Starting the Search for Long Term Care Insurance
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You've decided to investigate long term care insurance, but where do you begin? Here are a few things to keep in mind as you start your search.

Most long term care policies have four key building blocks - the benefit amount, benefit period, elimination period, and inflation rider. Each of these affects your benefits and price.

Benefit Amount – how much care expense will your policy cover every day? This can range from $50 - $400 per day. Be sure that your policy pays at least as much for home care and assisted living as it does for nursing homes.

Benefit Period – once you're receiving benefits, how long will they last? This ranges from two years to Lifetime (or unlimited) benefits. Most clients purchase a four or five year benefit period.

Your benefit amount and benefit period will determine how much you have available to pay for LTC services. A policy with a $100 per day benefit, and a 3 year benefit period provides a $109,500 "pool of money." ($100 per day x 365 days x 3 years = $109,500)

Because you may not use your full benefit every day, your policy could continue to pay out for longer than your defined benefit period. If you go on claim and use the full $100 benefit every day, your pool will run out in 3 years. But if you only use $50 per day, then your pool would last 6 years.

Elimination Period – this is your deductible, and it's usually measured in how many days of care you pay for before your policy begins to pay. Some policies use a "service day" deductible, which means that only the days you receive and pay for care count towards your deductible. Others use "calendar days," and you don't actually have to receive care to get credit. Be sure you understand how your policy works. Clearly, a shorter deductible is better. Most clients select between 30 and 90 days.

Inflation protection - you're buying something that you may not use for years, and as care costs increase, so should your policy's benefits. As a general rule of thumb, clients 60 and younger should purchase compounding inflation. Over 60, simple inflation may be sufficient, and for older clients – 75 and above - inflation may not be necessary. It may make more sense to simply start with a higher benefit.

Understanding how these four elements work together will help you design your plan. Keep in mind, every credible long term care insurance policy has other built-in features that you don't control, such as respite care, bed reservation benefits, etc. These are important features that are part of the base contract.

Choose a comprehensive policy, one that covers home care, adult day care, assisted living facilities, hospice, and nursing homes, and make sure it's spelled out in the contract. Do not buy a policy that only covers home care. You may not want to go to an assisted living facility or a nursing home, but unfortunately, you may not always have a choice. If your care needs can only be met in a facility, you don't want your policy to stop paying just because you can't be cared for at home.

Good policies will pay a benefit when you need help with 2 of 6 “Activities of Daily Living,” or ADLs. These ADLs include bathing, dressing, eating, toileting, transferring, and continence. Avoid any policy that combines bathing & dressing into one ADL. Your policy should also pay if you need supervision because of a cognitive impairment, such as Alzheimer’s or senile dementia.

Purchase a tax-qualified policy. It will offer you tax advantages now, and more importantly, you’ll know that any benefits you receive in the future will not be taxable as income.

Another option to consider is “shared care. “ This lets a couple combine their benefits. If you go on claim and use up your entire pool, you could then begin to draw from your spouse’s or partner’s pool. This is especially useful if you’ve chosen a minimal 2 or 3 year benefit period each. It’s a way to keep your overall costs down, and still protect yourself in the event of an extended long term care need.

Your policy’s price is based on your age when you buy, so you save by doing this early. Most carriers stop selling at age seventy nine, but a few will go up to age eighty-four. You can find affordable coverage at just about any age, but the longer you wait, the more it will cost. The average buyer today is fifty-seven, but it’s not uncommon for people in their forties to purchase this coverage.

The insurance company is going to do a thorough review of your medical history. Most common conditions are acceptable – well-controlled hypertension, high cholesterol, mild arthritis, etc. Companies aren’t very forgiving when it comes to things like poorly-controlled diabetes, a history of a stroke, TIAs, memory problems, severe, limiting arthritis, etc. Since your health can change with little or no warning, you can’t assume you’ll always be insurable.

There are several discounts available. Married couples, as well as same sex and domestic partners, will typically save 30% off regular rates when they apply for coverage together. If only one of you applies – for instance, if one of you is uninsurable – you can still get a 15% discount in many cases. And if you’re in excellent health, you may qualify for a preferred health discount. Some employers, alumni organizations, or other membership groups may offer discounts, too.

You should also ask yourself how much insurance you really need. Many clients are well-served by a “safety net” approach – designing a plan that will supplement their assets, as opposed to trying to buy a policy that will cover every conceivable expense. If nursing homes in your area average $225 per day, perhaps a policy that covers $175 will suffice, and you can pay the difference out of pocket. That’s going to depend upon your specific financial circumstances.

Work only with carriers with sound financial strength ratings. Look for “A” or better ratings with A.M. Best, Moody’s, and Standard & Poor’s. Look for company assets in the billions, not millions. The leaders in the industry include companies like John Hancock, Genworth, Prudential, Mutual of Omaha and a few others. Choose a financially stable, experienced company.

Good luck with your search.