

1 UNDERSTANDING THE RISKS

The Impact of Long-Term Care

Most people envision themselves living a long life, investing and planning throughout their working years to create a financially secure future where they can enjoy spending time doing the things they enjoy the most.

As part of your financial planning process, it's important to understand the potential impact that needing long-term care may have on your assets, your family, and your future.

Financial Impact

The reality is, the longer you live, the greater the likelihood that you may require long-term care. The costs associated with needing long-term care are significant. While it can take decades to accumulate the assets you'll need to retire comfortably, just a few years of paying for long-term care may threaten a lifetime of savings.

Emotional and Physical Burden

If you've ever been in a care-giving situation, you understand the physical and emotional toll it can take. While providing care to loved ones is an act of compassion, placing these burdens on spouses, children and other family members can create a significant emotional and physical strain, and is something that many people would like to avoid.

Consequences of Not Having a Plan

Waiting to address your long-term care needs — until the point at which you actually need care — may significantly impact your financial situation, your quality of life, and your ability to maintain your independence. Incorporating long-term care (LTC) insurance into your financial plan today can help protect your assets, reduce the burden of care that would otherwise fall on family members, and enable you to receive care in the setting you most prefer, including your home.

Perhaps the greatest benefit: Long-term care insurance can allow loved ones to care ABOUT YOU. . . instead of having to care FOR YOU.

All references to statistics are based on data contained in the 2009 and 2010 editions of the LTCi Sourcebook published by the American Association for Long-Term Care Insurance. May be used with credit to the American Association for Long-Term Care Insurance.

SMART FACTS

- ▶ **The cost of care is expensive.**
\$75,000
(1 year of care today)
\$250,000
(1 year of care in 30 years)
\$750,000
(3 years of care in 30 years)
- ▶ **LTC insurance carriers paid claims to 180,000 policyholders in 2009.**
- ▶ **Roughly \$6 billion in LTC benefits was paid out in 2009.**

AALTCI: Growth estimates based on CPI inflation factor of 4.1%.

Source: American Association for Long-Term Care Insurance, 2010 Sourcebook.

REAL-LIFE EXAMPLES

The following are two examples of how LTC insurance coverage has helped protect people's assets while covering the cost of care over extended periods:

Female purchased a policy at age 43

- ▶ Annual premium of \$1,800
- ▶ Claim began three years later and has continued for 12 years
- ▶ **\$1.2 MILLION IN BENEFITS PAID**

Male purchased a 5-year policy at age 54

- ▶ Annual premium of \$2,560
- ▶ Claim began two years later and has continued for almost 7 years
- ▶ **\$690,000 IN BENEFITS PAID**

What's Your Real Risk?

Many people find it hard to envision themselves needing hands-on assistance with basic living activities like bathing, getting dressed, and eating. So they avoid thinking about it altogether. The fact is that 70% of people who reach age 65 will require some level of care services at some point in their lives.¹

But perhaps the bigger unknown — and biggest risk — relates to the length of time for which you may need to receive care services. It's impossible to predict. Some may only need a few months of care. Others might need a few years. Others, such as those with dementia or Alzheimer's disease, might require 24-hour care for as long as 10 years.

As people take into account the current and future projected costs of care, and the potential impact to their families and finances, many find the risks simply too big to ignore. Long-term care insurance helps provide protection against these risks.

1. U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, www.longtermcare.gov, September 2008.

2 AVOIDING MISTAKES

The Planning Process

Once you understand the risks associated with needing long-term care, you're ready to start the planning process. As you weigh your decision to purchase LTC insurance, there are a variety of factors to consider. These include:

1. Where do you plan to live when you retire?
2. In which setting would you prefer to receive care? (For many people, it's in their home.)
3. How much of your long-term care expenses are you willing, or able, to pay out of your own pocket?

Below are a few common mistakes to avoid.

Waiting Too Long to Address the Issue

There are important reasons to address your potential long-term care needs sooner rather than later. Since the cost of LTC insurance is typically based on your age and health when you apply, the older you are when you apply, the higher your costs may be.

- ▶ The annual premium for a person who purchases a policy at age 50 can be significantly less expensive than the same policy purchased at age 60.
- ▶ While some employers offer LTC insurance coverage with few or no health questions, you'll typically have to go through an underwriting process when you apply for an individual policy. Through this process, the insurance company will classify you in one of up to 3 or 4 "risk" categories. The longer you wait to apply for coverage, the greater the likelihood that health issues may arise, and increase the cost of your policy, or even disqualify you from obtaining coverage in some cases.

Insuring One Spouse/Partner, But Not the Other

Today, a little over half of LTC insurance buyers are couples — representing 54% of the new policies sold. It is true that women are more likely to need long-term care. Thus, some couples look to insure just the greater risk.

