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Things You Need To Know About Long Term Care Insurance

Michael Senoff Interviews Long Term Care Expert

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Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

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Now, let's get going.

Michael Senoff

Michael Senoff

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Things You Need To Know About Long Term Care Insurance

If you live to 62, your average life expectancy is 82 if you are a man and 88 if you are a woman. The likelihood that you'll need long-term care when you are older is about 1 in 2. And with the average cost of long term care in California at more than $190 a day and rising, you probably won't want the costs coming out of your pocket, or the pockets of your loved ones.

So in this audio, you'll hear about different types of long term care insurance and how to decide which one might be right for you. You'll hear tips on how to minimize the costs of your premiums for the long run without sacrificing the amount of care you'll receive when you need it.

You'll Also Hear…

- The five questions you should ask yourself before considering this type of insurance
- Why you'll want to make sure your insurance company is rated A+ – *or better*
- Ways to limit what you pay in long-term care premiums
- What "term-certain" insurance is and why you may not want to take the risk in getting it
- When to get long-term care insurance – in your 40s, 50s or 60s?

The problem with long-term care is that you can't know how much you're going to need until you actually need it. So it's important to plan for the worst and hope for the best. If you like what you hear and would like a no cost consultation about your personal or business financial situation, call toll free in the US only 1-866-505-7272. This audio is about a half an hour long. Enjoy.

Michael: All right, let's talk about long term care insurance.

JD: Long term care insurance is something that's become quite a hot topic in the last 10 years or so. As I mentioned before, probably the major reason is because the baby boomers are reaching the age where they're starting to be concerned about it.

Michael: Is this a new product? I mean, 10 or 15 years ago was there such a thing as long term care insurance and, if not, what were people doing about it?

JD: Yes, there were policies as long ago as 30 years ago.

There were only a handful of companies who were writing the policies at that point in time and they were not as comprehensive as they are today.

I'm thinking of one company that had a policy that seemed to be adequate, but adequate is a very measured word there. There were others, but essentially, all they did was help pay for nursing home care.

And as people got older and they also found out it was difficult to sell those kinds of products, they started paying attention to the people that actually would buy the product. And that's when they realized that they needed to be more comprehensive.

By comprehensive, I mean that you're not looking for coverage that helps you pay for care just in a nursing home. You also want to have assistance in paying for care in assisted living facility or at home. So now you find policies that provide coverage in any one of those three or all of those three and so that makes it far more comprehensive.

That's important to me, because I ask my clients some questions which I'll go through in a moment. I think you'll become very much aware why at least having a policy that pays off when you want care at home is important.

What long term care policies do is they pay off when a person as a policy cannot perform without assistance two Activities of Daily Living (ADL). Essentially those are difficulty feeding themselves, difficulty getting out of bed, difficulty using toilet facilities, difficulty in walking, difficulty in dressing themselves. They're defined on a standard basis so all policies refer to those Activities of Daily Living.
In many of the states, there are also some requirements. California's on the leading edge. Many of the other states follow along with California.

The essential difference there is that they also have to provide you with the option of having the benefits that you buy inflated either on a simple basis or on a compound basis. What that means is, if you buy $100 a day coverage today, if you don't buy a rider that allows that to increase, that when you get to 20 years from now, it's still $100 a day. But as we found out when it comes to your money, $100 today is now worth $50 twenty years from now. Or put another way, if you could pay for all of your care today with $100, you'd need $200 in about 20 years in order to pay for the same level of care. I have yet to see a policy that has it included automatically.

It's kind of like we're going to a deli and we're telling them how to put your sandwich together. So there's a time and a place. Like if you're old enough, a compound inflation rate rider may not make an awful lot of sense but a simple inflation rider might.

This is also unique to every person.

Again, to review the benefits that you're looking for is you're looking for a policy that covers you in any one of the three situations: either care in a nursing home, I think every body knows what a nursing home is; assisted living facility, which is kind of like an apartment that somebody looks in on you; and at home, and obviously if you're being cared for at home, all of the care people and any equipment that is needed is brought into your home.

