Long Term Care University

Long Term Care University – Question of the Month

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Q: Some of the long term care insurance policies I am researching allow for a shared care benefit. Can you explain what that means, what advantages it may provide and how the benefit differs between insurance companies?

The Problem – You or Your Partner Need More Care than Your Individual Policy Covers

Most long term care insurance policies are designed as individual policies that insure one person. Unfortunately, you may need more care than your individual policy covers.

For example, you and your spouse or partner each have a long term care (LTC) insurance policy with a $300 daily benefit and a five year benefit period, obligating the insurance company to pay $300 per day for five years, for a total of $547,500 per person. If you need the full $300 worth of care, or the full daily benefit, you will exhaust the policy benefits (pool of money) in five years. Unfortunately, you may need more than five years of care. In the event you need an additional two years of care at $300 per day, it will cost you $219,000 out of pocket. This example ignores the income taxes and early withdrawal penalties associated with the withdrawal of many retirement assets. It also ignores the devastating effects of inflation, which can wreak havoc on a lifetime of savings if your LTC insurance policy does not have inflation protection.

The Solution – Shared Care Benefit Policy

The shared care benefit policy provides you the ability to utilize your spouse's or partner's benefits when your own policy benefits have been exhausted or establishes a third pool of money either of you can access. In the example above, you can use the benefits of your spouse's or partner's policy or utilize the third pool of money and avoid $219,000 in long term care expenditures. The mere avoidance of this expenditure can mean the difference between a secure and an insecure retirement. All those assumptions are based on current dollars. If this example was 28 years in the future and the cost of care (along with your policy's inflation protection) rose at 5% per year, the shared benefit policy would save you over $876,000 in expenditures.

Shared Care Benefit Policy

Some policies have a provision to protect the surviving spouse or partner. If one of you die, the **survivor's benefits will increase** by the deceased spouse's or partner's remaining benefit. If you each have a policy covering $300 per day for five years and one of you die, the survivor will be left with a policy that covers $300 per day for 10 years – **doubling the benefit period.** If each of you maximized the benefits of your policy you would receive a combined **$1,095,000 of care**.

Shared Care Benefit Policy with a Third Pool of Money

Some policies establish a third pool of money either spouse or partner can use if either of you exhaust your individual pool of money. If you each have a policy covering $300 per day for five years or $547,500 and either of you exhaust your individual pool, either of you can utilize the third pool of money that would cover $300 per day for **2.5 years of care** or $273,750. If each of you maximized the benefits of your policy you would receive a combined **$1,368,750 of care**.

Shared Care Benefit Policy with a Guarantee

Some polices have a provision to protect the spouse or partner whose policy has been depleted by the person receiving care. This protection is provided through a guarantee of additional benefits. If you each have a policy covering $300 per day for five years or $547,500 and either of you exhaust almost the entire $1,095,000 in combined care, the other person will have **a guarantee of at least 50% of their original pool of money** or $273,750. If each of you maximized the benefits of your policy you would receive approximately a combined **$1,368,750 of care**.

Action Step – Protect Yourself with a Shared Care Benefit Policy

Your benefits expire when you die, with an individual policy. Purchase a shared care benefit policy and gain the flexibility to pay for significantly more care than the amount of care provided by individual policies.

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