5 Things You SHOULD Know About Long-Term Care Insurance

A new breed of policy is taking off, but it can be pricey

by Ellen Stark, **AARP Bulletin**, March 2018

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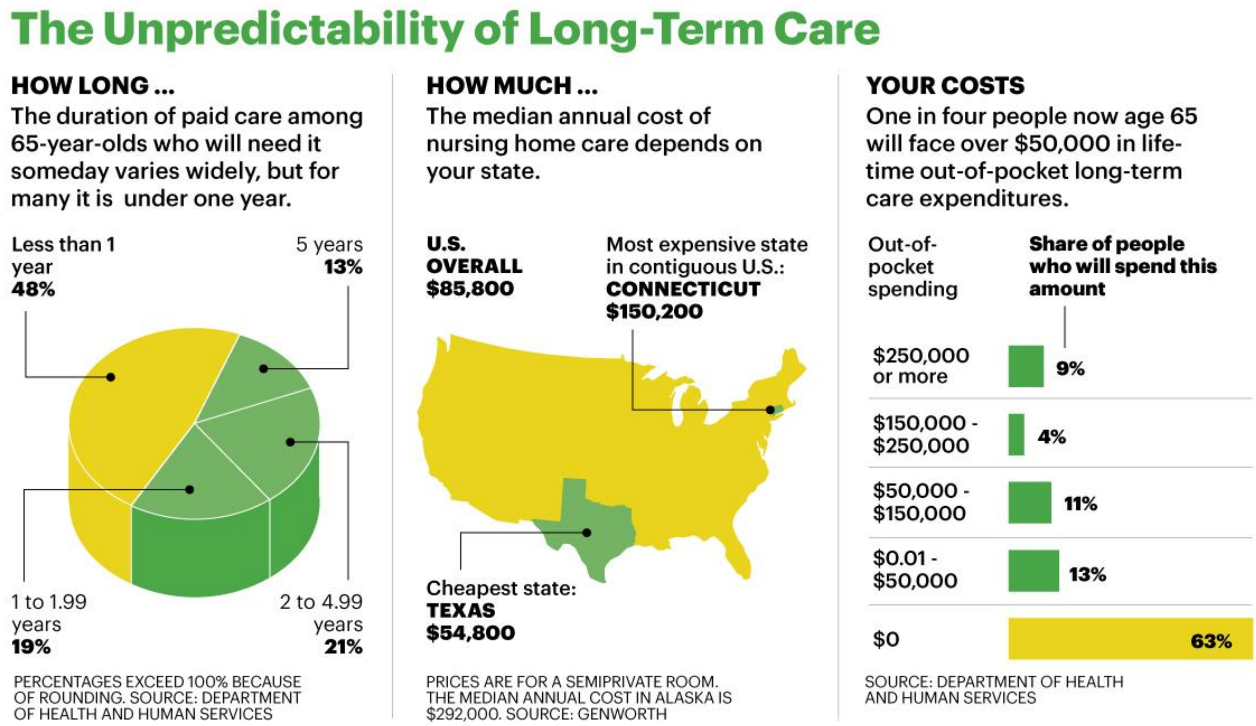
If you want long-term care insurance, start looking in your 50s or early 60s, before premiums rise sharply.

By the time you reach 65, chances are about 50-50 that you'll require paid long-term care (LTC)someday. If you pay out of pocket, you'll spend $140,000 on average. Yet you probably haven't planned for that financial risk. Only 7.2 million or so Americans have LTC insurance, which covers many of the costs of a nursing home, assisted living or in-home care — expenses that aren't covered by Medicare. "Long-term care is the unsolved problem for so many people," says Christine Benz, director of personal finance at Morningstar, an investment research firm in Chicago. Here's what you need to know about LTC insurance today.



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1. Traditional policies have fewer fans

