

The Family Long-Term Care Insurance Decision

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Despite the recent economic downturn, more and more people of all ages are buying long-term care insurance policies. You, too, may be wondering if long-term care insurance is the smartest decision for you and your family. In this article, a long-term care industry specialist explains the key factors in making the long-term care insurance decision.

Despite the economic downturn in the U.S. over the past few years, public interest in long-term care insurance is quietly and steadily growing. In fact, more than four million people held individual long-term care insurance policies at the end of December 2003.¹

The recent interest in long-term care insurance is likely due to three factors: the evolution of these insurance products, limited alternatives for financing care and growing consumer awareness of the benefits of long-term care insurance.

Product evolution

Long-term care (LTC) insurance policies have evolved over time to be far more flexible than they were in the early days, when they were known as nursing home policies. Today, most policies allow the insured to receive care in the setting of their choice, whether this is at home, in an assisted living facility, adult day care center or nursing home.

Industry standards have developed as well. Most policies offer benefits when a person can no longer perform two out of six “activities of daily living” (such as bathing, dressing, toileting or eating), or when they need substantial assistance due to a cognitive impairment. New benefits have come on the scene, such as additional cash allowances on top of basic coverage which pay for extras, like home modifications and home safety checks. Benefits like this make it easier for people to receive assistance at home.

Limited alternatives

Almost every day we read that the public safety net is slowly disappearing and the Social Security system may be in jeopardy 20 years from now. Even today, publicly-available options for managing long-term care expenses are severely limited.

For example, Medicare typically covers only certain types of care for a limited period of time, leaving many long-term care costs uncovered. Medicaid also is an imperfect solution because it requires people to spend down their assets to state required levels to qualify. In addition, Medicaid primarily pays for care received in a nursing facility, not at home. Perhaps this explains why even the Government recently decided to offer its employees the option to buy long-term care insurance through a special Federal Long-Term Care Insurance Program.

Consumer awareness

In part, LTC insurance sales have been driven by a growing consumer awareness of the benefits of long-term care insurance coverage. With more than 25 million adult caregivers in the U.S. today, many people are experiencing long-term care within their own families.² Some have witnessed the positive effects of long-term care insurance, which may have allowed their loved ones to remain in their own homes by paying for in-home care.

But many families without long-term care insurance coverage in place have seen the opposite effect—that is, limited choices and the impact of the high costs of long-term care on their family's financial foundation and security.

What advisors recommend

For the majority of the population who cannot afford to self-insure this risk, some financial planners are beginning to recommend LTC insurance as a core element of a family's financial plan. The advantages of planning ahead and purchasing the insurance at younger ages (under age 55) include:

- The younger you buy, the cheaper the premiums.
- Younger buyers are more likely to be in a healthy condition to qualify for coverage.
- If long-term care is needed at an earlier age, the family's finances will be protected as the policy will help to cover the costs of care.
- The coverage can pay for caregivers to come into the home, where most people prefer to receive care.

This may explain why the average age of a long-term care insurance buyer has dropped from 72-years old in 1990 to almost 58-years old today.³

Is it worth it?

Few people regret purchasing car insurance or home insurance policies when an accident takes place. The coverage earned is far greater than the annual premiums paid, especially when you consider the alternative: paying for a new car or a new home out-of-pocket. The same is true of long-term care insurance. The benefits paid out under a long-term care insurance policy for one year alone often can exceed the cumulative premiums a client pays into a policy over many years.

For example, if a 55-year-old man purchases a policy that costs \$2,000 per year and pays premiums for 20 years until he needs long-term care at age 75, he will pay a total of \$40,000 in premiums over those 20 years. Compare this to the cost of care at a skilled nursing facility, which can reach \$58,000 per year and is expected to grow five percent per year.⁴ In 20 years, the average annual cost of long-term care may be well in excess of \$100,000.

In addition, new policy options available on the market today allow partners and family members to share the benefits of a single policy. This gives policies even greater value by making it more likely that the benefits will be used by one family member or another at some point in time.

Tips for a positive buying experience

1. Engage in a family discussion and plan ahead

If you are helping your parents, make sure you understand their future wants and desires. If you are a couple planning for your own long-term care needs, think through your own priorities and those of your children. Long-term care is a family issue.

2. Seek assistance

Long-term care insurance is best understood with the help of an insurance agent or financial planner who can assess a family's situation and specific needs. Experienced LTC insurance advisors will help you through the buying process by explaining the various features of a policy and how they will benefit you at claim time.

3. Investigate your LTC insurance carrier

When you look at the various LTC insurance carriers, consider their relative financial strengths and stability, in addition to their years of experience in the long-term care insurance market. S&P (Standard and Poor's), Moody's, Fitch IBCA and A.M. Best rate most long-term care insurance carriers.

Sources

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3. Long Term Care Insurance in 1998-1999, Health Insurance Association of America (HIAA), 2002.
4. Metlife Mature Market Study, 2003.