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Personal Finance

Many options exist for long-term-care insurance

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Do people really need long-term care insurance?

For many couples, insurance allows the healthy caregiver to buy relief from paid professionals without depleting their remaining assets.

Long-term-care insurance shifts the financial risk from your family to the insurance company, and leaves the family with a defined risk, which is the amount of premiums it's invested.

When discussing risk, you must understand probability. The probability of a house fire is 1-in-1,200, of having an auto accident 1 in 240 -- and in needing some period of long-term care, it's 1-in-2. However, not everyone requiring long-term care will need it for a prolonged period of time.

In 2005, the Census Bureau found that 22 percent of the population over 65 was receiving some form of long-term care. The National Council for Assistance Living estimated the average length of stay in an assisted living facility to be two-and-a-half to three years.

There are many ways to purchase long-term care coverage.

- Some aren't as obvious as purchasing a standalone policy, which make up the majority of those sold. These plans provide comprehensive coverage for a broad range of long-term-care needs and are paid with annual premiums. They're structured much like an individual health insurance policy.
- Another way to provide long-term-care coverage is with a rider to a permanent life insurance policy. These policies offer the advantage that the insured is guaranteed a benefit even if the long-term-care features aren't utilized, because everyone will die at some point.

Another item is the "accelerated death benefit." This provides limited access to your death benefit if you're diagnosed with a terminal illness or a chronic disease.

- A third way packages long-term-care insurance into a single-premium deferred annuity. This usually requires a lump sum of $50,000 or more. Part of the annuity earnings pay for the cost of long-term care within the policy, and the balance of the annuity earnings grow tax-deferred.

There's some tax efficiency to paying long-term-care premiums with this method. A disadvantage is the need to tie up a larger sum of money, which if needed, would disrupt your insurance coverage.

- A fourth way to package long-term-care insurance is to combine it with a disability income policy. Prior to age 65, the policy is used to replace income lost because of sickness or injury. After 65, the policy covers the need for long-term care provided you are certified as needing it. However, the premiums are higher than buying a standalone policy for either need.

Regardless of which type of policy you choose, the financial strength of the carrier is extremely important. Small companies with limited lines of business are most at risk. Few of them have enough claims history to guarantee a level of premium 20 or 30 years into the future without severely stressing their reserved capital.

You don't want your carrier increasing their premiums 200 percent or 300 percent at the point where your health won't allow a switch to a stronger insurance company.

Two points about policy design are worth noting. The "elimination period," or the period you must wait before receiving benefits, can be quoted in multiple ways, sometimes with exceptions. So the concept of a waiting period is simple, but the fine print may not be so straightforward.

The second point deals with policies whose benefits are "stated period" versus "pool of money."

A stated period benefit pays benefits only for a specific period of time, i.e., two years, five years, etc. If the benefit per day that's received is less than the maximum available under the policy, the difference belongs to the insurance company.

Under a pool-of-money policy, that difference is available to you for use in later years, which stretches your benefit period.

We hope these hints prove helpful to those looking at long-term-care insurance between now and year-end.

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