However, this approach creates a far greater financial risk and emotional toll should a husband need care prior to his spouse. Regardless of which one is not covered, the risk of needing care — and the subsequent caregiving and financial responsibilities that follow — will impact the couple's quality of life and financial situation.

Assuming You Can Cover the Cost of Care

Without a long-term care insurance policy, you are essentially "self-insuring" your risk of paying for care. While wealthy individuals may have the financial means to cover their costs for care, this is not a viable strategy for the majority of people. Whether people overestimate their ability to pay for care over an extended period, or convince themselves that they'll never need care, the risk of needing and paying for care remains.

Whether you are wealthy or not, paying a reasonable insurance premium to transfer one of the biggest financial threats you may face can be a smart move towards protecting assets and loved ones.

HERE'S TO YOUR HEALTH

LTC insurance applicants declined coverage due to poor health:

Under age 50	9.5 %
Ages 50 - 59	14.0 %
Ages 60 - 69	23.0 %
Ages 70 - 79	45.0 %
Age 80 and over	66.0 %

Source: American Association for Long-Term Care Insurance, 2010 LTCi Sourcebook

COUPLES TIP

- ▶ Some LTC insurance carriers enable couples to link their policies in order to share benefits in the event one person's benefits are exhausted.

DID YOU KNOW?

- ▶ Women live longer than men. As a result, they are more likely to reach an age where they will be without their spouse and/or require long-term care.
- ▶ Over two-thirds (67.5%) of LTC insurance individual claim dollars are paid to women.

Source: American Association for Long-Term Care Insurance, 2010 LTCi Sourcebook

SMART TIP

- ▶ It's very important to work with a financial or insurance professional you trust to help you determine the right plan to meet your needs.

3 REDUCING YOUR COSTS

Variables That Impact Premium

Buying long-term care insurance is not an all-or-nothing decision. Most policies offer flexibility to meet your needs and budget. We've already mentioned one of the biggest cost reductions — buying sooner rather than later. In addition, once you have decided to apply for coverage, there are a variety of strategies you can use to help further reduce the cost of your policy.

Designing Your Policy There are a number of policy design elements that can impact your premium, as well as the benefits you can expect to receive. Keep in mind that two policies with the same premium can deliver different benefits and result in different out-of-pocket costs. Here are a few basics to keep in mind regarding policy design.

Daily (or monthly) benefit amount

This is the maximum amount that your policy will pay on a daily or monthly basis. As a starting point, look at costs for care where you anticipate you will live and receive care. These costs can often be found on LTC insurance carriers' websites. You may live in a high cost area now, but plan to retire to a lower cost of care area. Either way, it's important that you guard against buying a daily amount that is too low, as it can trigger higher out-of-pocket costs in the long run.

Benefit period

This is the minimum number of years you can expect your coverage to last. Selecting a reasonable benefit period (at least 3 years, but generally not more than 10 years) can help you manage the costs of your policy.

Deductible / Elimination period

To help lower the cost of the policy, insurance carriers may require that

you shoulder some portion of your cost of care. This can be in the form of a "waiting period" or the number of days you'd be required to cover your costs before benefits commence, or it could be a dollar amount or percentage of each claim that you are required to pay.

Inflation protection

Deciding how the coverage you buy today will still meet your needs in 20 or 30 years is an important consideration. There are a variety of strategies for ensuring your benefits keep up with the rising costs of care, and each has a different cost associated with it. Your financial or insurance professional can help you decide which one is best for you.

Optional riders

Many policies offer a variety of optional riders that can be used to further customize your policy or enhance your coverage. Your financial/insurance professional can help you determine which ones,

SMART TIP

► The reputation, experience, and financial strength of the company behind the policy you select is also very important. You want to buy a policy from a company that will be able to deliver on its promises.

if any, offer the most value for the additional premium that you'll pay.

Accessing Discounts

Many insurance companies offer various types of discounts you may qualify for. Two of the most common are preferred health and marital (or partner) discounts, which can enable you to reduce your premium anywhere from 10-40%.

Some Coverage Is Better Than None

Everyone has competing financial priorities. Consider how much of your cost of care you'd be willing and able to cover on your own. Even a "small" policy provides a degree of protection that you would otherwise not have. Decide how much you can start with based on your budget and be sure the company offers options to increase coverage over time, including how much you can increase and whether additional underwriting is required.

YOUR NEXT STEP

You've taken an important step by reviewing the information in this planning guide. One of the smartest next steps you can take is to simply talk with your loved ones about how long-term care may impact your family. If you have elderly parents or other relatives who have needed care, you may already see the need to plan ahead for your own needs.

Speak with your insurance or financial professional. Find out what may be best for your situation.



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