Here’s What You Need to Know About a Long-Term Care Insurance Policy

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So you’ve made the decision to learn more about long-term care insurance. That’s smart, as neither health insurance nor Medicare would pay for extended long-term care services in the event that you needed them in the future. Plus, there’s about a 70% chance you’ll need some type of long-term care after age 65, according to government stats. And given that the cost of long-term care can quickly deplete your life’s savings, it just makes sense to add it your financial plan.

When you prepare for any upcoming investment or purchase, you probably run into some unfamiliar language or terminology in your research, which can be frustrating and downright confusing.

Searching for a long-term care insurance policy is no different. A long-term care insurance policy describes coverage under the policy, exclusions and limitations—and can be laden with industry jargon. Here’s a breakdown of the fundamentals:

There are four primary components that determine your long-term care benefits and influence your monthly cost.

1. How much. This is the total maximum benefit available under any policy. There are many maximums to choose from, ranging from $100,000 to $250,000, $500,000 or more. Benefits are available until you have received your maximum benefit in total.

2. How fast. This is the monthly limit you can access from your total maximum benefit. Insurance companies do not pay out your “how much” in a single lump sum. Rather, you access your benefits in smaller amounts on a monthly basis up to a predetermined monthly maximum.

Depending on the carrier you choose, your monthly maximum could range from $1,500 to $10,000 a month. The “how much” and “how fast” components work together to determine how long your coverage will last. If your monthly maximum (“how fast”) is $5,000 and your total policy maximum (“how much”) is $250,000, it would take 50 months (four years, two months) before your exhaust your policy benefits. If you needed $2,000 a month to pay for home care, as an example, it could take more than 10 years to exhaust a $250,000 policy. The greater your “how much” and “how fast,” are the higher your premium will be.

3. Growth rate. This determines how your benefit grows over time. The most common growth rate today is 3%. If your policy started with $176,000 in your “how much” and $4,500 in your “how fast,” a 3% annual growth rate would double your benefits in 24 years to $352,000 total maximum benefit and $9,000 monthly maximum respectively.

You also have the option of choosing a growth rate other than 3% or to increase your maximums upfront and forgo a growth rate all together. A specialist can help you identify the growth rate that best suits your goals and budget.

4. Deductible. Long-term care insurance has an elimination period that, like a deductible, determines how much you may have to pay out of your pocket before benefits are paid. One distinction to note is that an elimination period is stated in days, not dollars. The most commonly selected elimination period is 90 days. This typically means that you must receive 90 days of care that you pay for out of your pocket before benefits are available.

Not that difficult when put simply, right? I hope you feel better prepared in your search for the right policy and that I have also remove some of the confusion. long-term care insurance is here to help you live the lifestyle you want 10, 20, even 30 years down the road.