AT WHAT AGE SHOULD YOU BUY LONG-TERM CARE INSURANCE?

At what age should you buy long-term care insurance? Often the advice is, the earlier the better. It's not uncommon to see insurance carriers and some experts recommend that people buy a long-term care (LTC) policy while they are still in their 40s. Yet most people who buy individual policies wait until they are in their 60s.

There are several advantages to buying LTC coverage earlier. One reason, perhaps surprisingly, is cost. Many people delay buying coverage because they don't want to "waste" their money paying for premiums while they are younger, figuring they will spend less in premiums overall if they wait until they are in their 60s or even 70s to buy a policy. From a cost standpoint, however, it's usually significantly less expensive in the long run to buy earlier.

The American Council of Life Insurers (ACLI) provided an example in a recent study of premium costs. Their sample policy is one that pays $100 in daily benefits for up to six years. (Premiums are not that much higher for lifetime benefits instead of six years, and lifetime coverage is usually better.) The sample policy provides coverage for home or community assistance, an assisted living facility or a nursing home, and, especially important, the premiums include the cost of compound inflation protection of benefits at five percent a year.

To buy this coverage today at age 45, a person would pay $857 a year. Under most plans, this premium would be designed to stay level for the remainder of the insured's coverage. If the person didn't need the benefits until age 80, that would be 35 years of paying premiums, for a total cost of $29,995. That total cost is around half of the average annual cost for a stay in a nursing home—in today's dollars. However, the ACLI predicts that costs will quadruple by 2030. Fortunately, with the five-percent inflation protection feature, the benefit payout at age 80 would have risen to $552 a day.

But let's assume that you procrastinate ten years until age 55 to buy long-term care insurance. Compound inflation protection of five percent a year would have pushed the daily benefit to $162 a day (this assumption was not part of the ACLI's study). But to buy a policy ten years from now, when you are 55, you'll pay annual premiums of $2,223 (versus only $1,364 for someone age 55 today). If the coverage is not used until age 80, that means total premiums paid of $55,583, versus only $29,995 if bought today at age 45.

Similarly, waiting 20 years until age 65, you would pay $7,256 a year in premiums, for a total of $108,839 if not used until age 80. By age 75, premiums will have risen to $31,438 annually, or $157,190 total. Furthermore, not only is it less expensive in the long run to buy earlier, most retirees will find it easier to pay the lower cost premiums during retirement than to suddenly have to start paying steeper premiums for policies bought at age 65 or age 75

In addition to cost, there is the critical issue of health. The longer you wait, the greater the risk you won't be insurable due to poor health. Here's where a family history of health problems or personal high risk activities may suggest buying at an earlier age. Furthermore, a serious illness or injury can strike at any age.

There are arguments against buying a long-term care policy "too early." First, there is the risk that the insurance company may no longer be around when you need the benefits from the policy, especially in an industry that to date has had limited claims experience because long-term care insurance is a relatively new product.

Second, a policy held too long may become obsolete as new features emerge in new products. To upgrade, one would then be forced to buy a new, more expensive policy at an older age anyway.

Ultimately, of course, the decision at what age to buy depends on your individual circumstances. The important point is to not delay making a decision. It could be a very costly delay.

This column is produced by the Financial Planning Association, dedicated to promote and support the financial planning process to help people achieve their goals and dreams. It is provided by
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