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Long-Term Care Insurance Is Worth the Expense

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Imagine you've retired and you or your spouse develops a chronic illness that requires nursing home care or significant in-home aid. If you haven't planned ahead, you could find yourself in a difficult financial situation.

Long-term care can be extremely expensive. A private room in a nursing home cost an average of more than \$83,000 per year in 2010, according to the [U.S. Department of Health and Human Services](#). And the study found that home health aides cost an average of \$21 per hour. To make matters worse, most long-term care isn't covered by Medicare, most retirees' source for health care.

So how do people pay for this enormous potential expense? Only about [13% of single individuals age 65 and older](#) buy [long-term care insurance](#), according to a 2014 study by the Center for Retirement Research at Boston College. But in many cases, it's a good idea to buy at least some coverage. Here's why:

You might not qualify for Medicaid

Unlike Medicare, Medicaid will pay for long-term care — provided it takes place in a facility, not at home. However, you need to have depleted almost all of your assets to qualify, and you can't just gift them all to your children. Medicaid has a five-year “look-back” period, so it will still consider any assets you transferred during the five years prior to your application.

Self-insuring is expensive

In this case, your strategy is to [have enough retirement savings](#) by the time you or your spouse needs long-term care that you can pay for it completely out of pocket. But because this cost can be so high, this option is typically only feasible for high-net-worth individuals. For anyone else, deciding to self-insure means assuming quite a bit of risk.

Long-term care insurance gives you options

Long-term care insurance covers more different types of care than Medicaid does, anything from 24-hour care in your home or a facility to a few hours per week of in-home assistance.

[Coverage is expensive](#), but there are ways of managing the cost. Instead of asking your insurance broker how much coverage you need, find out how much you can get for the amount you can afford to pay. You can also skimp on add-ons, such as inflation provisions. Then you can invest the money you saved by not buying a full-coverage policy and reserve the proceeds for co-insuring your risk.

Some is better than none

Many people are reluctant to purchase long-term care insurance because they feel they'll have wasted their premiums if they don't end up needing the benefits. But you could apply this logic to [homeowners insurance](#) and [life insurance](#) premiums, and most of us consider those policies well worth it. The premiums for long-term care insurance are more expensive than those for homeowners or life insurance, but the financial consequences of not having long-term care coverage are extremely severe.

The majority of Americans can't afford to self-insure but are too wealthy to qualify for Medicaid. If you're one of the families “in the middle,” you might feel unable to afford long-term care insurance premiums. But it's much better to purchase some long-term care insurance — even if it's not enough to cover all your potential costs — than none at all. At the very least, you should start

planning head for this potentially staggering retirement expense.

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