

Worrying About Long-Term Care

The Situation:

Couple spending \$3,700 a month on a take-home pay of \$4,400. They have planned well with other financial and insurance programs yet they don't have long-term care (LTC) coverage. They believe LTC is "way above anything we can afford".

The Advice:

The 2019 Retirement Confidence Survey from the Employee Benefit Research Institute showed that just 52 percent feel somewhat confident about long-term care.

The traditional approach. Take out a conventional LTC policy, paying \$7,600 a year with money that would otherwise go into their retirement accounts. The policy would provide a \$5,000 monthly benefit that would grow by inflation at a rate of 3 percent annually.

Pro: Thanks to the policy's inflation protection, that \$5,000 monthly benefit would reach \$10,000 in 25 years.

Cons: The couple would have to keep paying expensive annual premiums until they make a claim. And premiums could rise, as they have historically.

A hybrid policy. This is a life insurance policy that lets you use the death benefits for long-term care during life and pays out the remainder to heirs at death. There would be a large lump sum premium – money that would likely come from a combination of savings and borrowing from retirement accounts. In addition there would be annual premium payments.

Pro: There is value in these benefits even if you don't use them for care.

Cons: Need to have heirs to receive death benefit, also, because there is no inflation protection, available money for LTC expenses would reduce over time.

No insurance at all. Pay out of pocket from savings accumulated over time.

Pro: It's not insurance, but it may be just enough.

Con: It may not resolve loss of sleep.

The Outcome:

Initially the couple favored relying on savings, not insurance, for care. Since the couple had saved well for retirement, they decided they could cut down on future contributions and pay for a traditional LTC policy instead.

Couple decided that they weren't leaving LTC to chance. They were going with some kind of coverage to take control of their future care.

(Information taken from an article in the August/September 2019 issue of AARP The Magazine)