Those who have more than $2 million may be able to self-insure. They may be able to save and invest the money that otherwise might go to long-term care premium payments and feel comfortable about having the resources to meet chronic care needs. Still, many who fall into this wealth category will value the peace of mind that comes with having an insurance policy in place to cover those expenses when they come up.

When should you buy your policy?

The younger you are when you start a long-term care insurance policy, the easier it will be to obtain coverage and the lower your premiums will be. If you wait too long, if you wait until after a major medical setback, you may not qualify for coverage at all. On the other hand, if you start young, you will be paying those premiums for a longer period of time before claiming benefits.

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What is long-term care insurance?

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What is long-term care insurance?

We take for granted that Medicare will be an indispensable retirement resource for the medical costs associated with old age. But Medicare is about acute care. Most of us have older relatives who have encountered the slow, chronic problems of old age, problems that Medicare may not cover.

There are alternatives to consider for one who is having trouble taking care of himself or herself. These range from simple in-home assistance, which may be sufficient during the early stages of impairment, to admission to a nursing home for comprehensive supervision.

Whatever path is chosen, it will require money and planning. A year in a private nursing home can easily cost $75,000, more in many parts of the country. Long-term care insurance will have a role to play in the retirement planning of many families.

Weigh the policy variables

Standards for long-term care insurance were set by the Health Insurance Portability and Accountability Act of 1996, and policies that meet those standards are "tax qualified." For example, that law defined situations for paying benefits and the terms for tax deductibility of premium payments. But wide variation among policies remains, even variation among different policies at the same company.

In one sense, it's good that insurance companies don't try to fit everyone into a "one size fits all" approach, because everyone's experience and needs will be different. But on the other hand, the choices can be so bewildering that they interfere with making any decision at all. Here are some of the factors to be studied.

Services covered. Nursing home costs are what worry most people when they think about long-term care, but many policies now have features to help delay the date of admission to a long-term care facility. In-home care by a licensed aide or nurse may be covered, and some policies also cover the cost of an aide for doing routine chores.

Elimination period. Most policies require that the insured cover all costs when incapacity first sets in, which is a "deductible" of sorts. The elimination period can be 30 days, 60 days, 90 days or more. The longer the elimination period, the lower the premiums.

Amount of coverage. The benefit usually is expressed as a dollar amount, for example $150 per day. Inflation protection also may be available, but it will increase the premium.

Length of coverage. Although full lifetime coverage of nursing home expenses is the "gold standard," the average nursing home stay is 2.4 years. Opting to limit coverage to a set number of years, such as three or four years, is another strategy for reducing costs.

Who are the best candidates for long-term care insurance?

Financial planners generally don't recommend long-term care insurance policies to those whose net worth falls below $200,000, because these individuals are less likely to be able to keep up the premium payments throughout retirement. The prime demographic seems to be those who have from $200,000 to $2 million in assets. These people have enough resources to meet the initial costs of help with daily living, but not enough to be confident that they won't run out of money during an extended nursing home stay.

Glossary of concepts

Here are some of the key variables that are integral to every long-term care insurance policy.

Maximum benefit. This is the maximum amount that will be paid once benefits are triggered. It may be expressed as a daily, weekly or monthly amount.

Benefit period. This is the maximum number of months or years that the benefit will be provided. The maximum benefit multiplied by the benefit period yields the total amount of coverage being provided.

Elimination period. This is the number of days that the insured must pay for long-term care out of his or her own resources before the benefits begin. It may range from none to 100 days. Like the deductible in homeowner's insurance, the longer the elimination period is, the lower the premium will be, because the likelihood of making a claim is decreasing.

Inflation protection. The cost of nursing home stays has been rising faster than inflation, so including an inflation-adjustment clause makes it more likely that the benefits will be sufficient when they are needed. However, adding this feature may boost premiums by 25% to 40%.

Cash benefit. Many policies follow a reimbursement model for benefits, but some will pay a portion of the benefit in cash, to be used without restriction, once benefits have been triggered.

Tax-qualified plans. Premium payments for long-term care policies that meet federal guidelines are eligible for tax deductions, and when benefits are paid, they will be tax free.

Partnership plans. Most states now offer a partnership plan, which integrates the plan with Medicaid eligibility. Each dollar of benefits paid from a partnership policy does double duty because it also protects an additional dollar from the spend-down requirements of Medicaid.