When you're purchasing any kind of long term care coverage, the thing that you have to keep in mind is the premium will go up. They don't have enough statistical information, much like they do with life insurance policies, where they can set a rate and you can depend on the fact that that rate will not go up.

So the given in any long term care policy that you buy is, whatever they agreed that you would pay today for the coverage will increase some time in the future and it might increase quite a few times over your life time before you actually draw on it.

Michael:	When you're shopping for this insurance, do they give you any idea on how much, anything that's going to protect the consumers, or is it open ended?

JD:	It's open ended.

There are a number of reasons for this. Since they don't have the information, they don't know how much money they're going to be required to pay out. All insurance policies are really based on a pool. So much money goes in. They're going to earn so much on the money that they've got. People are going to have claims that they have to pay. When the smoke clears, they have to be sure that the premiums that are paid plus what they earn are going to be adequate to pay out the claims.

These are relatively new policy creatures and so, unlike life insurance policies, which have been around for a couple hundred years, they don't have this long experience that they can gather. The other thing, too, is, to create a pool that's large enough for the policy to even work, they have to be aware of what other companies out there are charging. So if their premiums are too much above what the other companies are charging, they won't get enough people buying the policies. They won't be able to build the pool large enough and so that policy will be a loss for the company.

So there's a business purpose to setting the rates, too. So as experience shows that the rates have to go up, they will be increased.

Now what happens in the event that they increase is, generally what they do is, the rate beginning some time in the very near future is going to go up, you have the following options: you can stop paying the premium period; you can pay the higher rate; or you can pay the lower rate and, if you choose to pay the lower rate, the benefits that you're receiving will be reduced.

So it's not like you just lose out but you won't end up with what you thought you were going to buy. So any long term care insurance agent or advisor that's worth their salt will make sure you understand, any policy you buy, the rate will go up. We just can't tell you how much and we can't tell you when it's going to happen.

Michael: So why would someone even want long term care insurance in the first place?

JD: That's a great question, Michael, which leads me right into the next section of this conversation.

If you answer yes to any of these five questions, in my opinion, you should have long term care insurance.

The first question is, do you think you'll live to at least age 85?

If you think you're going to live to at least 85, then you should have it because you have, at the very least, a one in two chance that you're going to need Alzheimer care. And if you know anything about Alzheimer care, or dementia care, if somebody's in good health, that care's going to go on for a long time and the care is expensive because the person that is suffering from Alzheimer or dementia is not capable of fully taking care of themselves. And as the condition progresses, they become even less capable of caring for themselves. So that's important.

I also want to warn the listeners, too, don't be paying too much attention to the statistics out there that say, if you need long term care, the longest that you're going to need it if you're a woman is like five years or so because the average life expectancy of somebody receiving long term care, if you're a woman, is three and a half years, or something like that. And if you're a guy, it's even less.

But when you take a look at the fine print, they're talking about nursing care. They don't address the fact that those people, before they went into nursing care, needed care, and how many years before that? That's one of the things they don't address.

The other thing is that it doesn't reflect the growing incidence of dementia or Alzheimer. So if you're in good health and you need this kind of care, even in a nursing home, you're going to need it for a lot longer than five years. And particularly guys.

One of the reasons why guys only have like a one and a half year average life expectancy in a nursing home is because we're not social creatures.

Most women are like my wife. If they go to a new facility, in no time at all they've got another 50 or 70 or 100 new best friends. Women tend to be far more social and then they're more adaptable to a new situation.

Guys, when they come in, number one, they're pushed out of shape. They don't want to be there in the first place, and then, all these strange people around here and they're doing all these strange things and I don't want to be here. And so they just shut things off and in a relatively short time, they're dead. They don't want to be there in the first place.

