Foolish Advice on Long-Term Care Insurance

The Motley Fool

By Tim Beyers

For most, insurance is a no-brainer. You need medical insurance for when you get hurt or sick. You need auto insurance to maintain a license to drive a car. And you need life insurance to protect your loved ones if you meet an untimely demise.

But what if you're injured and unable to work? What if you're elderly and in need of daily care? What if you own a business that operates in a litigious market? Insurance products have been designed to cover each of these situations and many more like them. Should you buy? I'll be examining that question for the next several weeks, beginning today with long-term care insurance.

What is it?

Long-term care policies are supposed to pay expenses when you become elderly and need assistance with activities of daily living, or ADLs in insurance-speak. These include eating, dressing, bathing, and using the bathroom, among others.

Often, this work is both heartbreaking and tedious, and that's why it's so expensive. According to a 2005 study by MetLife, a private room in a nursing home costs $74,095 annually. And the overall average cost of nursing home care is expected to rise to $190,000 annually by 2030.

If our negative national savings rate is any indication, most future retirees won't be able to afford a $70,000 annual bill, let alone a $190,000 bill. But, of course, it's worse than that. Estimates peg the average nursing home stay at between 2.4 and 3.5 years. Do the math. That's $475,000 to $665,000 in cold, hard cash needed for your end-of-life caretaking. Double the total if you have a spouse.

Should you buy?

Still, opinions vary when it comes to long-term care insurance. For some, like longtime Fool community participant KahunaCFA, it's a needless expense. Responding to my call for comment for this story, he wrote on our discussion boards:

I have long-term care insurance. It is called a very large IRA coupled with caring, responsible children (one who is an attorney), a will, and an advance medical care directive.

Using cash is an option for those who've invested very well over a lifetime, as KahunaCFA seems to have done. Others are less confident, such as longtime poster TexasHick, who writes:

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I've been through this with my parents. If you or your parents don't have a long term care policy, you are playing with fire ... with your nest egg in cash ready to burn right beside that fire.

A scary thought, to be sure. Perhaps that's why 50% of those Fools I polled for this story said that while they aren't yet in the market for a long-term care policy, they will be someday.

3 Foolish questions to ask before you buy

The numbers might also play a role. A healthy 55-year-old can expect to pay an average of $1,156 annually for coverage. So, were he or she to need long-term care at age 85, roughly $35,000 would have been paid to that point, barring increases. That's a pittance compared to the hundreds of thousands that might have been paid without a policy in hand.

Of course, not all long-term care plans are created equal, and fraud is always a possibility when dealing with financial products aimed at the elderly. So, before you buy, be sure to ask these three Foolish questions:

1. How much can I realistically save for retirement? Most often, our retirement plans consist of fixed expenses, lower tax rates, and dream vacations. Surely, that's all worthwhile, but good planning should also include cash set aside for emergencies and long-term care. So, for example, if the price of your dreams and daily expenses will equal $1 million in retirement, you need to add the cost of long-term care *without* a policy to your total before deciding if you're saving enough.

2. Where do I want to retire? Long-term care can take place just about anywhere. You can be in a nursing home or have nurses drop by to provide help when you need it. Deciding which is for you *before* buying a policy is critical, since there's a huge difference between comprehensive coverage, which doesn't discriminate by location of care, and facilities-based coverage, which does.

3. What's my carrier's history? More than just about any other kind of insurance, there's an opportunity for fraud with long-term care policies. So, before buying, check whether your carrier is highly regarded by monitoring agencies such as Weiss Ratings. My check of the rankings as of this writing shows **USAA** , **Mass Mutual** , and **New York Life** are among the top long-term care underwriters.

Follow the money

Buying insurance can feel like rinsing with gasoline before diving into a pool of fire. Still, it's often necessary, like when it comes time to prepare for end-of-life care. But that doesn't mean you should enter the process blind. First, assess your retirement savings to see how much (if any) you'll need in long-term care coverage. Then decide where and how you'll want to spend your last years. And finally, check into the financial history of your insurer before spending a dime on a policy. You'll save yourself, and your loved ones, a world of heartache by doing so.

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Have other money tips? Tell me. I'm writing new articles on personal finance and investing basics every week as part of our new money management service, *Motley Fool GreenLight*. It's tailor-made for Fools like you who aim to take control of their financial destiny. Click here to learn more.

Fool contributor Tim Beyers hopes you never need long-term care insurance. Tim didn't own shares in any of the companies mentioned in this story at the time of publication. Get a peek at everything he's invested in by checking Tim's Fool profile . The Motley Fool's disclosure policy is in it for the long haul.