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Long Term Care Insurance: The Basics

SPECIAL POINTS OF INTEREST:

- **For most people, good home-care and inflation protection are essential.**
- **The first step should be to determine if this insurance is a good fit for your life. LTC insurance is not for everyone.**
- **"How much is this going to cost me?" Design a policy with a premium that fits your life.**
- **LTC policies are different from company to company. Find a trustworthy agent who will explain and show you these differences.**
- **If you know for certain today that you will want LTC insurance when you are older AND you can afford the premium today, then waiting to buy will most likely increase your costs in the long run. That said, you should take your time when buying a policy. When the company, the policy, and the premium are right, you will know it.**
- **If you do need your policy, it will most likely pay for itself within six months and you and your family will be grateful to have the support and the benefits that come with a LTC policy. Even if you never use your policy, this type of coverage provides you and your family with peace of mind.**

"What is Long Term Care (LTC)?" Simply put, long term care is when someone needs help with their daily activities. Activities like bathing, dressing, hygiene, going to the bathroom, eating, and getting around. This can happen from just getting old or because of some illness or an accident. Also, a person may need care and supervision due to a cognitive impairment such as Alzheimer's disease. Most policies start paying benefits if a person is expected to need assistance with two of the above mentioned activities for 90 days or more.

Most of this care is called "custodial care" and is not covered by health insurance and Medicare beyond 100 days. For example: Mr. Smith is 56 years old and gets diagnosed with Parkinson's. He does not need care today, but he knows that he is going to need help in the future. His health insurance will pay for his doctor and hospital, but not for the years of help that he will need with bathing, dressing, eating, and getting around. Again, this is "custodial care" and is barely covered by most health insurance and Medicare. At this point Mr. Smith will have to pay for his care out of his savings, have his family or the state provide care, or have LTC insurance pay.

Although long term care insurance is very different between companies, most policies share some basic features.

The Benefit Account: If you needed long term care today, you could spend anywhere from $20,000 to over $100,000 a year from your own savings. When you buy long term care insurance you buy a "benefit account" or a "bag of money" for the specific purpose of long term care. The bigger your benefit account, the more expensive the policy will be. There are fundamentally two types of benefit accounts: individual and shared.

The Monthly or Daily Maximum: Let's assume that Mr. Smith bought a LTC policy which has a benefit account worth $200,000. If he has a *monthly maximum* on his policy of $3500, then that is the most that the policy will pay from the benefit account on a monthly basis. This feature controls how much the policy will reimburse on a monthly or daily basis if you need care. A LTC policy will last as long as there is money in the benefit account.

Monthly or daily maximums function very differently between policies and companies and should be explained clearly. Also, because the cost of care is vastly different around the country, where in the country you reside will affect how much you choose for this amount.

Inflation Protection: The cost of care in twenty years is going to be significantly higher than it is today. Most inflation riders allow ALL of your policy benefits to grow over time. This is a very important rider and there are sometimes an array of choices with a significant impact on policy benefits.

The Elimination Period (Deductible): This is the waiting period before the policy starts to pay. For example, Mr. Smith has a chronic illness and needs care starting tomorrow and he is going to need it for the next three years: When will the policy start paying? 30 days – 90 days? The longer the elimination period (the waiting period), the less expensive the premium. A cautionary note: If Mr. Smith's care is costing $3500 a month, a 90 day elimination period could cost him more than $10,000 out of his own pocket before the policy begins paying. Also, there are vastly different types of elimination periods, some much better than others.

This article does not address the important details and differences between policies and companies. For this reason, please consult with someone who is knowledgeable about long term care insurance before making any decisions.

Other important items:

- Picking the Right Company
- Indemnity vs. Reimbursement
- International Coverage
- Shared Care Rider
- Survivorship Benefit Rider
- Waiver of the Homecare Elimination Period Rider

By Allen Astin