Long Term Care

"Sharing the Risk — Paying on Your Own"

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If it is difficult for individuals to plan for their retirement, imagine the difficulty it is to have individuals discuss and plan for their last few years of life. Just like retirement, this conversation is based upon the anticipation of the age someone believes they will reach. Many believe they will live into their late 70's or mid 80's, when statistics suggest a longer life.

According to Vanguard research, there is a 53% chance of a 65-year-old woman living to 85 and a 32% chance of her living to 90. History has always suggested couples live longer, and Vanguard's research is suggesting the same. The odds increase to 72% for one of them to live to 85 and a 45% chance one will reach 90.

Medical and pharmaceutical advances, proximity to healthcare, and healthier lifestyles all have aided in increasing the longevity of Americans. But it is not longevity alone that should be considered. Quality of life and independence are major goals of those nearing the 80's and 90's, but these often elude them due to their health. Thus, homecare, adult daycare, assisted living, as well as nursing care are all expenses seniors face during the last years of their life. The cost of these services can be a $1,000 per month or as high as $6,000 to $7,000 depending upon the amount and type of care needed. While many may believe Medicare will assist in paying for this care, it is very limited and mostly covers home health care checkups (not extended care or sitters) and limited rehab stays, but only when admission is direct from a hospital stay. The options are insurance coverage or self-pay.

When discussing long term care (LTC) insurance, the primary objection is always the cost. Like all insurance policies, there is no reward for having it other than peace-of-mind. Unlike homeowners or auto insurance, which is mandated by either the mortgage lender or state law, long term care insurance is purchased solely by choice; and who wants to throw money out the window, or so it seems. Those nearing retirement or just retired often finally take the time to consider LTC insurance. Due to their age at this time of life, the premiums on this type of insurance have escalated since the policy is now within 15 to 20 years of potentially paying benefits.

Imagine you were the insurance company and have two applicants wanting to purchase LTC insurance. Both seeking $4,500 of monthly benefit and coverage to last six years. Ignoring inflation adjustments, the maximum benefits are $324,000. What premium should be collected if one was 65 and the other was 50? A basic policy from Mutual of Omaha charges $4,267 for the 65-year-old and $2,098 for the 50-year-old. Premium payments to age 90 would be $106,675 or $83,920 respectively. Even paying for 15 years longer, the total outlay for the 50-year-old is potentially 24% less.

Waiting until retirement age to purchase LTC insurance is costly in several ways. First, as the example above shows, the total outlay for premiums will be higher for those waiting to purchase the coverage. Secondly, since the annual premium is higher for those who wait, it is also a larger percentage of their retirement budget, and thus more difficult to justify the expense of the premiums. Also consider rate increases. While they do not occur frequently, a 20% increase is not uncommon. A 20% increase on $2,098 is far more manageable than the same rate increase on $4,267. Premiums can be less for married couples when both purchase policies, once again reflecting the longer lifespan of those who are married and thus more years for the insurance company to spread the cost.

When considering this coverage, first the prospect should have the assets to protect and warrant the cost of the coverage. Secondly, it is about avoiding a costly mistake. If the policy is purchased and needed, or not purchased and never needed, both of those situations should prove beneficial. However, if a policy is not purchased but needed or purchased and never used, either of these decisions could be considered a mistake and one with high costs attached. Since this decision is based upon a buy or not buy, most would consider taking the course which is the least costly. This would be to purchase the coverage and potentially be out the annual premium but have the peace-of-mind and the benefit is available to offset cost of care, rather than not purchase coverage and potentially be facing monthly expenses up to $7,000 or higher for an unknown time period. While purchasing insurance is not high on anyone's list, sharing this risk with an insurance provider is a way to not only protect personal assets but also loved ones by having more assets available for other expenses than spending on care.

Long term care insurance while optional, for those seeking to avoid paying for significant health care expenses and share the risk, it is a viable course of action especially when purchased earlier in life than at retirement.