Introduction

Long term care is a big challenge that you may encounter in retirement.

Let’s say you have $100,000 worth of retirement savings and you started to receive care in an assisted living facility. The average monthly cost of staying in that long term care setting is $3,500, so a three-year stay can completely deplete your nest egg.

Long term care insurance can protect you from the financial catastrophe of a long term care event in retirement. It provides a buffer for your nest egg, as well as for your family, against the emotional and financial toll of long term care. In fact, according to one survey, 1 in 3 long term care insurance owners use their policy, which is a high statistic.

But as with all decisions concerning retirement, you need to weigh your options and see if long term care insurance is actually right for you.

*Answering these eight questions can help you decide.*
Question#1
What are my Chances of Needing Extensive and Expensive Care?

It depends, but current statistics show that 7 in 10 Americans who are 65 years old and above will need long term care, and 4 in 10 individuals between the ages of 18 and 64 years old will also require some sort of care service.

If you are likely to develop Alzheimer’s disease or a chronic ailment, you will have a greater need for long term care. However, that’s just one side of the story. You need to realize that long term care is not just for the elderly and sick. In fact, anybody can need long term care services and the level of requirement varies. Some may only need custodial care at home or assistance in basic activities, while others may need skilled care for longer periods of time. Regardless of the level of need, long term care involves a financial risk that you need to prepare for.

Women have higher chances of requiring long term care down the road. This is because they live longer on average, and they are more likely to live by themselves and rely on paid care, especially during the later parts of retirement.
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Question#2
Who Needs Long Term Care Insurance?

The majority of financial advisers say that long term care insurance is suitable for people who have at least $250,000 in assets excluding their home. But this is just the rule of thumb, and you still need to examine your own situation and financial strength to determine if you actually need this policy. How much of your assets do you want to protect? Do you want to leave something to your family?

Long term care coverage provides a safety net for your assets and gives you emotional security, especially if your loved ones will not likely be available to provide the care you need.
“You need to examine your own situation and financial strength to determine if you actually need LTCi.”
Question #3
Apart from LTCI, How Else Can I Pay for My Care Expenses?

Aside from an LTCi policy, you can also pay for long term care from your own pocket or rely on government programs. However, these options can often fall short of your needs.

“You can pay for long term care from your own pocket or rely on government programs, but they may not be enough to cover your expenses.”

As long as you have adequate money in your nest egg, you can pay for your own care expenses. However, as mentioned earlier, long term care expenses can easily deplete your savings. Once you exhaust your savings, the lifestyle you want during retirement is compromised. This can also cause income loss for your loved ones if you eventually rely on them for care.

Meanwhile, you can be eligible for Medicaid when you only have $2,000 worth of assets or less (varies per state). Though it pays for long term care, this can restrict your options because not all care facilities accept Medicaid payments, and some require that you pay a portion of the bill. Additionally, it can be difficult to get payments from this program for in-home care.

Medicare generally does not cover long term care, but it can pay for skilled care following a hospitalization due to injury or illness. It is more limited than Medicaid as it only pays for medically required care.
Question #4
Can I Really Afford a Policy?

This is a crucial point of decision. Before you purchase this coverage, it’s essential to be sure that you can afford paying for this policy for years on end or at least until the time that you start receiving benefits.

Calculate the annual premium and compare with your income. It is recommended that your premiums should not exceed 7 percent of your annual income today and in retirement. When you calculate the cost, anticipate and leave enough room for possible price increases—about 10% every decade. A possible price increase should not be a cause of panic. Price hikes on policies happen on a class rate basis and not per individual policyholder.

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When you determine that purchasing long term care insurance is a suitable retirement move for you, you need to make further decisions as you go, but answering the succeeding questions will help you do so.
Question#5
When is the Best Time to Purchase LTCI?

You should buy long term care coverage prior to retirement, typically during your 50s. At this point you are still young and healthy enough to secure good rates and be entitled to discounts. Also, your application is more likely to be approved. Only 1 in 7 applicants who are in their 50s get declined, whereas 1 in 4 applicants in their 60s are turned down.

“You should buy long term care coverage prior to retirement, ideally during your 50s, because you are still young and healthy enough to secure good rates and be entitled to discounts.”

Though buying LTCi during your 50s can seem beneficial in terms of getting a good deal and getting qualified, this can have drawbacks too. During your 50s, buying insurance may get in the way of other priorities such as paying for your children’s college education or building your wealth. You need to weigh the pros and cons carefully. Find a way to compromise so that these priorities will not get in the way of each other.
Question #6
What Should be Included in my Policy?

Consider these important factors as you purchase a policy:

**Benefit Amount**
Long term care costs vary from state to state. Make sure that this amount matches the rates in the place where you intend to retire.

**Choice of Care Provider**
Go for a policy that covers care received in a wide variety of facilities, and not just in nursing homes. More so, an alternative plan of care offers more room if the care you receive is not specifically stated in the policy.

**Duration**
A lifetime policy may offer the greatest peace of mind, but this is not the most cost-effective option. It’s very rare for people to need long term care for more than three years. With that in mind, you can limit your coverage to three to five years to make the policy more affordable. Also, a plan that has a definite period can last longer especially if you didn’t exhaust your daily or monthly benefit limit.

Say your daily benefit amount is $200, yet your expenses are just $150. The remaining $50 will be returned to your pool of benefits and you can use this later on. However, make certain that your policy has this feature to ensure that you can still use your unused benefits at a later time.

**Inflation Protection**
This comes at an extra cost, but it is definitely worth it—especially if you purchase a policy early. This feature increases your benefits over time, keeping it at pace with increases in care costs.
Question #7
What Should I Look for in an Insurance Company?

Since you will need to tap your benefits years from now, you need to buy from an insurer that has the financial strength to stay in business for a long time. Check an insurance company’s ratings, claims payment history, and how often it increased its rates in previous years. This will help you gauge a company’s performance.

On the other hand, be wary of too-good-to-be-true rates. Some companies offer low rates only to gain more customers first and then eventually raise their rates down the road. “Be wary of too-good-to-be-true rates. Some companies offer low rates only to gain more customers first and then eventually raise their rates down the road.”
Question #8
What about Life Insurance or Annuities that have Long Term Care Components?

It depends. These products may have limited benefits as opposed to a traditional policy. However, it makes sense to go for these hybrid offerings if your current health situation inhibits you from getting insured under conventional long term care insurance.
What’s next?

Retirement is an important life chapter that you need to prepare for. Effective planning involves factoring in strong plans for contingencies such as long term care. As you plan for your golden years, ask yourself these questions and see how long term care insurance can help you attain the life that you have always envisioned.

The Association of Long Term Care Planning has comprehensive and up-to-date information on how to effectively prepare for long term care.

Visit our website at www.altcp.com

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