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Understanding Long-Term Care Insurance

It's a fact of life: Someday you may need long-term care. That means you may need help at home with basic daily activities such as bathing, dressing and eating; community services like adult day care and transportation; or ongoing care in a nursing home, assisted living residence or other facility.

One option to pay for such services is long-term care insurance. But before you sign up for a policy, there's a lot to learn. The market has changed greatly in recent years. Here's what you need to know.

Why plan for long-term care?

About 70 percent of Americans who reach age 65 will need some long-term care during their remaining years, according to a study from the Urban Institute and the U.S. Department of Health and Human Services. Although some people will get by with unpaid care from family members and others, nearly half will need some paid assistance. About 24 percent will need more than two years of paid care, and 15 percent will spend two-plus years in a nursing home.

The costs of care are highly variable, depending on how long you require it, where you live and how intense your needs are. The ways to pay for services vary, too.

Traditional Medicare, the public health insurance program for people over 65, does not cover long-term care beyond some skilled care right after hospitalization for an injury or illness. Some Medicare Advantage plans, from private insurers, offer supplemental coverage for services like meal delivery and rides to medical appointments, but it is limited.

Veterans may access long-term care through the U.S. Department of Veterans Affairs.

But the largest single funding source is Medicaid, the joint federal and state program that covers low-income Americans. Although income limits vary by state, you typically can’t get Medicaid unless you exhaust most of your savings and other assets beyond your primary home and vehicle.

That prospect leads many people to think about how they can plan for long-term care expenses in a way that protects their retirement savings and lets them get the kind of care they want. And that’s where long-term care insurance comes in, though it’s not the only solution.

“Everyone needs a long-term care plan,” says Ryan Graham, a senior financial adviser at Altfest Personal Wealth Management in New York City. “That doesn’t mean everyone needs long-term care insurance.”

Traditional long-term care policies work much like policies for auto or home insurance: You pay premiums, usually for as long as the policy is in effect, and make claims if you ever need the covered services.

You can choose a little coverage or a lot to help pay for services in or out of your home. Typical policies spell out how much you can receive daily or monthly, up to a lifetime maximum or a certain number of years. Different amounts may be allowed for care in your home, a nursing home or elsewhere. You pay extra for benefits that rise over the years to protect you from inflation.

You also can choose from policies with varying waiting periods between the time you start needing care and when benefits kick in. A typical waiting period is 90 days, but you can pay more to get benefits after 30 days or pay less to accept a 180-day delay. Likewise, you pay more for a policy that pays out $200 a day, lasts five years and grows benefits at a compounded 3 percent per year than you would for one that pays $100 a day for two years with no inflation protection.