Long-term care insurance in your elder care plan

by Andrew K. Jones, CFP®

The usual topics covered in the creation of a solid financial plan include budgeting, purchasing life insurance, selecting investments, planning for retirement, and planning your estate. An often overlooked step is elder care planning. Ideally, we would all live with the total mental and physical capacity to reside independently in our homes until we die. Unfortunately, injuries or lost mental capacity will require many of us to depend upon others at some point. In fact, according to longtermcare.gov, about 70 percent of people over age 65 will need some form of long-term care services such as home health care, assisted living facility care, or nursing home care. Long-term care insurance can be a good alternative solution to managing the costs of long-term care for those who can't self insure the expense, or for those who want to protect their assets from the financial burden of long-term care.

To determine whether or not you need long-term care insurance, start by reviewing your financial resources, eldercare goals, and the costs of care in your area. If you are looking at a policy, study the benefit amount of the policy and period, coverage of services, benefit triggers, elimination periods, and available riders to find an appropriate long-term care insurance policy for you.

When is the right time to buy a long-term policy?

Long-term care insurance premiums are less expensive if you purchase the coverage when you are younger. The average age of people buying long-term care insurance is decreasing. Currently, most policies are bought by people between the ages of 50 and 60. By buying young, you are less likely to have a health condition that could prevent underwriting of insurance.

What kind of policy should you buy?

When deciding how much long-term care insurance to purchase, the first step is to understand the financial impacts of home health care, assisted living facility care, or nursing home care. Longtermcare.gov provides a breakdown of costs by state.

Most long-term care insurance policies have comprehensive coverage for nursing home care, adult day care services, hospice care, home care, assisted living facilities, and Alzheimer's care. Review what types of care are covered to make sure the policy meets your elder care plan needs. For example, if living at home as long as possible is one of your elder care plan goals, make sure your policy covers home care services. If you are planning as a couple, consider the significant financial impact of one spouse living at home while the other spouse requires nursing home care.

The long-term care benefit "trigger" usually starts when you have developed cognitive impairment or need help with two or more of six activities of daily living (such as bathing, dressing, toileting, meal preparation, mobility). Insurance companies usually allow you to select 30, 60, or 90 days for your elimination period. Self insuring the costs of care for that short term elimination period and picking a longer elimination period such as 90 days will enable you to reduce your annual insurance premium.

Many different riders are available to tailor the policy to fit your needs. For example, most insurance companies offer an inflation rider which gives you the opportunity to increase your benefit amount from time to time if you want to protect against increases in cost of long-term care. Insurance companies may also offer shared care, which allows a spouse to share a pool of coverage. Be sure to review all riders in detail and be careful not to increase your premium by over insuring with unnecessary riders.

What are the costs?

The costs of long-term care services are significant and may increase with demand as the Baby Boomer generation continues to age. Medicare and other health insurance companies do not cover most long-term care services. (Medicaid will cover the cost of long-term care if you have a low level of income and assets to qualify.) Long-term care insurance policies are limited by the amount of insurance and/or how long the insurance company will pay for the costs of care. When purchasing an insurance policy, always review what types of care are covered to make sure the policy meets your elder care plan needs. For example, if living at home as long as possible is one of your elder care plan goals, make sure your policy covers home care services.

There is no one-size-fits all insurance policy! Don't buy insurance out of fear or emotion. Consult your financial planner to help you to decide if a long-term health care policy is right for you. If you do purchase a long-term care insurance policy, provide the premium amount to your income tax advisor because premiums paid after tax may be income tax deductible.

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Andrew K. Jones, CFP® is a 2006 graduate of Clemson University with a BS in Financial Management. He began his career at Abacus as an intern during the summer of 2006 and upon graduation in December, 2006 he became a full time member of both the Financial Advisory Team and the Investment Team. As a member of the Financial Advisory Team, Andrew works closely with clients to understand their goals in order to develop and implement a comprehensive financial plan to achieve those goals. As a member of the Investment Team, Andrew manages portfolio administration and assists the team with investment research and due diligence.

Andrew earned his CFP® designation in 2010 and has recently begun the Chartered Financial Analyst program.