Should you Purchase Long Term Care Insurance?

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We are often asked by clients whether they should buy long-term care insurance. This is not surprising because long-term care insurance is one of the more important, but complex, areas of risk management, and a decision must incorporate many factors. In this note, we set out a framework to help you decide whether you need long-term care insurance, or when and why you might need to reach out for help.

The first thing to know is that each of us already has long-term care insurance via Medicaid. Medicaid (not Medicare) pays for nursing home costs, and, increasingly, other types of long-term care, too. But first, you have to qualify, and that usually means spending most of the money you have. Moreover, Medicaid won't necessarily pay for the best or closest nursing home, and nursing home quality varies widely.

The Odds of Needing Care

The second thing to know is that while the probability of needing some long-term care is high, the probability of needing a lot of care is low. The most commonly touted statistic is that 70% of those who reach 65 will need some long-term care services.[1] *But this statistic is misleading because it includes any type of long-term care, from as a little as a few days of recuperative help after surgery to truly long-term care.* With such a broad-based definition of long-term care, it's almost surprising the figure isn't higher.

According to one well-known study, women at age 65 have a 44% chance of entering a nursing home during their remaining lifetimes, but men at age 65 have only a 27% chance. More importantly, of those who do enter a nursing home, only 22% of women and 12% of men will spend more than three years as residents. In brief, if you are a woman, you have about a 10% chance overall of needing more than three years of nursing home care, and men have about a 3% chance. [2]

Research on actual insurance claims history suggests even the above estimates may be high. Using industry data, the actuarial firm Milliman estimates that people 65 and older who have long-term care insurance have a 45% chance of making any kind of claim, including one for home-based or assisted-care services. Once a claim is made, the chances of continuing to need care for more than three years is about 14%. And there is a 4.3% of the need exceeding five years.[3] *Overall then, there is only a 6% chance of needing any kind of care for more than three years and a 2% chance of needing the care more than five years.*

1. U.S. Department of Health and Human Services, National Clearinghouse for Long-term Care Information.
2. Jeffrey Brown and Amy Finkelstein, "The Interaction of Public and Private Insurance: Medicaid and the Long-term Care Insurance Market", National Bureau of Economic Research Working Paper 10989, December 2004.
3. Milliman Consulting Inc., as quoted in the *New York Times*, November 6, 2010.

The Costs of Long-Term Care

The real decision is whether to insure this low likelihood, but potentially very expensive, outcome when Medicaid is an option. How expensive? Figure 1 reports the costs of various forms of long-term care in Massachusetts, which is one of the highest-cost states for care services. (The national average annual cost for nursing home care in a private room is $108,408 annually, but it's $162,420 in Massachusetts.) If you are unlucky enough to be one of those very few who need nursing home care for more than three years, you might be looking at costs in the $300,000-$500,000 range or more. The figure will be lower if you opt for home-care or an assisted-living facility.

Massachusetts – State Median Annual Care Costs 2021

	Annual Cost
Home Care	
Homemaker Services[1]	$70,932
Home Health Aide[1]	$70,932
Adult Day Health Care	
Adult Day Health Care[2]	$19,044
Assisted Living Facility	
Private, One Bedroom	$78,000
Nursing Home	
Semi-Private Room	$151,476
Private Room	$162,420

1. Based on 44 hours per week by 52 weeks
2. Based on 5 days per week by 52 weeks

Source: Genworth 2021 Cost of Care Survey

Thus, the question becomes will you be able to afford this amount (assuming you don't want to exhaust most of your assets and rely on Medicaid). As with the purchase of other forms of insurance products, buyers should isolate the risks that cannot be tolerated and insure accordingly. Expenses which can be handled through one's financial assets should, in my view, not be insured.

Who Needs Insurance?

The most frequent purchaser of long-term care insurance is married, between the ages of 55-64, and has annual gross income of about $75,000 or more.[4] With annual premiums for long-term care insurance ranging from $3,000-$7,000 (depending on coverage details and age at purchase), most financial planners would agree that for a married couple in this age range, long-term care insurance does not make sense if their current net worth is less than $250,000. This is because the cost of premiums will likely represent a severe trade-off in current standard of living. Moreover, relative to the threshold for Medicaid and the available spousal allowances and exemptions, long-term care insurance is not cost-effective in protecting assets for this group.

The situation changes for folks currently in the $250,000-$750,000 net worth range.[5] In this range, receiving care for even just a few years, while not destroy-

4. Neuhauser, Karyn, "Long-term Care: Helping Clients Make the Right Choices", *Journal of Financial Planning*, November, 2012

5. What matters is one's future net worth at the time of the long-term care need (most typically over the age of 80). Here we are assuming the couple spends their retirement nest egg prudently (e.g., following the 4% safe withdrawal rule). If so, then using current net worth as a proxy for the future ability to pay is reasonable.

ing total net worth, will result in a significant reduction in the standard of living for the surviving spouse and limit or effectively eliminate any legacy for heirs. The purchase decision typically will still represent a lifestyle trade-off for clients with this level of wealth, so careful consideration must be made about how much insurance to buy. Also, if the person is single and at or near the upper end of this net worth range, then the need for long-term care insurance is much less because the real risk in this net worth range is impoverishing the spouse who is not receiving long-term care.

For those currently in the $750,000-$2,000,000 net worth range, long-term care insurance starts to become almost exclusively about protecting assets for a surviving spouse or heirs. Policies often provide comfort for an individual or a surviving spouse to know that it is safe to continue to maintain a certain standard of living knowing that a policy is available to provide for a desired level of care in the future.

People with assets over $2,000,000 can afford to pay for long-term care without fear of upsetting the lifestyle of a surviving spouse; long-term care insurance is not needed to pay for care. A policy can be used to protect a legacy, but as the odds of actually needing a lot of care are low, the expenditure may have the opposite result.

Other Factors to Consider

Current and prospective net worth are not the only factors to consider in the purchase decision. A very important consideration is the history of Alzheimer's or related cognitive disorders in the family because the correlation between cognitive dysfunction and very long long-term care needs is high. A related factor to consider is whether one has family members who have lived beyond standard life expectancies, as the need for long-term care increases with age.

There are also some people who have a strong aversion to relying on Medicaid or believe Medicaid will not be available when they need it. In this case, long-term care insurance can make sense if there is some probability that assets would be exhausted by a long-term care need.

Bottom Line

If you are still not sure or have little idea how your net worth might evolve, talk with a financial planner. Financial planners can be especially helpful in developing long-range net worth projections under a range of assumptions and can help quantify the probability of exhausting assets with (or without) a long-term care need. A financial planner can also suggest what type of long-term care insurance to purchase and how much of the risk can be self-insured.

Just remember that even though you might not need insurance, almost everyone needs a long-term care plan. Don't leave this out of your planning exercise.

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