



Long Term Care University

Long Term Care University – Question of the Month

By Aaron Skloff, AIF, CFA, MBA

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Q: Rather than paying for our long term care insurance premiums throughout the life of our policies, can we choose limited payment options? What advantages might we gain from limited payment options?

The Problem – Paying Long Term Care Insurance Premiums Throughout the Life Of Your Policy

Most policies are designed with a waiver of premium benefit that allows you to stop paying for your policy any month you receive benefits. But, that could mean 10, 25 or even 50 years of payments before you receive benefits and your premiums are waived. You will make many of those payments while you are retired, when your income is generally lower than before you retired.

The Solution – Paying Long Term Care Insurance Premiums Using Limited Pay Options

With a limited pay option, you pay your long term care insurance premiums over a limited period of time. Limited pay options mitigate two risks of policies you pay throughout the life of your policy.

1) Financial Strain of Premium Payments After Retirement. Your income is likely to decline when you retire. Without a well designed budget, your long term care insurance premium payments could cause a financial strain. That strain could be so great, you may consider dropping your policy and forfeiting the valuable benefits you paid for over the previous 10 or 20 years. With a limited pay option you can complete your payments before retirement, at the time you retire or shortly thereafter.

2) Premium Rate Increases. Most long term care insurance policies include provisions that allow the insurance company to increase the rates you pay if the insurance company receives an approval from the Insurance Commission (of the State where your policy was purchased) to do so. With a limited pay option your rates can not be increased after your final payment.

The following are the two most common limited pay options available from most long term care insurance companies.

1) 10-Pay. This option allows you to pay your premiums over a period of 10 years, at which time your policy is paid up. You may choose this option if you are concerned about either or both of the two risks discussed above.

2) Pay-To-65. This option allows you to pay your premiums until you reach the age of 65, at which time your policy is paid up. Again, you may choose this option if you are concerned about either or both of the two risks discussed above.

Numbers Speak Louder than Words – Projected Long Term Care Insurance Premiums

The following table provides an example of premiums that a healthy, 50-year old husband and wife would each pay for a Lifetime Payment Option, a Pay-To-65 Option and a 10-Pay Option. Each policy is based on benefits of: \$200 per day of care, 5% compound inflation protection, a 90-day elimination period and a 1,095 (3 years) benefit multiplier.

Policy Period	Age	Lifetime		Pay-To-65		10-Pay	
		Total Premium Paid	Policy Paid Up	Total Premium Paid	Policy Paid Up	Total Premium Paid	Policy Paid Up
After First Year	50	\$ 1,249.50	No	\$ 3,123.80	No	\$ 3,586.10	No
After 10 Years	60	\$ 12,495.00	No	\$ 31,238.00	No	\$ 35,861.00	Yes
After 20 Years	70	\$ 24,990.00	No	\$ 46,857.00	Yes	\$ 35,861.00	Yes
After 30 Years	80	\$ 37,485.00	No	\$ 46,857.00	Yes	\$ 35,861.00	Yes
After 40 Years	90	\$ 49,980.00	No	\$ 46,857.00	Yes	\$ 35,861.00	Yes

Based on the example above, the projected annual premiums are highest with the 10-Pay Option, at \$3,586.10. But, the 10-Pay Option has the lowest cumulative payments, at \$35,861.00, for most married people (needing benefits after the age of 79). Note: for a 65-year-old married couple, there is a: 70% chance each spouse will need long term care, 92% chance at least one spouse will live to age 80, 57% chance one spouse will live to age 90 and an 11% chance one spouse will live to age 100.

Action Step – Understand Your Long Term Care Insurance Payment Options

Choose a limited pay option and mitigate the risks of financial strain and premium rate increases, while potentially saving money over the life of your policy.

Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA), is the Chief Executive Officer of Skloff Financial Group, a NJ based Registered Investment Advisory firm. The firm specializes in financial planning and investment management services for high net worth individuals and benefits for small to middle sized companies. He can be contacted at www.skloff.com or 908-464-3060.