

## What You Need to Know About Long-term Care Insurance

Long-term care insurance has the same tax-favored status as regular health insurance.

In recent years, a number of employers have started to offer long-term care insurance as an optional employee benefit and most insurance companies offer individual policies.

Insurance typically covers the cost of extended care in a nursing home or in your own home if you become chronically ill or disabled and are unable to care for yourself. The costs of such care over an extended period can be overwhelming and can rapidly wipe out your retirement savings.

Regular health insurance usually doesn't cover prolonged nursing care or home assistance and Medicare only provides coverage for a few months of nursing care after you have been hospitalized. Medicaid will cover such costs, but only if you've exhausted virtually all of your assets.

### The tax breaks

Both the premiums you pay for qualified long-term care insurance and the benefits you receive enjoy favorable tax treatment.

Benefits received under a qualified policy that pays only actual expenses are tax-free. In contrast, part of the benefits from policies that pay a set dollar amount (per diem) may be taxable.

The premiums you pay for long-term care insurance may be deductible as unreimbursed medical expenses if you itemize deductions. There is a limit on the amount of annual premiums you can deduct, depending on your age. Also, it is important to remember that unreimbursed medical expenses are deductible only to the extent that the total exceeds 10% of your adjusted gross income (7.5% if you are 65 or older).

If you are self-employed, you may deduct the same percentage of long-term care premiums that applies to regular health insurance premiums.

### The need for long-term care insurance

Long-term care insurance is not for everyone. You should consider it if you are not wealthy enough to pay for long-term care as you need it.

You may also want to consider whether your family health history suggests you'll die relatively early or live to old age.

## What to look for in a policy

If you decide to buy a policy, determine whether it qualifies for favorable tax treatment and look carefully at factors such as eligibility for benefits, the types of care it covers, and whether it contains inflation protection.

Some policies offer lifetime coverage while others are for a fixed term. If you choose the latter, look into restrictions on renewability.

In addition, most policies have a form of deductible, called an “elimination period”, which is the number of days before the coverage begins. The longer the elimination period, the lower the premium. Match the elimination period to what you can afford, remembering that Medicare may cover your costs for an initial period.

Finally, these policies are not cheap, so be sure to take your time and do your homework before you commit to anything.

If you’d like help in reviewing your long-term care insurance needs, please call.