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Long-Term Care:

Considering the Benefits of Insurance for Your Future

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Long-term care (LTC) is a critical aspect of retirement planning that often gets overlooked. While health insurance and Medicare cover some medical expenses, they typically do not cover the costs associated with basic long-term care needs. These costs can be substantial and may significantly impact your retirement lifestyle if not adequately planned for. This whitepaper offers an overview of long-term care insurance (LTC), the types of policies available, the factors influencing the cost of coverage, and tips for helping you select an insurance policy that is suitable for your needs and budget. Our goal is to equip you with the knowledge needed to make informed decisions about your LTC options.

Why Consider Long-Term Care Insurance?

LTC refers to the services and support necessary to maintain a person's quality of life in the event of illness, disability, or sudden impairment. Unlike medical care, which focuses on treating illnesses, LTC emphasizes helping individuals with their daily activities, such as household chores, medication management, grocery shopping, meal preparation, bathing, and dressing.

According to the U.S. Department of Health and Human Services, approximately 70% of Americans over age 65 will need some form of LTC during their lifetime.[1] As you age, securing coverage becomes more complex and expensive, making it essential to start exploring your options early. Genworth's 2023 Cost of Care Survey indicates that the median monthly cost for an assisted living facility is $5,350, while receiving care at home could cost around $6,292 per month.[2] Considering these costs, LTC can be a beneficial component in your retirement planning strategy, potentially providing resources to support your lifestyle.

Hot Tip: Start Early and Compare Policies

Starting to research and compare LTC policies while you are still in good health and younger can be a beneficial step toward securing affordable coverage. Insurance premiums are generally lower for younger applicants, and you will have more options to choose from. Use online tools and resources to compare different policies, and consider consulting a financial professional to help you navigate the options.

Understanding Long-Term Care Insurance Claims

The likelihood of needing LTC services increases with age, but it's not limited to the elderly. Approximately 41% of working adults under age 65 will require long-term care services due to chronic illness, mental conditions, or injuries from accidents.[3] The most common medical diagnoses that lead to LTC insurance claims include:

Alzheimer's Disease:

This is one of the leading cause of claims for individuals over 65 and is also among the most prolonged and costly conditions to manage.[4]

Cancer and Nervous System Disorders:

These conditions rank among the top insurance claim causes for individuals under 65, underscoring the critical need for adequate coverage before reaching retirement age.

Arthritis & Osteoporosis:

Conditions that can significantly impact mobility and independence, often necessitating long-term care.

Understanding these common causes of LTC claims can help you anticipate potential future needs and make informed decisions about the level and type of coverage that might be appropriate for your situation.

Hot Tip: Document Family Health History

To better understand your potential risk for conditions that might require LTC, document your family health history. Knowing what health issues relatives have faced can help you assess your own risk and guide your care plan. Share this information with your financial professional to tailor a policy that best meets your anticipated needs.

Traditional Stand-Alone Long-Term Care Insurance Policies

Traditional LTC policies are designed to cover the costs associated with LTC, whether you require assistance at home or in a facility. These policies generally operate on a "use-it-or-lose-it" basis, meaning that benefits are only paid out if you require services. If you never need care, the premiums paid do not result in a benefit payout.

Key Components of Traditional LTC Policies:

Monthly Benefit:
The amount of coverage you will receive each month.

Benefit Period:
The length of time the benefits will be in effect.

Elimination Period:
The gap of time before your monthly coverage begins.

Riders:
Optional benefits that can be added to your policy, such as inflation protection or shared care.

Traditional policies can potentially offer significant protection, but like all insurance products, they come with their own set of potential risks.

- If your financial situation changes and you can no longer afford the premiums, you risk losing coverage when you need it most.
- Annual premiums may be subject to rate hikes, which can make long-term affordability challenging.
- It can be difficult to accurately predict the extent of benefits you will need, which could lead to under- or over-insuring yourself.

Hot Tip: Evaluate Elimination Period Options

When selecting a traditional LTC policy, carefully evaluate the elimination period options. A longer elimination period can reduce your premiums but requires you to cover care costs out of pocket for a longer time before the insurance kicks in. Conversely, a shorter elimination period increases premiums but offers quicker coverage. Choose an option that aligns with your financial comfort level.

Hybrid Long-Term Care Insurance Policies

Hybrid policies combine traditional LTC coverage with a death benefit, typically through a qualifying annuity or permanent life insurance policy. These policies are designed with dual purposes in mind: providing LTC coverage and ensuring a death benefit for your beneficiaries if the LTC benefits are not fully utilized.

Advantages of Hybrid Policies:

Dual Purpose:
Coverage for LTC and a death benefit.

Flexibility:
Options for lump-sum payments or annual premium payments.

Stated Premiums:
Hybrid policies generally offer fixed premiums that will not increase over time.

Tax Advantages:
Existing assets can be converted into a LTC vehicle through a 1035 exchange.

However, hybrid policies also have potential downsides:

- They can be costly, and the coverage provided may be less comprehensive than a traditional stand-alone policy.
- Using the death benefit to pay for care reduces the amount left to your heirs.
- These policies are typically not eligible for partnerships with Medicaid, which may be a consideration if you need to spend down assets to qualify for Medicaid coverage in the future.

Hot Tip: Consider Asset Reallocation

If you have existing assets that are not being utilized efficiently, consider reallocating them into a hybrid policy. This strategy allows you to leverage your current assets for both LTC coverage and a death benefit. Consult with a financial professional to explore whether a 1035 exchange or another asset reallocation strategy makes sense for your situation.

Comparing Traditional & Hybrid Policies

Both traditional and hybrid LTC policies can be sold as indemnity or reimbursement policies.

Indemnity Policies: Provide a cash benefit that you can use as needed, offering more flexibility in how the funds are spent.

Reimbursement Policies: Require you to submit receipts for care, and the insurance company reimburses the exact amounts paid for approved LTC services.

Important Considerations When Selecting a Policy

Choosing the right long-term care insurance policy requires careful consideration of various factors. Here are some key tips to guide your decision-making process:

Work with a Financial Professional:

Collaborate with a financial professional to identify companies approved to sell LTC insurance policies in your state.

Check Ratings and Reviews:

Research insurance companies' ratings, review any complaints filed against them, and assess their history with LTC.

Compare Multiple Policies:

Obtain information and costs from at least three major insurance companies, and inquire about how often and by how much they have increased premiums in the past.

Review Policy Details:

Carefully review the written copy of any policy you are considering, ask questions, and understand the grace period for reviewing and canceling the policy if you change your mind.

Hot Tip: Use State Insurance Department Resources

Many state insurance departments provide resources that allow you to compare LTC policies, check the financial stability of insurance companies, and read consumer complaints. Utilize these resources to make an informed decision and avoid potential pitfalls with less reputable companies.

LTC is a component of retirement planning that can potentially help manage the costs of care and support your financial security as you age. Whether you opt for a traditional or hybrid policy, understanding your options and planning ahead can make a significant difference in your quality of life during retirement. By working closely with a financial professional and thoroughly researching your options, you can make informed decisions that align with your long-term goals.

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