OPTAVISE
Efficient. Organized. Insurance.

Common Consumer Mistakes When Buying Long Term Care Insurance

According to study by Georgetown University and Pennsylvania State University, about 70% of individuals 65 and older will need long-term care—whether at home or in an assisted-living facility or nursing home. According to this study, the following are the major mistakes when buying long term care insurance

Waiting too Long to Buy

Many people don't even start thinking about long-term-care insurance until they reach 60. And by that time, it may be too late—either because the insurance is too costly or they simply can't qualify for health reasons. As a result, for most people, their 50s are the best time to buy a policy. That's typically when premiums are most affordable and coverage is easiest to obtain

For each year applicants in their 50s delay buying coverage, carriers typically raise premiums by 3% to 4%, simply because they are a year older. In contrast, for every year someone in their 60s waits, they can expect to pay an additional 6% or more.

Not Comparing the Rates from Multiple Insurance Companies

The gap between the least- and most-expensive policies can be wide. According to the American Association for Long-Term Care Insurance, a 60-year-old couple can expect to pay an annual premium that ranges from $3,025 to $6,500 for $164,000 of coverage that grows 3% a year.

Rates vary significantly from insurer to insurer for virtually identical policy benefits, and this is even more the case this year than in prior years, the American Association for Long-Term Care Insurance, an industry group, said. "In some situations the difference between the lowest-cost policy and the highest-cost was 34 percent but it could be as much as 119 percent," the association's executive director, Jesse Slome, pointed out. "Our average 55-year-old woman could pay as little as $890 a year or as much as $1,829 based on which insurer she buys from."

Buying On Price Alone

Do not forget while price is important, so is reliability. Consumers should buy long-term care insurance from a large, stable carrier with the resources to be around when the coverage is needed. Consumers should limit their shopping to large, diversified carriers with ratings of single A or higher.

Additionally, there are a lot of variables and moving parts within a Long Term Care insurance policy- from the monthly benefit guaranteed, to the length of the benefit period, to the waiting period before coverage starts, in addition to many others- so it may take a close eye to make sure you are comparing apples to apples. Make sure you first decide on the aspects of coverage that are most important and suitable for your situation, and then you should compare the pricing of policies that fit that criteria.

Overlooking Shared Benefits Opportunities

If both you and your spouse are purchasing long-term care insurance, a 'Shared-Care' policy might be able to give you more coverage for less money. With a 'Shared-Care' policy, you buy a pool of benefits that you can split between you and your spouse. For example, if you buy a five-year policy, you will have a total of 10 years between you and your spouse. If your spouse uses two years of the policy, you will have eight years. A 'Shared-Care' policy may cost more than separate policies with the same benefit period, but it will allow you to buy a shorter policy, knowing that you have a pool of benefits to work with. Fewer than half of couples purchase a rider that allows them to share benefits with an eligible member of the household, usually a spouse. A 'Shared-Care' rider on a contract that provides five years of benefits typically boosts premiums 10% to 15%, it is far cheaper than buying an additional five years of coverage for both spouses.

Underestimating Inflation

Inflation protection is critical in a long term care policy. Typically, buyers of long-term care insurance are in their 50s or early 60s. But you probably won't need substantial help with daily living until you are in your late 70s or 80s. That means the cost of long-term services and support resources—whether you receive care at home, in a nursing home, or in some other setting– will likely rise year after year for thirty years before you ever collect benefits. As a result, what looks like a pretty good benefit today will be worth far less when you eventually make a claim.

How much inflation protection is ideal? Consider the following comparison between policies with 3 percent and 5 percent inflation protection. Take the amount of coverage you want – for example, $360,000 over five years – and price a policy with 5 percent compound inflation protection. For a 55-year-old couple, the annual premium will be about $7,238.

Then, take that $7,238 and shop instead for a policy with benefits that grow by 3 percent, compounded each year. With such a policy, a 55-year-old couple willing to spend $7,238 a year can secure $619,560 in benefits over five years – or 72 percent more than the 5 percent policy's initial $360,000 benefit.

Buying inflation protection can add 50% or more to the cost of a premium. Perhaps for that reason, 94% of people who buy hybrid policies, which package long-term-care coverage with a life insurance policy or an annuity, and nearly one-third with conventional policies forego the protection or opt for a smaller amount of initial coverage.

Another type of inflation protection that is becoming more popular is a guaranteed-purchase, or future-purchase, option. This option allows the insured to buy inflation protection in installments over time. While initially much cheaper than policies that lock in inflation protection at the outset, premiums become significantly more expensive as the insured ages.

Not Factoring in The Tax Implications

You should also remember that your premiums may be tax-deductible. Premiums for "qualified" long-term care policies will be treated as a medical expense and will be deductible to the extent that they, along with other unreimbursed medical expenses (including "Medigap" insurance premiums), exceed 7.5 percent or 10 percent of the insured's adjusted gross income, depending on the tax year and the taxpayer's age.

Fail to Compare Hybrid & Conventional Policies

Buyers of long-term-care insurance are snapping up hybrid policies, which package long-term-care coverage with other forms of insurance. These policies allow heirs of consumers who die without using their long-term-care coverage to get at least a partial refund of their premiums, and are insulated from the premium increases that have given the insurance industry a black eye in recent years. But buyers need to understand the trade-offs involved.

Long Term Care hybrid policies provide more certainty through a death benefit for heirs while traditional policies provide more long-term-care insurance for each dollar in premiums. While sales of traditional long term care insurance have fallen in recent years, sales of hybrid policies have risen sharply from 15,000 to 86,000 a year.