Think about it. If you're suffering from Alzheimer or dementia, when it gets far enough along, you don't know where you are anyway. And if you're in good health, even if you're a guy, you're going to be requiring care for much longer than one and a half years.

So I walk my clients through this. They need to be informed. They're going to make their own decision. But I remind them of these things here.

So, number one, if you think you're going to live to at least 85, then you need to have it.

Michael: I've got a personal experience. My best friend out here, his parents moved out here from Boston about two years ago, suffering from the beginning signs of Alzheimer. And both of them have it at the same time. And actually, just yesterday the father was admitted to the psychiatric hospital because there was a little bit of physical abuse going on in the board and care place that I've seen it over the last two years. It's an absolute nightmare.

JD: It's not a fun place to be.

Michael: No, it's just devastating.

JD: Those people are suffering, but more, too, are the people who care for them.

The second question I ask my clients, assuming that we get by the first one, is would you prefer to receive your long term care at home for as long as you can, or in long term care facility?

And this is usually the clincher right there. 100% would rather get the care at home rather than an assisted living facility or in a nursing home situation. That's why it's critically important that whatever policy they have pays the same amount for home care as it does for assisted living or nursing home care. Because that's where my clients want to be cared for.

The third question that I ask in qualifying them for whether they should have long term care insurance is, do you want to have more money so that you have more options to choose from? Keep in mind, if you don't have the policy or you don't have adequate coverage, where does the money come from? It comes off the pile, doesn't it? So if that pile was put there to maintain not only your lifestyle, but you also have things that you want to do with that money, and I'm kind of reaching into questions four and five, that you're going to have to pay for it off that pile. And if you look at the cost of long term care, just in a facility, we're talking a minimum of $190 a day a couple years ago in California on average. And keep in mind, average means there are some places that cost a lot more. So what you need to do is pay attention to what it costs in your particular area.

Anyway, if you want to have more money for more options, then what that does is the policy gives you more money and so you have to take less off your pile, so you have more options.

That leads us into the fourth question, which is, if you're married do you want to be sure that there's money left over to take care of your spouse if you happen to be the first one that needs this kind of care.

At the risk of being obvious, money that's spent on my long term care is not going to be there to pay for Teena, for the life that she wants to enjoy or if she needs the care down the road.

So this is the situation where two people definitely can't live as cheaply as one if you're paying for long term care costs for one of your spouses.

I've also observed that people can be far more caring about the people that are suffering and about other family members when they don't have to worry about what's happening to their pile of money, particularly women. They are very sensitive to this. "Hey, whatever it takes to care for my husband."

"Keep in mind, we have to worry about you."

"Oh, don't worry about me right now. I'll take care of myself."

That kind of thing.

So again, long term care insurance provides the extra money so that the risk of the spouse having to make those decisions or deal with that stress and allow them to be more caring, that a long term care insurance policy can be a big benefit there.

If one of your major objectives is to leave a pile of money to kids or grand kids, or you want to create a legacy, obviously if you're spending it on long term care, it's not going to be there. So in and of itself for some people, that's going to be a reason for them to have long term care, because it reduces the need to take money off the pile.

Those are the five questions that I walk my clients through and in virtually every case, my clients say yes to at least one of the questions and usually the one that they say yes to the strongest is that they want to be cared for at home if at all possible. And that can get very expensive.

Michael: So what is the right long term care policy for me?

JD: That all depends. Again, it's unique.

What you need to do, though, is make sure that the basic things that we talked about in all insurance policies are there, including, is the company going to be there to write the checks.

Now why is that important? Well, it's important because there were a lot of companies out there that were not A+ rated that were using a different business model which is, write lots of policies at low rates to create a larger pot of money and then raise the rates as they went along, figuring that would create a big enough pool to be profitable and still pay off, and the companies ended up having to sell that book of business, those policies, to other companies who had stronger ratings, and what those companies did was, they turned around and came back to the policy holder saying, these premiums are too low. This is what we're going to have to do.

