

Designing a Long Term Care Policy

With over 100 companies offering long-term care insurance, one can become overwhelmed choosing the right policy. To simplify the benefit selection process, there are 5 choices that impact the premium. Review the information below and note the recommendations

1) Daily or Monthly Benefit

Look at the average cost of care in your area and choose the benefit to closely match that cost. This is the daily benefit available for facility care. Purchase the highest benefit you can afford because health care inflation costs will erode your daily benefit. Recommendation: Purchase close to the private room rate in your area. If you choose to self-insure some of the cost, purchase at least 70% - 80% of the private room rate.

2) Home Health & Community Coverage

Most view a nursing home as your last resort, so be sure you have excellent home and community coverage. This benefit may be the very thing that keeps you out of the nursing home. With some policies this is a rider you can add and with others it is automatically included. Benefits are a percentage of your nursing home benefit, for example, 50%, 80%, or 100%. Recommendation: At least 80%, preferably 100% of the daily benefit.

3) Elimination Period (deductible)

Most people choose a waiting period of 90 days or less. The longer the waiting period, the lower the premium. With the costs of care tripling over the next twenty years, the difference you might save in premium may not justify having to pay the first three months out-of-pocket. Recommendation: 60 or 90-day elimination period.

4) Benefit Period

How long will the policy pay benefits? Benefit periods are available from 1 year to lifetime. Choose at least a three-year benefit, preferably a six-year benefit. The ideal plan is lifetime because you never have to be concerned about outliving your benefits. Recommendation: If you are under the age of 70, consider at least 5 years, but purchase what you can afford. The best long-term care plan is the one that is in force when you need it.

5) Inflation Protection

It is important to address inflation protection within your policy. According to the General Accounting Office, long-term care costs are growing at 5.8% annually and are projected to triple in 20 years! Make sure the benefits are as good in the future as they are today. Recommendation: If you are under age 70, purchase inflation at 5% compounded annually. (Benefit doubles in 14.4 years) Ages 70 - 74, you can purchase 5% simple inflation (Benefit doubles in 20 years.) Ages 75 and over, you can purchase a higher daily or monthly benefit and build in inflation protection immediately or use a Guaranteed Purchase Option that allows you to buy up additional daily benefit without proving insurability.

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