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The Clarity Formula® – Long-Term Care Insurance



Adults today who are 65 years of age or older have a 70% chance of needing some form of long-term care service or support during their remaining years. Furthermore, with roughly 10,000 baby boomers turning 65 every day, the cost of care is increasing for these already expensive services and support. According to the Genworth 2021 Cost of Care Survey, the national median amount for a private room in a nursing home was roughly \$9,000 per month, for a semi-private room in a nursing home was roughly \$7,900 per month, and for an assisted living facility was roughly \$4,500 per month. Most private health insurance plans do not cover long-term care, forcing individuals to plan for long-term care expenses in a way that protects their assets and affords them the kind of care they want.

Long-term care insurance benefits typically begin when you are unable to perform at least two of the six activities of daily living: bathing, caring for incontinence, dressing, eating, toileting (getting on or off the toilet), and transferring (getting in or out of a bed or chair). There are four ways to cover the cost of long-term care needs: Medicare and Medicaid, Self-Insure, Independent Long-Term Care Insurance, or a Hybrid Life Insurance Policy with Long-Term Care Coverage. Unfortunately, Medicare does not cover long-term care outside of skilled nursing care immediately following hospitalization for injury or illness. Medicaid covers low-income Americans and only kicks in once most of your savings and assets have been exhausted. This leaves many people with only three options. Self-insuring can make sense for a small subset of the population. Ultimately, many Americans decide between Independent Long-Term Care Insurance or a Hybrid Life Insurance Policy with Long-Term Care Coverage.

Independent Long-Term Care Insurance operates much like traditional home or auto insurance. Typically, you pay premiums to keep the policy in effect. When you need a covered service, you can file a claim. You can choose the specific details about your policy, including the length of coverage, the daily or monthly maximum benefit amounts, the lifetime maximum benefit amounts, inflation protection, and the elimination period. Your premiums will increase as the terms of the policy become more favorable to you. For example, your elimination period is 30 days instead of 90 days, or your policy provides coverage for 5 years with annual inflation adjustments instead of 2 years with no inflation adjustment.

While long-term care insurance is expensive, coverage can help offset a substantial amount of the cost of long-term care and allow you to protect some of your financial assets.

Most of the policies issued today are Hybrid Life Insurance Policies with Long-Term Care coverage. These policies offer long-term care insurance coverage like what you might find with an independent policy, coupled with a modest life insurance benefit. This death benefit can go to your heirs if you do not need long-term care insurance coverage. If you do need long-term care insurance coverage, the death benefit is reduced first and utilized until exhausted. Typically, with a hybrid policy, your premium is either paid as a lump sum or over a fixed number of annual payments. Because these policies offer a guarantee (if you do not end up needing the long-term care insurance coverage you provide a death benefit to your heirs) they tend to be more costly than independent policies.

While long-term care insurance is expensive, coverage can help offset a substantial amount of the cost of long-term care and allow you to protect some of your financial assets. It may also provide you with flexibility and freedom to choose where, how, and by whom you receive your care. Contrary to health, home, and auto insurance, long-term care insurance is an insurance you only buy once, so it requires careful consideration to ensure you get the right policy for your specific situation. Given the complexity of long-term care insurance, we highly recommend that you do not try and figure it out alone.

As always, do not hesitate to reach out to your advisor with questions specific to your situation.

Sources: AARP, Forbes, Fiducient Advisors