Long-Term Care Mistakes

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Thinking about buying long-term care insurance? Here's a look at some of the biggest mistakes that consumers make.

Judging by our mail, more readers are thinking about the possible need for long-term care and how to pay for it. Whatever your thoughts about long-term care insurance -- and most people can be forgiven for regarding the product as expensive and complicated -- sales of such policies have been increasing at least 10% a year.

With that in mind, we asked Amy Pollock, an insurance broker based in Atlanta who has been selling long-term care insurance for almost 10 years, to identify some of the errors people make when buying a policy. We'll look at the first and biggest misstep in this week's column.

Long-term care insurance, as the name suggests, can help pay for extended care, whether in your home, an assisted-living center, a hospice facility or a nursing home. Individuals can buy policies that, among other features, pay a flat amount each day (say, $100 or $150) and cover benefit periods ranging typically from two years to a lifetime. Optional riders to policies can automatically increase daily benefits to keep pace with inflation.

The Right Question

Ms. Pollock, who works with LTC Financial Partners, a long-term care brokerage firm based in Kirkland, Wash., says buyers often err in choosing lifetime benefits coupled with small daily payouts.

"Most people don't understand what 'lifetime' means," Ms. Pollock says. "The question is not: How long will you live? The question is: How long will you need care?"

Coming up with an answer could be easier than you think. First, if you're in good health, and if a parent or grandparent hasn't needed long-term care for more than six years, chances are good you won't need "lifetime" benefits. Second, the insurance industry (not surprisingly) has some good data on the subject. For instance, people who reach their mid-60s before requiring long-term care, Ms. Pollock says, will likely spend a total of four to six years receiving care at home, in assisted living and in a nursing home. For people who reach their mid-70s before requiring care, the total drops to two to four years.

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A 'Short and Fat' Policy

The upshot: Many prospective buyers of long-term care insurance might want to consider a policy that provides a large daily benefit for four or five years -- a policy that's "short and fat," as Ms. Pollock describes it -- rather than a policy that provides a smaller daily benefit for a lifetime, or one that's "long and thin."

Let's take a 55-year-old man (the premium would be the same for a woman) in good health. One policy offers a benefit of $160 a day for four years. A second policy offers a benefit of $100 a day for a lifetime. Both have a compound inflation rider that increases the daily benefit by 5%. The annual premium for the four-year policy is actually a bit higher: $1,730 vs. $1,570.

The big difference comes 30 years down the road, at age 85, when actuarial tables indicate our policyholder is more likely to need long-term care. At that point, the $160 benefit -- because of the inflation protection -- will be worth $659 a day, and the $100 benefit will be worth $412 a day.

With a semi-private room in a nursing home in the U.S. already costing an average of $169 a day, according to a recent study by MetLife, the "short and fat" policy offers more protection down the road.

"People who shop for long-term care insurance tend to [think] only in the present -- when that shortfall of $60 a day doesn't look so bad," Ms. Pollock says. "They forget that they aren't filing a claim today. The future cost of care and the future value of money make that spread [between policies] $247 a day. That's a pretty big hit."

Glenn Ruffenach is the editor of "Encore," The Wall Street Journal's quarterly guide to retirement. Write

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