Why long-term-care insurance is worth the high cost

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There is an easy answer to the question: "Should you buy long-term-care insurance?"

Yes.

Yes is the right answer because if you buy insurance, the problem goes away, whereas if you don't, the problem will continue to haunt you.

Although I am not convinced that pre-arranging the financial wherewithal gets to the core of the problem, which is how to prepare for the eventual, inevitable loss of our physical and mental faculties. This is a highly charged subject, and emotions tend to get in the way of rational thinking.

In fact, maybe you don't even want to think about it. Dying suddenly in your sleep is a better plan than any outcome involving long-term care, and many clients express a desire that the former be arranged if necessary to avoid the latter. Unfortunately, that is a solution that I cannot facilitate, let alone guarantee. Besides, even clients who say "shoot me" tend to change their mind when they start losing their mind.

I am convinced that everyone — no exceptions — should engage in a discussion about how you want to deal with (not just pay for) long-term care, in case you ever need it. The discussion should not end until a conclusion is reached and the conclusion should be memorialized. I say this because by far the biggest concern of seniors is "being a burden on my family," and forethought leading to a plan will definitely help to alleviate the burden.

If you don't buy insurance, then you "self-insure." You might earmark the equity in a rental property to cover the cost of care. Many people have money set aside in a CD with little or no yield, with the unspoken intention that it be used for long-term care. If that sounds like you, a single premium life insurance or annuity product with a long-term-care rider might better meet your needs. With these products, you benefit if you need long-term care or if you die, and one of these two eventualities will surely come to pass.

If you are self-insuring, your retirement plan should reflect that. In retirement planning, you take an inventory of all of the resources available to cover your normal monthly expenses for the rest of your life, and adjust your normal monthly expenses as necessary to prevent depletion of your resources before you die.

Most people don't want to end up on welfare. If you are self-insuring a possible $200,000-$300,000 end-of-life expense, then remove that amount from your resources and see if you can still make it to the end of life outside of the welfare system. If not, then instead add the cost of long-term-care insurance and see if the plan is more viable than self-insuring. It probably is.

If you do decide to buy long-term-care insurance, think of it as a win-win situation. If you eventually need long-term care, the insurance company will pay for it, and you win. If you die without ever needing long-term care, the insurance company won't pay, but you still win, because even though you wasted a part of your fortune, money can't buy such a fortunate end of life.

If you decide to purchase long-term-care insurance, the cost will depend on several coverage options.

- Preferably, the policy covers services in the home, adult daycare, assisted living and nursing facilities, unlike policies purchased years ago that are less comprehensive.
- The premiums will be lower if you health-qualify for preferred health discounts, which is more likely if you apply in your 50s. Waiting to apply means premiums start later, but if you wait too long, you may develop pre-existing conditions that make you ineligible.
- Policies that reimburse you for costs incurred are more affordable and more available. More expensive and more flexible are policies that pay you a certain monthly amount once your condition is certified by a health-care provider as chronically ill.
- There is a period between the date you are certified to be in need of assistance and the date you start receiving benefits, called the elimination period — the longer it is, the lower the premium. If your family can fulfill your needs for a good while, though not for longer, consider a policy with a long elimination period rather than no policy at all.
- The monthly benefit is the most a policy will pay, in today's dollars. Part of your care costs can be covered by your monthly income, and the excess is the ideal monthly benefit amount.
- Hopefully, you won't need long-term care for many years, so be sure to purchase the inflation rider, preferably compounded rather than simple.
- The benefit period can be unlimited, but this is very expensive. A three- or five-year benefit period is more affordable. Couples can purchase a shared benefit rider for added flexibility.
- Couples may also receive spousal and partner discounts, and some policies waive the premium for both spouses when one is receiving benefits.

Finally, if you think you might eventually move to an assisted-living facility, evaluate the interface between the long-term-care insurance benefits and the care that you will purchase from the assisted-living facility.

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