

According to the American Association of Retired Persons (AARP), roughly 50% of those aged 65 will need long-term care (LTC) one day. Long-term care insurance covers things not normally covered by regular medical insurance. This includes nursing home, assisted living or home care for those who need it due to chronic conditions like dementia or other disabilities.

But there are some caveats to long-term care insurance and the industry is changing rapidly. In this report, we'll take a closer look at what you need to know about LTC coverage, who might need it and where to get it.

What is long-term care insurance?

When you reach retirement age, you may be wealthy enough to afford private health insurance which may be supplemented by Medicare. Another option, if you're not as well off, is Medicaid. All three of these types of health insurance policies would cover acute healthcare needs, such as surgery, doctor's visits and prescription medications. They may even cover skilled nursing or rehabilitation for a short period of time – but private health insurance and Medicare are not meant to be used for custodial care and, in fact, usually won't cover it. And although Medicaid may provide some long-term care in certain situations, it is usually not enough to cover your long-term care needs fully and so should never be your first choice.

Long-term care insurance is different. As the name suggests, it covers the extended, day-to-day costs of those who need help with daily activities such as bathing, dressing, eating or handling toilet needs. This care may be given in a senior living home, assisted living facility, daycare program or even at home. You may need this care because of a chronic condition such as Alzheimer's disease, or because of an injury or other non-permanent situation.

There are two general types of LTC insurance. Traditional policies, which cover the basics of care and nothing more, usually include a daily benefit of about \$160 and have a three-month waiting period before benefits kick in.

A newer type of LTC insurance that is becoming more popular is a hybrid policy that includes some of the benefits of whole life insurance. These policies will pay out money to your heirs when you die, even if you've never used the LTC benefits. Unlike traditional policies, you don't have to worry about rate hikes because the premium is locked in at the start of the policy.

The downside? The hybrid policies are usually two or three times more expensive than the traditional policies.

What does long-term care insurance cover?

As we mentioned, long-term care insurance doesn't cover acute medical needs – and it's not meant to. Instead, that's what your private health insurance, Medicare or Medicaid handle. Where LTC insurance comes in is if you need extended care. And it doesn't just handle medical care, it also handles care that revolves around helping with daily activities that you're no longer able to complete on your own, such as getting up, getting dressed, cooking, eating, etc.

Additionally, LTC insurance covers nursing home costs for people who are no longer able to live alone.

Your policy may also cover skilled nursing as needed, or rehabilitation care, but you'll need to read your policy details or talk to your agent to find out for sure exactly what your scope of coverage is.

How much does long-term care insurance cost?

The cost of long-term care insurance varies greatly, but traditional policies average out to about \$2,100 annually for a 55-year-old couple and \$3,700 for a 65-year-old couple, according to the AARP. A hybrid policy, meanwhile, will set the same couple back \$8,100 at 55 years old and a whopping \$13,800 at 65 years old—but remember that there's a guaranteed payout for the hybrid policy, so the couple's heirs would receive a return on that money.

As you can see, age plays a big role in determining your cost and LTC insurance premiums increase dramatically the older you get. Additionally, it's worth noting that you should buy LTC insurance before you actually need it – because if you wait too long or until you're actually affected by a debilitating condition then you won't qualify. There are other factors as well that play into the cost, including gender (women live longer than men, on average, so their costs are higher), marital status, the amount of coverage and the company who underwrites your policy.

It's worth noting that although premium prices are fixed with hybrid policies, they are not for the traditional ones, and your prices will go up as you age (or for other reasons). This is one of the reasons why traditional policies are becoming less popular with potential policyholders.

Who needs long-term care insurance?

Put simply, it's worthwhile for anyone in their 50s and early 60s to consider this type of insurance. But there are several groups of people who can benefit from it in particular.

Those who have built up a solid nest egg for their golden years and don't want to have to tap into it to pay for long-term care will benefit. The cost of a room in an average nursing home can run as high as \$100,000 a year, and that would wipe out many nest eggs quickly.

If you have no children, or wish to avoid becoming a financial burden on your children or spouse as you age, long-term care insurance should also be on your radar. Chronic care can be difficult or impossible for family members to handle alone, both financially and physically, and a good LTC policy can take the burden off of family members and, instead, place it on the shoulders of health care professionals who are trained to offer this type of care.

Frequently asked questions

What is the best age to buy long-term care insurance?

The American Association for Long-Term Care Insurance (AALTCI) recommends that you explore options for LTC coverage while you're in your 50s or younger and in good health. Both of these conditions make it more likely that you will be eligible for discounts that bring down the cost of premiums.

How long do LTC benefits last?

That will depend on your policy's terms of service, but most policies provide long-term care for up to five years.

Do I need to have a physical exam for LTC insurance?

Possibly, especially if you're on the older side. According to the AALTCI, "individual applicants who are in their 70s (and older) face more testing, face-to-face assessments and rigorous underwriting standards."

What are LTC Partnership Programs?

These programs are collaborations between private insurers and each state's Medicaid office. Participating in one of them protects some of your assets if you should need Medicaid in the future. There may be other benefits—your state's Medicaid office will have more details.