So you need to make sure that the company that you're getting the policy from is at least A+ rated by Best & Company. Then you take a look at cost. Again, the cost is relative to what you want.

Like all insurance policies, you're buying it to protect the pile. But also, it's something that you hope that you'll never collect on.

Most people that I know, when they pay their auto insurance premium or the house premium, they don't want a claim. They only pay that because they've got to in the event that they have a claim that the insurance company is going to help them pay the cost.

Michael: Is there any way you can limit what you pay in the long term care premiums?

JD: Sure. There used to be a lot more options. But now, the only one that I'm aware of is that you can choose to pay the premium over a 10 year period of time.

Obviously, that means that the amount that you pay every year is quite a bit larger than if you were paying it on a monthly basis for the rest of your life. But you can choose to pay it over a 10 year period of time.

Still the same caveat here. During that 10 year period of time, a premium may increase. And, so, if it does, it will increase for the remainder of that 10 year period of time.

The benefit of doing that is, once you pay it off, that policy is in force. You never have to worry about putting another pile towards those premiums and the money will be there in the event that you ever need it for long term care expenses.

Keep in mind though, caveat number one, be sure the company is there to write the check. So if you pay for 10 years to a company that doesn't have the same high rating that I recommend, you're at risk that when it comes time to actually collect on the policy, that you only get a fraction of what you thought you were going to get.

Michael: What would you rather see if you had a client who definitely fits the category of needing long term care insurance and they had the money to pay it in full, would you rather see that happen or have that money paid out and put on the pile?

JD: I do an analysis with all my clients. The format that I use, I can't get it simple enough to do it in a conversational format, so I actually have to do a bunch of calculations on the spreadsheet and then walk my client through it. But the bottom line of this, I've yet to find any reason why anybody should pay it off in a 10 year period of time except for the emotional feeling that I don't have to pay this anymore and don't have to worry about it.

From a dollars and sense point of view, they're always far better off paying for it annually. You can pay on monthly, quarterly or annual basis, but the total premium is reduced significantly if you write one check a year.
I have yet to find any reason why anybody should pay it off in 10 years. I've had a couple clients do it.

Oh wait, let me back up. I can think of a business situation where, because it's qualified as medical insurance, it makes it deductible for people who are in business, and I'm thinking of a dentist right now, and he was getting closer to his retirement age and so it made sense because you get the deduction at the corporate level, which reduces his overall cost of the premium because of the tax savings. It made sense for him to pay that over a 10 year period of time. Again, you have to take a look at every situation. There could be a way of taking some additional tax benefit out of it.

Michael: So what does long term care insurance actually cover?

JD: That's a question that you ask when you're sitting down with the agent.

Ask, "What does it cover?"

Because if it doesn't cover you to stay at home as long as you want, and to pay for home care, that means that maybe one of the critical things that you want is not there.

You have to be sure that it covers home care, assisted living and nursing home care.

I'm going to reach into another one a little bit further along because you also wanted to know whether it pays the same for all three. I've seen policies where it pays 100% of the benefit amount if you go into a nursing home. It pays 70% if you go into assisted living. And it pays 50% if you draw on it when you're paying for home care.

Well, if your objective is to stay at home for as long as you possibly can, that type of a policy is going to require you to take more money off your pile, which is going to leave less for the things that you said was important to you.

Michael: How long will it pay for the care?

JD: That also depends, because you can buy for term certain. The shortest I've seen is like two years of benefits. And I've seen two, three, four, five and I think I've seen a seven.

But what happens is when you buy one that's got a term certain like that, you're playing with statistics. Your basic premise is that you're going to die long before you've run out of those benefits. The real risk to you is that when those benefits stop paying, everything starts coming off the pile.

If you take a look at what happens to the cost of care after the benefits stop being paid to you under a policy that has a certain time limit to it, you're in the much higher cost period of paying for care. What that means is, if it's going to cost you $6,000 a month today is going to cost you $6,600 a month next year and the year after that it's going to go up to at least $7,200 a month. There's almost a 20% increase in what you're going to be required to pay for care.

