

## ASK A FINANCIAL PRO: CAN I AFFORD LONG-TERM CARE INSURANCE?

Assess the cost considerations of long-term care insurance for retirees and pre-retirees.



By: Kate Stalter - December 20, 2024

**Question:** Sorting out long-term care is a top concern as I approach retirement. However, I'm not sure how to best manage the expense. Is long-term care insurance worth it?

**Answer:** The affordability of long-term care insurance worries many retirees and pre-retirees. A financial plan should account for this late-in-life spending, but many Americans cannot self-insure for the costs of a care facility or even in-home care.

Introduced in the 1970s, long-term care insurance is designed to cover expenses for people unable to perform essential daily activities such as bathing, dressing and eating. The care can be provided at home or in facilities such as nursing homes.

Initially, LTCI was primarily associated with nursing home care, but its scope has expanded to include a broader range of services.

### The Growing Need for Long-Term Care

Recent data makes a clear case for why retirees and pre-retirees are wise to address their long-term care needs.

A 2022 research brief compiled for the Department of Health and Human Services estimated that 56% of Americans turning 65 between 2021 and 2025 will have a significant disability requiring long-term care services in their lifetime.

The study found that, on average, the projected duration of long-term care services is slightly over three years.

However, the projected length of paid long-term care services is less than one year. According to the study, the average cost of this care is \$120,900, although some retirees will require long-term support services for many years. That level of care can cost hundreds of thousands of dollars.

### Hybrid Policies

When addressing issues of LTCI affordability, some financial advisors turn to hybrid life insurance and long-term care policies.

There's a common misconception that a hybrid policy is a better financial option than traditional, stand-alone policies, said Bill Comfort, director of education at Certification For Long-Term Care in Durham, North Carolina, in an email.

"Buying a hybrid policy is not a workaround to save premiums," he said. "If a hybrid policy costs less than a traditional

LTC policy, then the LTC benefits are also likely significantly less."

For example, he said, many hybrids have no benefit inflation increases or have limited increases compared to traditional coverage.

The idea that traditional LTCI is inferior because it is a "use it or lose it" product is not a fair criticism, he said. Potential buyers should consider how much more expensive a hybrid policy is when comparing the equal benefits of long-term care insurance.

A hybrid policy typically costs 40% to 50% more for the same level of LTC benefits as a stand-alone policy, he said.

### Policy Affordability

The ability to pay for long-term care prevents some retirees from purchasing a policy despite the high likelihood of eventually needing some type of services.

Long-term care premiums typically increase with age. For example, 2023 data from the American Association for Long-Term Care Insurance shows that a 55-year-old single male in the select health category can get an LTCI policy with benefits growing at an annual rate of 2% for \$1,650 per year.

A 65-year-old single male can purchase the same policy for \$2,600 annually.

The select health category covers chronic illnesses, autoimmune disorders, cardiovascular disorders and other conditions.

The affordability of policies, linked to individual financial planning decisions, is a subjective decision, Comfort said.

"Once someone reaches their late 60s or early 70s, the premium costs become much higher," he said. "The bigger issue with waiting to buy is insurability. The risk of being denied coverage for medical reasons increases exponentially as someone ages."

Affordability varies on a case-by-case basis and depends on a policy owner's financial situation, according to Howard Sharfman, senior managing director at NFP Insurance Solutions in Chicago.

"The question that must be answered is, will the policy benefits outweigh the premiums, should a claim occur? Carriers are able to issue LTC coverage up to age 80," Sharfman said in an email.

### Planning for the Future

Given the high likelihood of requiring long-term care and the associated costs, which rise with age, it's smart to begin planning as early as possible.

Premium expenses are a concern, but so is the potential for needing care later and being unable to afford it.

Long-term care policies will always be deemed costly in the eyes of the public, said Patrick Simasko, elder law attorney and financial advisor at Simasko Law in Mount Clemens, Michigan, in an email.

"Many people don't believe they will end up in a nursing home, and if they don't use the long-term care policy, they believe all the premiums paid are wasted," he said.

That's been proven, he added, by the decline in sales of traditional long-term care policies.

"The trouble comes when people start realizing they need long-term care when they're older, and the risk to the insurance company is much higher, so the premiums are more expensive, or the benefits are a lot lower," he added.

The potential problems are well known; fortunately, the solution is fairly straightforward for those with the resources to purchase a policy.

"The key to finding the right balance of benefits versus affordability boils down to two factors: Make sure you shop around and compare your options, and work with a licensed agent who understands the available products and where to get you the best coverage for the best price," said Chris Orestis, president of Retirement Genius in Portland, Maine.

There's another financial reason potential buyers shouldn't avoid LTCI products, he added.

"Remember, they are paid commissions by the insurance company, and their services are not paid for by the consumer," he said.

Patrick Simasko, principal of Simasko Law, has dedicated his legal career to the practice of elder law. Over the past 20 years, he has helped hundreds of families plan for their futures, protect their assets and receive the financial and medical benefits available to them.

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