Long-term care insurance

Help preserve your assets while planning for future care
Does your financial plan provide for the possibility that you or your spouse might need long-term care some day? If you are concerned about the rising costs of long-term care and the impact these costs could have on your savings, you may want to consider long-term care insurance.

What is long-term care insurance?
Long-term care insurance is designed to help pay for the already high and rapidly rising costs of long-term care. This care provides assistance when a person can no longer perform the normal activities of daily living such as bathing, dressing, and transferring to or from bed, or when a person has a cognitive impairment requiring substantial supervision.

Generally, long-term care insurance covers the costs of care needed for a period beyond 100 days, and the care may be provided in a nursing home, adult day-care center, assisted-living facility or at home. By covering some or all of these costs, long-term care insurance can help preserve assets. In addition, it can provide greater options for quality care and help you rest assured that your long-term care needs may be adequately covered if something prevents you from taking care of yourself.\(^1\)

What does long-term care cost?
Because of the high cost, paying for long-term care can quickly erode a person’s savings. Nursing home costs averaged around $80,000 per year in 2013,\(^2\) and as high as $170,000 in high-cost areas like New York City\(^3\)—and are expected to keep rising.

<table>
<thead>
<tr>
<th>Current vs. Future Nursing Home Costs</th>
<th>Assumining 5.5 percent increase in costs, compounded annually.</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Daily Cost</td>
</tr>
<tr>
<td>Today</td>
<td>$230</td>
</tr>
<tr>
<td>In 15 years</td>
<td>$486</td>
</tr>
<tr>
<td>In 20 years</td>
<td>$621</td>
</tr>
<tr>
<td>In 30 years</td>
<td>$1,013</td>
</tr>
</tbody>
</table>


Assuming costs increase 5.5 percent annually, a nursing home stay could reach an average of $221,000 per year by 2032.\(^4\) Paying for a home healthcare aide eight hours each day averaged more than $58,000 a year in 2013, and can be even more in a higher-cost area.\(^5\)

If you are concerned about how to pay for long-term care should you need it, or if you worry about the potentially devastating effect that long-term care costs could have on your savings, long-term care insurance may help to provide peace of mind. It can be an important component of a comprehensive financial plan.

Why purchase long-term care insurance?
Here are some of the reasons people purchase long-term care insurance:
- To protect assets—for example, to help to keep a spouse from becoming impoverished, or to preserve a bequest for heirs
- To provide more options for quality care if it is needed
- To potentially help relieve family members and friends from the burden of providing care
- To preserve one’s independence, dignity and financial freedom
- To help provide peace of mind that future care expenses may be adequately covered

Who may want to consider long-term care insurance?
Individuals who are concerned with the burden that long-term care can have on their family emotionally and financially may want to consider long-term care insurance.

The U.S. Department of Health and Human Services reports that people aged 65 face at least a 70 percent lifetime risk

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1. Long-term care insurance benefits may be subject to limitations.
4. 2032 projection based on 2013 national average cost of $80,000 per year compounded annually at 5.5 percent.
of needing long-term care at some point, with women at far greater risk than men. Many people will receive care at home, but more than 40% those age 65 and over will go into a nursing home during their lifetime, and about 10% will stay five years or longer.²

Because statistics show that the need grows with age, those with longer life expectancy are at greater risk of needing long-term care. Those with a family history of chronic or debilitating health conditions also face a greater risk of needing care.

What does long-term care insurance cost?
The average cost of a long-term care insurance policy for a 55-year-old is around $2,000 a year,⁶ but will vary depending on factors such as the policyholder’s age and the level of benefits. Age and health are the primary factors. As is typical with other insurance products such as life insurance, generally the younger and healthier you are when you purchase, the lower the premium will be. In addition, just as long-term care costs vary by state, long-term care insurance costs may vary as well.

What should I consider when buying a policy?
Some things to consider when looking for a policy include:

- An “outline of coverage” that clearly describes the policy’s benefits, terms and limitations in detail. It is important to understand how much money the policy would pay, and how much the policyholder would pay out-of-pocket.

- The right to cancel the policy for any reason within 30 days of purchase and receive a full premium refund.

- A clear description of the elimination period. Some policies have a set number of days (elimination period) that must be spent in a nursing home or in claims status before the long-term care insurance coverage kicks in.

- At least one year of nursing home or home healthcare coverage or both.

- A guarantee that the policy cannot be canceled or terminated because of the policyholder’s age or physical or mental health condition.

- A description of how much your premium will be and how often it must be paid.

You can find more information about long-term-care insurance at www.naic.org.

Types of long-term care insurance policies
A policyholder usually has a choice of daily benefit amounts for specific types of care. The two most common types of policies are a per diem policy that pays a specified benefit amount per day according to the terms of the policy, regardless of the cost of care, and an expense-incurred policy that reimburses the policyholder for the actual expenses up to a set maximum.

Most policies offer inflation adjustments that periodically increase the benefit level without the need for the policyholder to provide evidence of insurability. Although with this option the premiums will increase, inflation protection can help ensure that the policy keeps pace with future costs.

Who pays for long-term care?
Long-term care generally is not covered by health insurance, including Medicare. Medicaid, a state and federal program for low-income people with limited assets, usually requires a person to deplete their assets to establish eligibility and may not offer the quality of care that most of us expect. Without long-term care insurance, a person most likely will have to rely on personal or family assets to pay for all or part of long-term care. The chart below shows what types of insurance cover long-term care.

<table>
<thead>
<tr>
<th>Type of coverage</th>
<th>Home care</th>
<th>Nursing home care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health insurance</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Disability insurance</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Medicare</td>
<td>Yes, only if certain limited conditions are met</td>
<td>Yes, only for a limited time</td>
</tr>
<tr>
<td>Medicaid</td>
<td>Yes, on a limited basis</td>
<td>Yes, after you spend down assets</td>
</tr>
<tr>
<td>Long-term care</td>
<td>Yes*</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Depending on type of policy purchased.

⁶ American Association for Long-Term Care Insurance, 2012. Based on average policy cost for clients at age 55 in good health.
Most long-term care insurance policies contain exclusions, waiting periods, limitations, and terms for keeping them in force. Please ask us for full details and cost information.

Brokerage and Insurance products: Are not deposits • Are not FDIC-insured • Are not insured by any federal government agency • Are not guaranteed by the bank or any affiliate of the bank • May lose value.

Learn more

Charles Schwab is working with Small Business Insurance Agency, Inc. (SBIA), to make long-term care insurance available to clients, with insurance provided by well-known insurance companies that are highly rated by A.M. Best, an agency that rates insurance companies on their financial strength.

Contact SBIA at 888-539-4888 (Monday–Friday, 8:30 a.m.–6 p.m. ET) to speak with a long-term care insurance specialist.

Each specialist can provide detailed information about long-term care insurance, help you determine whether it may be right for you and, if appropriate, assist you with selecting a policy that fits your needs.