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Determining the Need for Long-Term Care Insurance (LTCI): How Much Is Enough?

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Introduction

Whether you should purchase a long-term care insurance (LTCI) policy depends on your financial ability, age, health status, retirement objectives, and whether you have assets you want to protect. Once you've made the decision to buy, you'll need to decide how much coverage is enough. Insurance protects against an event that may (or may not) occur in the future. Buying sufficient protection is important, but the insurance must also be affordable for you. When considering the purchase of LTCI, you'll need to pay particular attention to the benefit amount and to the benefit period.

The daily benefit amount

Most LTCI policies will let you select the amount of your coverage, typically running anywhere from \$40 to \$150 or more per day. Benefit amounts are usually offered in \$10 increments, although a few companies only offer a fixed amount (e.g., \$50 per day). The cost of nursing home care varies tremendously within a community and from one metropolitan area to another. Therefore, it's important for you to research the cost of nursing homes in your area. Moreover, you should consider whether you plan to remain in your present state or whether you plan on moving to another state at some point in the future, for example, to live closer to your children.

Local variations in long-term care costs make it difficult to recommend one specific dollar amount appropriate for all persons. In general, however, you should buy enough insurance to cover 50 to 100 percent of nursing home costs in your community of choice. Fifty percent of current nursing home cost is appropriate for persons of means who expect to use some income to pay for care. If you will be unable (or unwilling) to supplement the cost of care in the future with your own income, you should buy closer to 100 percent of nursing home costs. Be aware that policies usually differentiate between the benefit amount per day for institutional or facility care and the amount per day for home care. The daily benefit of the policy usually refers to the amount to be paid for nursing home care. Some policies offer less than the daily benefit (usually one-half) for home care. However, certain policies now offer an optional rider for home care to be covered at 80 percent or 100 percent instead of at the base contract amount of (typically) 50 percent.

Inflation rider

It may be a wise idea to purchase an optional inflation rider to your policy. Although the average daily cost of nursing homes in your locale may be \$200 today, it could significantly rise five years from now. And the younger you are when you buy an LTCI policy, the more important inflation protection is. An inflation rider can be very expensive, sometimes increasing the cost of a policy by as much as 40 percent.

The length of the benefit period

When purchasing LTCI, you'll be asked to select a benefit period. Benefit periods generally range from one to six years, with some policies offering a lifetime benefit. You'll want to choose the longest benefit period you can afford. If you can't afford a lifetime benefit, consider choosing a benefit period that coordinates with the look-back period for Medicaid (five years). For more information about Medicaid, see Medicaid.

Tip: The Deficit Reduction Act of 2005 gave all states the option of enacting long-term care partnership programs that combine private LTCI with Medicaid coverage. Partnership programs enable individuals to pay for long-term care and preserve some of their wealth. Although state programs vary, individuals who purchase partnership-approved LTCI policies, then exhaust policy benefits on long-term care services, will generally qualify for Medicaid without having to first spend down all or part of their assets (assuming they meet income and other eligibility requirements). Although partnership programs are currently available in just a few states, it's likely that many more states will offer them in the future.

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