



Long Term Care University

Long Term Care University – Question of the Month

By Aaron Skloff, AIF, CFA, MBA

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Q: We read ‘Insure or Self-Insure for Long Term Care?’ Part 1, Part 2 and Part 3. We are concerned about the exorbitant costs for long term care. Can we buy an inexpensive term life insurance policy that we can convert in the future to a permanent life insurance policy that will also pay for care?

The Problem – Paying for Long Term Care

According to the U.S. Department of Health and Human Services, **7 in 10 people over the age of 65 will require long term care**. This compares to a **1 in 340 chance of a major auto accident** and a **1 in 1,200 chance of a total loss from a fire**. About half the people reaching the age of 65 are expected to enter a nursing home at least once in their lifetime.

Paying for long term care is expensive. The median cost of a private room in a nursing facility is \$9,700 per month, an assisted living facility is \$5,300 per month and home care is \$6,300 per month. Unfortunately, the cost of care is expected to double over the next 20 years. Fortunately, the cost of insurance to pay for care is a **fraction** of the actual cost of care. Yet, you may not be ready to purchase a permanent life insurance policy that also pays for care – also referred to as Hybrid Life Insurance with a Chronic Illness Rider.

The Solution – An Inexpensive Term Life Insurance Policy That Can be Converted to a Permanent Life Insurance Policy That Can Also Pay for Care

Many term life insurance policies have a **guaranteed premium** for a fixed number of years. For example, a 30-year term life insurance policy with a guaranteed premium in year one that remains the same each year through year 30. The price of the policy is based on your age, gender, health, term (years) of coverage and amount of coverage. Term policies are inexpensive in comparison to permanent life insurance policies, since the life insurance company is estimating your policy will mature before you die. An inexpensive term policy that can be converted to a permanent policy that can also pay for care with a **guaranteed premium** for your entire life. The term policy includes two riders (features). Let’s examine both riders.

Extended Conversion Rider. Some term policies have a conversion feature that allows you to convert your policy to a permanent policy only in the earliest years of the policy (e.g.: the first five years). **Some term policies have an extended conversion rider that allows you to convert your policy to a permanent policy throughout the life of the policy based on the health rating you received when you originally purchased your term policy.** This is critically important, as your health generally deteriorates over time. For some people, their health deteriorates enough that no insurance company would issue them a new policy, regardless of the price – unless their existing policy had a conversion rider - **making the extended conversion rider invaluable.**

Chronic Illness Conversion Rider. Some term policies have a chronic illness conversion rider that allows you to add a chronic illness benefit when you convert to a permanent policy. Like long term care insurance, a chronic illness rider pays for care if: 1. you need substantial assistance with two or more activities of daily living (transferring/mobility, bathing, getting dressed, eating, continence, toileting) that is expected to last 90 days or more or 2. You need substantial supervision due to severe cognitive impairment. The care benefit is paid on a tax-free basis. This is critically important, as your health generally deteriorates over time. For some people, their health deteriorates enough that they may still be able to buy a new policy, but without a care rider, regardless of the price – unless their existing policy had a chronic illness conversion rider - **making the chronic illness conversion rider invaluable.**

Converting a Term Life Insurance Policy to a Permanent Life Insurance Policy with a Chronic Illness Rider That Can Pay for Care

Term Life Insurance
Extended Conversion Rider
Chronic Illness Conversion Rider

Permanent Life Insurance
Chronic Illness Rider

Action Step – Buy an Inexpensive Term Life Insurance Policy with Extended Conversion and Chronic Illness Riders

Purchase an inexpensive term life insurance policy with extended conversion and chronic illness conversion riders and gain the flexibility to convert to a permanent policy that can also pay for care when you are ready, regardless of your health.

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 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.