Well, the year after that, when your policy stops paying, you've now added at least another $700 or $800 a month to what you've got to pay. So you're up close to $8,000 a month and the year after that, that $8,000 could be $9,000 a month.

These costs keep increasing very rapidly so anybody that has a term certain in their policy, I think, is really taking the risk that's not warranted.

I always recommend a client take the lifetime benefit option. So it doesn't matter how long that you have the claim against the policy. It will continue to pay as long as you're alive. What they pay you will also increase every year as long as you're alive.

And again, keep in mind, that what we're trying to do is leave as much on the pile as we possibly can for the things that we said were important to us when we started this plan.

Michael: When does the policy start to pay off?

JD: Again, that depends on your policy, too.

Keep in mind when we're talking about when a policy starts, there have to be certain conditions that exist. So we talked about disability policy and, as you recall, I recommend that my clients elect for a 180 day waiting period because it reduces the premium that they're required to pay. That means they have to at least have six months worth of money set aside before they start receiving any benefits. Something similar in the long term care insurance. I recommend 180 day waiting period for long term care policies, too.

The difference between a long term disability insurance, meaning you become disabled and you're not able to work, and a long term care insurance, is the triggering event.

If you become disabled, it means you can't work.

When you require long term care benefits to be paid, the policy is very clear.

You need assistance in at least two of the six Activities of Daily Life, and as you recall I mentioned those a moment ago. There are things like assistance in eating, assistance in dressing, assistance in bathing and toiletry and getting dressed. So if you need assistance with two of those six right there, then the policy starts. There's one other condition that's in every policy I've seen, which is, if you're suffering from Alzheimer or dementia, it triggers automatically even if you don't need assistance in the other areas.

So those are the triggering events and then it starts paying once you've finished the waiting period. And so in this case, I recommend 180 days but you can get policies that start paying immediately; you can get policies that pay 30, 60, 90, 120.

But again, the shorter the period, the higher your premium's going to be.

Michael: So these waiting periods are similar to deductibles.

JD: That's right.

Michael: How big of a difference do you see?

JD: It depends on the company. It depends on how old you are at the time that you take the policy out. But you sit down and you can ask those questions, like, "Suppose I were to choose a 90 day waiting period,. What would my premium be?" "Suppose I were to choose a 180 day waiting period. What would my premium be?"

Michael: Seems like now today with so many people needing long term care insurance and there's a waiting list to get into these facilities, does the policy pay to hold your space or your bed if you have to leave the care facility temporarily, say to go to the hospital?

JD: That's a question that you need to ask to be sure that that condition is in there.

The policies that I've seen that my clients have purchased generally cover, like, 10 days or so during any one year. There's a time period,

And why this is important is, that, if you want to be able to go back to the same facility, you need to keep paying the daily rate for that room or that bed. And once you stop paying that, then they give the bed to somebody else. So it either comes from the policy or it comes off your pile. But the rent for that bed needs to be paid.

Now this is important to me based on my experiences. I've seen people who, by the time that they need this kind of care, once they've adapted to the care facility that they're in, it's really difficult for them to have to go some place else. It's difficult on the person who's being cared for. But it's also difficult for the people who want to visit and look in on that person.

So they get used to a particular facility and, if you don't pay the daily fee for the bed to maintain it, even though they're not there because they're temporarily absent, they lose that bed. And then they have to go to another facility. They have to adapt all over again.

It's really challenging for people that need the care. But it's also, I've found, very challenging for the people that are looking after the family members, the husband, the daughter or whatever it happens to be.

And also, it's a known commodity, the quality and the service and the care that the facility that you have, you've already accepted that is what you want. And when you go to another one, you're there for a week or so and you don't like the care or the attitude, then you've got to move that person to some place else.

