



Planning for “*What If...?*”

Tools for Protecting Your Family and Managing Your Assets

Long-Term Care Insurance

What Is It? Insurance that pays for medical and personal services for a chronically ill or disabled person; covered services may include nursing home care, home health care, adult day care, and respite care. Its main purposes are to protect the assets of the insured so that they can be passed on to heirs or to charity, to allow the insured more choice as to where they receive care, and to avoid reliance on government programs (Medicaid) or relatives for their care.

Who Should Have It and Why?

From a financial perspective, two main criteria should be considered when deciding whether to purchase long-term care insurance:

- Are there sufficient assets to justify the purchase of the insurance?
- Is there sufficient income to pay the premiums for the insurance even if premiums increase substantially?

If an individual has very few assets (e.g., a net worth of \$50,000) they would very quickly qualify for Medicaid and have their long-term care expenses covered under that program. Long-term care insurance would not be indicated. If an individual has a very large estate (e.g., net worth of several million dollars), that person may not need to purchase long-term care insurance. However, he/she may choose to purchase it in order to turn an unpredictable expense into a more predictable insurance premium.

If a person has sufficient assets to justify protecting them with insurance, the person must also be able to afford the premium now and with future increases. Depending on the person’s age at the time of purchase, premiums may range from several hundred dollars up to several thousand dollars per year.

Married couples may choose to purchase insurance to protect their assets for the healthy spouse in the event one of them needs extended care.

Terms to Know

Daily benefit: the maximum dollar amount that the insurance will pay for a day of care. Look for a policy that will pay the full daily benefit whether care is received in an institution or at home.

Lifetime benefit: the maximum dollar value of benefit a policy will pay, expressed as a dollar amount or as the number of years of care it will cover.

Elimination period: the length of time you must need care and pay for it yourself before the policy will begin paying for your care. Choosing a longer elimination period (e.g., 180 days instead of 90) will reduce the cost of your insurance. However, a longer elimination period increases the amount of money you may have to pay out of pocket.

Tax qualified: *Premiums* for a tax-qualified policy are deductible on your income taxes, with limits on the amount you can deduct based on your age. This helps you only if you itemize your income taxes. Also, *benefits* paid by a tax-qualified policy are not counted as income for tax purposes.

Activities of daily living: Your need for care is typically determined by your ability to perform activities of daily living. These may vary slightly from policy to policy, but usually include bathing, dressing, transferring, continence, eating, and toileting.

Cognitive impairment: Mental incapacity, such as that caused by Alzheimer's disease, should also be a condition that qualifies you for care.

Inflation protection/inflation rider: You can choose to have the benefits payable by your policy increase to cover increasing costs of care due to inflation. The best inflation riders use compounded increases. This feature will substantially increase the cost of the policy but is important to preserve the value of your coverage.

Issues and Limitations

Cost: Long-term care insurance is often quite expensive. Some older applicants may find that they cannot afford a policy. Married couples may get a discount if they purchase policies at the same time, but the cost of purchasing two policies can be prohibitive. The older you are when you purchase long-term care insurance, the higher the premium will be.

Eligibility: The older a person is, the more likely it is that he/she will have a medical condition that makes it difficult or impossible to obtain insurance. Most experts recommend investigating long-term care insurance while in your 50's and early 60's.

Long-term commitment: Purchasing a long-term care policy is similar to purchasing life insurance when you have your first child. You are making a commitment to keep the insurance for a long time. You should purchase long-term care insurance with the idea that you will maintain the policy until you die

Choosing a policy: Choosing a company and a policy can be confusing. Unlike Medigap policies, policies are not standardized.

- You must choose a level of benefits (daily and lifetime) that meets your needs and that you can afford.
- You will have to choose riders (policy amendments) regarding inflation protection, non-forfeiture benefits, and other options.
- Your choice of insurance company may determine how much your premium will increase in the future. Since you will have this policy for a long time, it is possible that the company may go out of business (policies usually continue and are purchased by another company) or sell their long-term care policies to another company. Several services rate the financial strength of insurance companies. Check your library for ratings published by companies such as A.M. Best, Weiss Ratings, and Standard and Poors. Ratings are also available on these companies' web sites, either by registering or for a fee. Weiss (<http://www.weissratings.com/>) provides lists of the strongest and weakest companies for free.

Ask Yourself

Is my income sufficient to cover the cost of long-term care insurance premiums, even if they should increase substantially over the years?

Do I have assets that I want to pass on to others at my death and that justify the cost of the insurance?

If I do not purchase long-term care insurance, how do I plan to cover the costs of long-term care if I need it?



<http://www.ace.uiuc.edu/cfe/whatif/index.html>

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