

Family Matters

Long-Term Care Insurance

With an aging population and longer life expectancies, caring for an older family member can be a strain on a family, both financially and emotionally. We think about the quality of life we want to live in retirement as we do our best to make our aging family members comfortable and their final years enjoyable.

We hope and plan to live our lives as independently as possible and not become a financial burden on our loved ones, but around-the-clock care is time consuming and expensive. Along with planning for an independent and financially secure retirement, planning for late in life care is essential.

Ideally, financial planning for long-term care should occur long before the need arises. The majority of people over age 65 (70 percent) will require some type of long-term care services during their lifetime, and over 40 percent will need a period of care in a nursing home.¹ Fortunately, there are steps you can take—whether a nursing home is needed now, next month or next decade—to minimize the strain.

LTCI Basics

Long-term care insurance (LTCI) helps pay for medical expenses associated with home care, assisted living and nursing homes. Although the future is unknown, being prepared can help to combat out-of-pocket expenses and depreciation of your assets.

Whether considering a policy for yourself or for a family member, it is necessary to take into consideration many factors when purchasing a long-term care insurance policy. Selecting a policy should be based on a careful evaluation of your net worth, your health and your wishes.

When to Purchase LTCI

The cost of long term care insurance is contingent upon your age, health and the type of LTCI policy needed. Purchasing a policy in your 40's vs. your 50's or 60's drastically decreases the total premiums paid over time. Each year you wait to purchase a policy, on average insurers increase premiums by 3% to 4% per year, according to the American Association for Long-Term Care Insurance.²

Benefit Options

Policy riders, or add-ons, allow for customization of a policy. When purchasing LTCI, you are able to select from a variety of riders. While each rider is at an additional cost, many are worth considering.

Shared Benefits

With shared benefits, couples are able to share a spouse's benefits if one spouse expended all of their benefits. With this rider, couples are able to double the benefits available to one spouse. Many people overlook shared benefits because of the increased premium rates, but this approach may be less expensive than purchasing additional years of coverage for both spouses.

2014 Massachusetts Long-Term Care Insurance Statistics

In-Home Care	Assisted Living	Nursing Home
<ul style="list-style-type: none"> • Median Annual Cost: \$57,200 • Median Stay: Varies 	<ul style="list-style-type: none"> • Median Annual Cost: \$62,964 • Median Stay: 1.8 years 	<ul style="list-style-type: none"> • Median Annual Cost: \$134,320 • Median Stay: 2.8 years

2014 US Long-Term Care Insurance Statistics

In-Home Care	Assisted Living	Nursing Home
<ul style="list-style-type: none"> • Median Annual Cost: \$45,188 • Median Stay: Varies 	<ul style="list-style-type: none"> • Median Annual Cost: \$41,400 • Median Stay: 1.8 years 	<ul style="list-style-type: none"> • Median Annual Cost: \$87,600 • Median Stay: 2.8 years

Annual Cost Information compiled from [Genworth 2014 Cost of Care Survey](#)

Inflation Protection

This rider increases your daily benefit amount annually. It could double your benefits in a span of 15-20 years. Inflation protection can be helpful as it allows your policy to be at pace with the increasing costs of healthcare services. There are two types of inflation riders, simple and compounded:

- A **5% simple inflation rider** will increase a **\$200** daily benefit by \$10 each year for the life of the policy. For someone who is 55 years old today, this benefit will increase to **\$450** per day at age 80.

A \$100,000 LTCI policy with simple interest will increase to only \$150,000 in 10 years, \$200,000 in 20 years, and \$250,000 in 30 years.

- A **5% compounded inflation rider** is interest on interest. For someone who is 55 years old today, a **\$200** per day benefit will increase to **\$711** per day at age 80.

A \$100,000 LTCI policy with 5% compound inflation will increase to \$162,889 in 10 years, \$235,330 in 20 years, and \$432,194 in 30 years.

When considering a historical **4%** inflation:

- ❖ In-Home Care: **\$57,200** per year today will grow to **\$158,585** per year in 25 years.
- ❖ Assisted Living: **\$62,964** per year today will grow to **\$174,566** per year in 25 years.
- ❖ Nursing Home: **\$134,320** per year for today will grow to cost **\$372,398** per year in 25 years.

How Much to Purchase

Different policies have specific elimination periods, benefit amounts, and benefit periods. A typical LTCI policy has a 90 day elimination period, since in many instances Medicare may cover the first 90 days of care. The longer the elimination period is, the lower the premium, however, the greater the risk of out-of-pocket costs.

The benefit amount chosen should be based on the cost of care in your area, and the type of care you may want. It is important to consider your current and future health – the health of your parents may be a good indicator of your future health needs.

The benefit period is the length of time your benefit will be paid, typically over 3 years, 6 years, or over a lifetime; the longer the benefit period, the higher the premium. Many insurers have a lifetime cap on the benefits they will pay in total, though the benefit cap may not be reached within the specified benefit period.

Read the Fine Print

Terms and conditions of the contract specify the important details of when and how benefits will be paid. Most long-term care insurance contracts pay benefits under two conditions.

The first is if the buyer has a cognitive impairment requiring extensive supervision. The second is if the buyer is unable to perform two out of six basic “activities of daily living,” or ADLs. Most providers consider the activities of daily living as the following six categories:





Understanding the basics of long-term care insurance is valuable to selecting the appropriate plan to suit your needs and those of your loved ones. Peace of mind about the next stages of life is a goal we all reach for, and though it may be a difficult subject, having a conversation with your loved ones now can ease the process of long-term care planning.

The value of a long-term care policy greatly depends on your emotional and financial needs, and should be evaluated on an individual basis. Carefully selecting a suitable LTCI can be a safeguard against depleting your assets and protecting your independence, and through proper planning and research, you can keep control of your wellbeing and future.

Sources:

1. *U.S. Department of Health and Human Services, September 2008.*
2. <http://www.aaltci.org/long-term-care-insurance/learning-center/best-age-to-buy-long-term-care-insurance.php/>
3. <http://online.wsj.com/news/articles/SB10001424052702304756104579449482245063704>
4. https://www.genworth.com/dam/Americas/US/PDFs/Consumer/corporate/130568_032514_CostofCare_FINAL_nonsecure.pdf

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