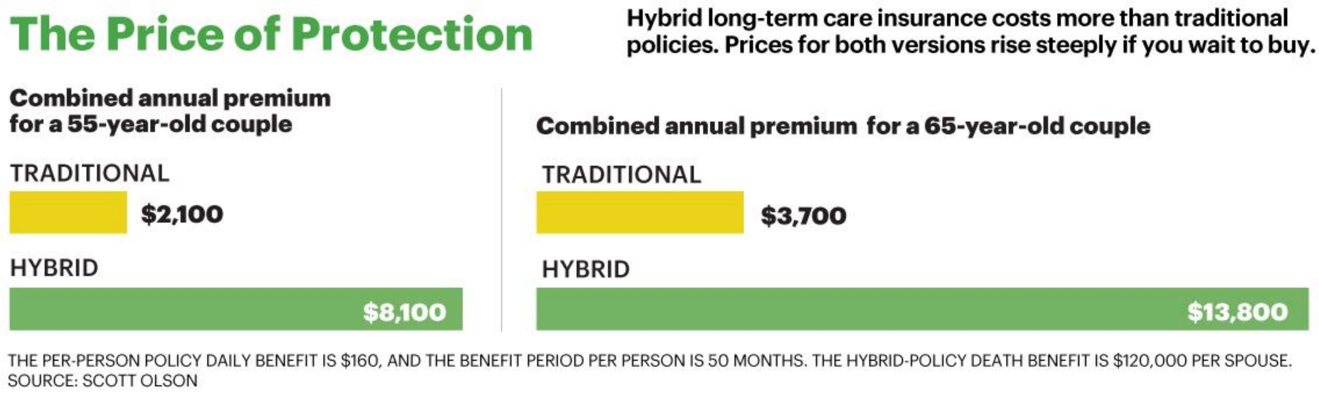
For years, long-term care insurance entailed paying an annual premium in return for financial assistance if you ever needed help with day-to-day activities such as bathing, dressing and eating meals. Typical terms today include a daily benefit of $160 for nursing home coverage, a waiting period of about three months before insurance kicks in and a maximum of three years' worth of coverage.

But these stand-alone LTC policies have had a troubled history of premium spikes and insurer losses, thanks in part to faulty forecasts by insurers of the amount of care they'd be on the hook for. Sales have fallen sharply. While more than 100 insurers sold policies in the 1990s, now fewer than 15 do. "This is a classic story of market failure," says Howard Gleckman, a senior fellow at the Urban Institute, a nonpartisan think tank in Washington, and the author of Caring for Our Parents. "No one wants to buy insurance, and no one wants to sell it."

2. You might not need insurance … but you need a plan

Premiums for LTC policies average $2,700 a year, according to the industry research firm LifePlans. That puts the coverage out of reach for many Americans. (One bright spot for spouses: Discounts for couples are common — typically 30 percent off the price of policies bought separately.) If your assets are few, you may eventually be able to cover LTC costs via Medicaid, available only if you're impoverished; if you have lots of money saved, you likely can pay for future care out of pocket. But weigh factors other than cash: Do you have home equity you could tap? Nearby children who can be counted on to pitch in? Or do you have a family history of dementiathat puts you at higher risk of needing care?

If you're pulling less than 4 percent out of your savings each year for living expenses, you may be comfortable going without insurance, Benz says. In that case, though, you'll need to plan for that possible expense. That means saving more than you may have planned, and segregating your LTC kitty from the portfolio you tap for everyday income.



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3. There's a new insurance in town

As traditional LTC insurance sputters, another policy is taking off: whole life insurance that you can draw from for long-term care. Unlike the older variety of LTC insurance, these "hybrid" policies will return money to your heirs even if you don't end up needing long-term care. You don't run traditional policies' risk of a rate hike, because you lock in your premium upfront. If you're older or have health problems, you may be more likely to qualify, says Stephen Forman, senior vice president of Long Term Care Associates, an insurance agency in Bellevue, Wash.

4. But old-school policies are cheaper

If all you want is cost-effective coverage — even if that means nothing back if you never need help — traditional LTC insurance has the edge. "Hybrid policies are usually two to three times more expensive than traditional insurance for the same long-term care benefits," says Scott Olson, an insurance agent and co-owner of LTCShop.com in Camano Island, Wash. With hybrids, you're paying extra just for the guarantee of getting money back.

A hybrid policy may make the most sense if your alternative is to use your savings, says Forman, or you have another whole life policy with a large cash value. "You can roll over an existing life insurance policy or annuity, and that's a huge part of the business," he says.

5. Speed and smart shopping pay off

If you want insurance, start looking in your 50s or early 60s, before premiums rise sharply or worsening health rules out robust coverage. "Every year you delay, it will be more expensive," Olson says. Initial premiums at age 65, for example, are 8 to 10 percent higher than those for new customers who are 64.

As for where to shop, seek out an independent agent who sells policies from multiple companies rather than a single insurer. For extra expertise and a wider choice of policies, Olson says to look for agents able to sell what are known as long-term care partnership policies — part of a national program that has continuing education requirements for insurance professionals.

Ellen Stark, a former deputy editor of Money*, has written about personal finance for more than 20 years.*