So there's a whole lot of emotional issues that come into play when somebody needs long term care.

In my mind, it makes no sense at all to compound them by not planning ahead for these things that are relatively simple to do by making sure the policy will continue to pay even though the beneficiary of the policy is temporarily absent because they had to go to the hospital for some reason, or whatever reason they're temporarily absent.

Michael: You mentioned A+ insurance companies. Are there A rated insurance companies and A- and would you recommend staying away from an A or A-?

JD: Yes, I would.

There are ratings higher than A+. That happens to be the absolute bottom that I would recommend.

I think there's A++ and I think there's A. I don't know if there's A-. I know there's Bs and Cs. But once you get below that, in my mind, you're risking too much.

The companies that have A+ consistently, we can look back 20 or 30 years and they've been rated A+ the whole time. That's what we want. We're looking for a company that's more likely than not going to be there to write the check when you need it. And when you go to something that's rated less, you increase that risk.

The decision is up to my client, but this is what I tell them and this is what I do. My policy is go to a company that's A+ rated, and has probably been for as long as they've been rated.

Michael: What do you recommend when the right time to buy a policy is? 40's, 50's 60's?

JD: That's going to vary from person to person. But my recommendation is get the policy as soon as you can, because you go through a medical underwriting process similar to what you go through for medical insurance and life insurance and long term disability insurance.

And so you may qualify today for a preferred rate and you may not qualify for anything tomorrow because of changes in your health. Or you got into an accident. Or you're diagnosed with some sort of disease that you didn't know you had.

So the sooner that you get it, the better off you are. The younger that you start, the lower the premium.

And again, our objective is to make sure that you can put the amount of money on the pile that you want and leave it there so that it will grow to be as big as you want it to.

Michael: So you'd rather see, let's say for example myself, 41, look into getting long term care, pay a lower premium because I'm only 41, rather than put that money on the pile?

JD: That's correct.

Because you can plan in your daily expenses, your monthly expenses, your annual expenses, you can plan to pay that premium.

But the risk is that you find out that you need it and you couldn't qualify for it for whatever reason. And then you know that's going to be potentially a big drain on your pile.

So the purpose of insurance is to protect what you want.

Michael: How much long term care insurance should I have?

JD: My recommendation is the most that you can buy.

The reason for that is that you don't know what it's going to cost you when you need it.

The policy maximums are increasing every so many years, but right now the maximum that I've seen is like $210 a day. Well, that figures out to a little under $7,000 a month.

Well, in my part of California, when I go to look for care facilities, I find out that if I needed the care, I would most likely want to be cared for in, those are going for somewhere around $6,000 or $7,000 a month.

The average according to California's Department of Health two years ago throughout the state of California was $190 a day. That's almost $70,000 a year. It's $5,800 a month. That's the average.

I know that you can get into nursing facilities for less than that, but you start in at a lower rate and by the time that you're well into your long term care, those rates will be increasing at a rate that could be as much as 10% a year average. The last five years, the increase in health care related expenses has been in excess of 15%.

Well, you've got those kinds of expenses. You're going to have more and more baby boomers going in there demanding this kind of care. And the expenses are going to increase dramatically.

What I would recommend is, get the most coverage you can, again, because you're required to take less off the pile.

The maximum inflation rate that I've seen as a rider on a long term care policy is 5% compounded. Well, when you compare that to 10 or 15% compounded in the expenses that it's supposed to pay for, there's a big gap, which means you have to take money off your pile to pay for the gap.

And the longer you put off having to draw on that policy, which is what all of us want to do, we want to die without having to take any money on that policy because that means we enjoyed our lives until the end, and we didn't need that kind of care.

The longer you put it off, though, if you have to draw on it, the gap between what you're going to collect on that policy and what you're going to be required to pay is only going to increase.

So buy the most that you possibly can now. If you like what you hear and would like a no cost consultation about your personal or business financial situation, call toll free in the US only
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