity of being hospitalized or institutionalized first at the full daily benefit; not 50% as is often true.

2. Assisted Living Care.

3. Adult Day Care and, in some states, Foster Home or Residential Care.

4. Respite Care.

5. Home and Community Care including Homemaker Services.

6. Hospice Care both at home and in a facility.

Your agent will have an informed opinion on this menu of benefits. If the agent argues against any of them or has others they would include, this would not be of concern to me. Just be sure they have a considered and informed opinion that they can explain clearly and understandably to you.

You will notice I did not list coverage for Cognitive Impairment in the above list. It is critical that this be included in your policy with no "ifs ands or buts" about it. Fortunately, today that is usually true. Another area of concern in the past that presents less concern today are the number of ADLs that are listed in the policy and the number you have to fail in order to qualify for benefits. **An ADL is an Activity of Daily Living. These are such things as bathing, continence, dressing, feeding yourself, toileting and transferring from bed to chair, etc. Some policies offer more or less ADLs than others.** The ones mentioned are a minimum in my opinion. In fact, in order for you to be able to deduct your long-term care premium as a medial expense on your income tax return, your policy will have to contain the ADLs listed. The policies that meet this government standard are called tax-qualified. To qualify for long term care benefits there will be a certain number of these the insured has to fail to be able to do. Tax qualified policies limited the minimum number of ADLs that need to be failed to two.

Tax qualification may or may not be important. Your medical expenses, including medical and long-term care premiums, must exceed 7.5% of your adjusted gross income for any part of the expense to be deductible. And, then only those expenses in excess of this 7.5% threshold are deductible. So even if your policy is tax qualified you may not be able to deduct the premium. In that case, you haven't gained anything by insisting on a tax-qualified policy. If you feel that it is unlikely you will ever be able to deduct your premiums then you may decided to forego a tax qualified policy because you can often get a better policy that is not tax-qualified. Your tax preparer or your financial planner can help you reach a conclusion on whether or not you might ever expect to be able to deduct your premiums. If it doesn't look like you can, then let your agent guide you as to whether or not you should seek out only tax qualified policies.

Tax qualified policies have one other advantage that may be important to some. If you have a tax qualified policy you can participate in your state's Partnership Plan. Without going into detail here, the Partnership Plan allows you to qualify for state aid for your long term care costs without using up all of your other assets first. Again, your agent can be of great help in determining if this might be important to you in your particular situation. This is another reason for using a highly qualified specialist in this area.

Another major decision you have to make is how much daily benefit you should purchase. As mentioned before, today (2008) nursing home expenses are running $69,700 to $77,300 a year (2 bed room versus and private room). If the premium expense is no object then you will want to purchase a benefit amount at least equivalent to today's costs. But if the cost is prohibitive (or at the very least, discouraging) you may want to buy a daily benefit somewhat less than today's costs. This makes some rational sense. Remember, if you are live a life that allows you to travel and entertain and those other activities that might be viewed as "extras", you won't be spending money on those things if you are in need of long term care. In that case long term care costs are replacing other costs you are already paying for; they are not 100% additive to your daily living costs. So you might want to insure against 50 or 60% of actual anticipated costs.

Finally, lets discuss the need for inflation protection as a policy benefit. As has been mentioned above today (2008) nursing home expenses are running $69,700 to $77,300 a year. They have been increasing over the years at least at the rate of inflation, if not faster. Therefore, it is typical for insurance agents to recommend an inflation rider for your policy. These riders typically increase the daily benefit every year by 5%. Sometimes this increase is based upon the original benefit amount at the time the policy was issued but, more often; it is a compounded increase every year. The cost of this rider can raise the cost of your coverage by as much as 50% to 100%! This makes the cost of the insurance prohibitive for a great many people. If that is the case in your situation and it prevents you from purchasing a daily benefit that is at least the equivalent of 50% of today's cost for a nursing home stay, we would strongly recommend against buying this coverage. I will explain my rational in more detail in another article to be posted later in this Topic Section of the website.

Rather than buy inflation protection I would rather see you spend the same money or less on a higher benefit now, even if that meant you were purchasing a benefit that exceeded today's cost of care in your area. There are policies available that pay the stipulated benefit rather reimbursing you for your actual cost. So if your actual cost were less than the benefit payable you would still collect the stipulated benefit. This would allow accumulating the extra amount to pay for a length of care that is longer than is covered in the policy or that would allow you to upgrade the level your care or upgrade the facility you choose. There are also policies available that allow you to increase your coverage in the future regardless of your health. So, rather than having the policy benefits increase by a fixed percent and at a fixed frequency, you can chose when and how much to increase your benefits. You maintain more control.

It is in this area that we get more "argument" from insurance agents than any other area of my recommendations. Recently, I was given some additional rational for buying an inflation protection rider rather than one that just gives you the right to buy more coverage in future. With the rider the increase is automatic; you don't have to do anything about it. It just happens without the necessity of you taking action. This might give some of you increased peace of mind knowing that you don't have to go through the process of deciding whether or not to increase your coverage. You won't have to re-look at it every year or every few years and go through the whole "review-compare-worry-decide" routine each time. I you don't run the risk of forgetting to take action. Even though I have thoroughly considered my position on the efficacy of automatic inflation protection riders and have actually lived with the results of this position in my own situation, this argument has merit.

Before I close this position paper let me share with you a few other facts of life as it concerns long term care.

1. The probability of needing long-term care is 60% after age 65.

2. The greatest cost of long term care is a hidden cost. It is the emotional trauma on family members that is caused by watching a loved one lose their independence to say nothing of the physical and emotional cost on the one who needs the care.

3. Medicaid is a welfare program that requires a person prove that he/she is impoverished in order to qualify for long-term care benefits in the program. It is not, in my opinion, a viable option to private coverage.

4. Medicare, contrary to popular opinion, pays for very little long term care. Medicare is health care while long term care is custodial care. Medicare does not pay for the type of care that you would receive from long term care insurance.

5. Care provided in the best of facilities is affected by the frequency of visitation the resident receives from friends and relatives and the concern they demonstrate when visiting. A network of people who love and support you is your best assurance of quality care.

I hope that this article will motivate you to look more closely at adding long term care insurance to your financial structure. It is an extremely important part of your long term personal financial security.