LTC (Long Term Care) Insurance: Risks and Benefits

The insurance companies are pushing LTC insurance more and more, but you ultimately have to ask yourself if it is going to be a good investment for you.

In recent years, more and more people have become aware of just how expensive it can be to go through long term care (nursing homes, residential care facilities, etc.). Indeed, many people see their life savings eaten up by just a few years of long term care.

Because of this, it is only natural that insurance companies have jumped at the opportunity to sell a new product to their customers, LTC insurance. However, this insurance is often prohibitively expensive and does not always cover what you think it does. Indeed, many people will pay more for their LTC insurance premiums than they will ever pay to any LTC provider.

Private insurance companies like to use fear tactics in order to scare you into purchasing LTC insurance. Ads focused at seniors and the elderly can often frighten people into thinking that they will be put out on the street after their savings dry up as a result of long term health care costs. However, nursing homes and residential care facilities rarely put the elderly out on the street with no roof overhead because of the protections afforded by Medicare laws.

If you have the time to sit down and crunch the numbers, you may come to find that, given the high costs of LTC insurance and the gain from other investments that you could make with that same money, the safe bet for you is to not get LTC insurance.

However, LTC insurance can be a good idea for some people. If you have assets that exceed the value of your home by three to five hundred thousand dollars, LTC insurance may be a good idea and a safe bet. This is because LTC insurance for people in this category is considered to be more of a safety net instead of a financial investment. It is even more true when your LTC insurance covers the costs and expenses for assisted living facilities.

When do Most People Buy LTC Insurance?

A majority of people that purchase LTC insurance buy it at a median age of 65 years old. Before this age, most people are unable to predict their financial futures to such a degree as to know what kinds of finances they will be facing when/if they need long term care. In addition, for people that put off the decision about LTC insurance until they are older, the premiums are often astronomically expensive, well out of their price range. So, if you are considering LTC insurance for yourself, you should expect to come to a decision around the age of 65.

Your Odds of Staying in a Long Term Care Facility

Despite what insurance companies may tell you, your odds of having an extended stay in a long term care facility are not as high as you may expect. To support this argument, here are some statistics that may interest you:

- 66% of all men over the age of 65, and 33% of all women over the age of 65 will never spend a day in a long term care facility.
- A majority of stays in long term care facilities are short. Only about one tenth of all men that visit a long term care facility will stay there longer than a year. In addition, only about one quarter of women will stay longer than a year.
- Out of all of the people that go to a long term care facility, less than half of them spend more than six months there.

How did LTC Insurance Perform?

Given that there is a pretty small chance that any given person over the age of 65 will need three or more years of care inside of a long term care facility arguably proves the point that insurance companies rarely have to pay out what their care plans say they will. Factor into this the conditions, exclusions and other drawbacks of the insurance plans that are
offered, and LTC insurance policies do not perform well at all. To get a sense of this, here are some statistics from the 1990s:

- About 50% of all LTC insurance policies lapsed before the insurance company had to pay out any money.
- Of the people that bought and paid for LTC insurance and eventually entered a long term care facility, about 50% of them never collected any benefits from their insurance provider.
- Of the people that purchased nursing home coverage but instead ended up with assisted residential living arrangements, no one ever received any benefits from their LTC insurance provider.
- If and when LTC insurance benefits were paid out, they were typically below the actual cost of the care.
- For the people with LTC insurance that ended up having a long stay in nursing home, many used up their benefits before leaving the nursing home.

So, for most of the people that purchased LTC insurance in the 1990s, it was a losing bargain. Often times, the LTC insurance provider did not pay any benefits at all, or if it did pay benefits, they were inadequate.

**Overhaul of LTC Insurance**

In response to these lousy statistics from the 1990s and because of consumer activism, many providers of LTC insurance decided to revamp and overhaul their procedures and policies. These improvements came in the form of clearer terms that the policy holders could understand. In addition, some LTC insurance now provides coverage not only for extended stays in nursing homes, but also for assisted living in residential homes. In addition, the requirements and standards to qualify for LTC insurance have been lowered somewhat, making LTC insurance more accessible to those that really need it. Lastly, instead of locking in premium rates, many LTC insurance providers allow policy holders to downgrade their policy to a lower rate when the higher premiums present a financial burden.

**Is LTC Insurance Right for You?**

Unless you have a high monthly income (where the insurance premium is less than 5% of your monthly income), LTC insurance is probably a bad bet for you. When you start to calculate your monthly income and the 5%, you should keep in mind that your monthly income may decrease after you retire, and your premiums for LTC insurance will probably go up the older you get.

When you start looking at LTC insurance, you need to be a very careful buyer. With the internet, it is now possible to comparison shop between many LTC insurance providers and select the policy that is best for you. Remember that if you are going through an insurance broker, they often do not have your best interests at heart (they regularly work on a commission basis and are just looking to make the sale).

This is your future, so be sure to read the terms of any LTC insurance policy you are considering carefully and ask any questions that may come to mind. There are websites around that rate almost every LTC insurance provider on many aspects of their services. In addition, if you can find a reliable forum online, you can ask opinions of people that have LTC insurance already and how they are liking it or disliking it.

Lastly, remember that LTC insurance is still just a bet. Before committing to the purchase of a LTC insurance plan, you should ask your financial advisor about it and see if there is anything else you could do with that money that would make more sense. Investments can often be the source of funding for long term care, and you retain the benefit of having liquidity of your assets up until the point you start paying for long term care.
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