

A Simple Guide to Understanding Long-Term Care (and Paying for It)

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Innovating Life Insurance



Executive Summary

When we think of product innovation, the mind often goes to engineering or technology - a folding laptop or self-driving car, perhaps. But what if we are talking about innovating life insurance?

The old life insurance policies our parents kept in a dusty bottom drawer have undergone a major transformation. While policies are still meant to provide for a beneficiary when the policyholder dies, the industry has adapted to accommodate a longer-living society. In fact, the life expectancy of Americans has increased by nearly 30 years since 1900.¹

With a longer life comes an increased possibility of things that go with being alive, namely injuries—falls and breaks—as well as a variety of potential illnesses. For older people, some of these conditions may last months or even years.

When this happens, long-term care services may become necessary not just for medical and rehabilitation purposes, but also to complete simple daily tasks like bathing, dressing and eating.

7 in 10 adults turning 65 will need some form of long-term care services in their lifetime.

-HHS.gov

A common response is, “That won’t be me!” But the fact is, about 7 in 10 adults turning 65 will need some form of long-term care services in their lifetime, according to the U.S. Department of Health and Human Services.³

Depending on the type of care received, the cost for these services often runs in the thousands of dollars per month. Combine these costs with other out-of-pocket medical expenses and daily living costs and it becomes clear that long-term care can be financially devastating without the proper preparation.

Thanks to an innovation in life insurance, coverage can now help to pay for the costs associated with long-term care. With combination life insurance, preparing to pay for long-term care becomes a little easier.

Most Common Long-Term Care Claims²



Dementia/Alzheimer's Disease



Stroke



Arthritis/Bone & Joint Issues



Circulatory Problems



Cancer

What Are Long-Term Care Services?

Long-term care services are designed to meet the health or personal care needs of a person either for a short time or an extended time. For some, the purpose is to help maintain independence. For those with more serious conditions, the purpose is to live safely when they can no longer perform certain tasks on their own.⁴

These tasks are referred to as Activities of Daily Living (ADLs). They include:

- **Transferring** - the ability to change locations independently
- **Eating** - the ability to feed oneself (not including food preparation)
- **Dressing** - the ability to put clothes on and take them off
- **Bathing** - the ability to wash oneself
- **Continence** - the ability to control one's bladder and bowel functions
- **Toileting** - the ability to get to and from the toilet and perform related personal hygiene

It is important to note that needing help and qualifying for long-term care are not the same thing. To qualify under most insurance providers, a person must need hands-on assistance with at least two ADLs, as certified by a health care professional.

Long-term care services can be performed in a variety of places:



Private Home



Adult Day Care



Assisted Living Facility



Nursing Home

Who Needs Long-Term Care Services?

Though about 70% of Americans will need long-term care services in their lifetime,³ there is no way to know who they will be.

According to the National Institute on Aging, there are some risk factors that increase the odds of requiring long-term care services.⁴

- **Being older** - the need generally increases as people age
- **Being a woman** - females are more likely to require long-term care services than men, primarily because they tend to live longer
- **Being single** - unmarried individuals are more likely than married people to receive care from a paid provider
- **Having poor diet and exercise habits** - unhealthy lifestyle habits can increase a person's risk
- **Through hereditary traits** - family history of certain conditions can affect risk

How Much Do Long-Term Care Services Cost?

The cost of long-term care services depends on the level of care needed and the type of care provided. This can vary from a home-health aide visiting a person's home a few hours a day to a room in a private nursing home and every possible situation in between. The cost generally corresponds with the level of care provided.

Average Cost of Long-Term Care (per month) ^{5,6}:



Unsurprisingly, the more intensive the care provided, the more expensive the services.

According to the American Association of Retired Persons (AARP), 90% of older adults opt for in-home care so they can "age in place."⁷ In other words, people generally prefer to receive care in the comfort of their own home if their condition allows. In fact, SeniorLiving.org reports that many seniors enjoy a better quality of life with in-home care and have up to 50% fewer doctor visits annually.⁸

However, costs can quickly mount even with the most affordable care, with medication copays, physical therapy, home modifications and equipment, and daily living expenses like utilities and food all contributing to the cost of care.

At the end of the day, obtaining long-term care can cost tens of thousands of dollars each year, leading to considerable stress and possibly even bankruptcy.

By being financially prepared now, you may be able to prevent crippling financial hardship later. The reality is that those who have not allotted any money to pay for long-term care may have unintentionally allotted all of their money to pay for long-term care.⁹

Nearly 4 in 10 Americans are worried about affording long-term care services if they become unable to take care of themselves.⁹

-LIMRA

Who Pays for Long-Term Care Services?

There are two primary options to pay for long-term care services: self-pay or a long-term care insurance coverage.

Q: Wait, doesn't health insurance help pay for long-term care?

A: No. Long-term care is not covered by traditional private health insurance.

Q: What about Medicare?

A: No. Medicare was not designed to pay for long-term care. According to the AARP, Medicare "does not cover any type of long-term care, whether in nursing homes, assisted living facilities or people's own homes."¹⁰

Q: How about Medicaid?

A: Don't count on it. Medicaid is intended for low-income individuals and eligibility requires "strictly limited income and financial assets."¹⁰ Requirements vary by state.

State-Sponsored Coverage for Long-Term Care: Some states are stepping in. Washington introduced the WA Cares Fund in 2021, which applies a tax of up to \$0.58 per \$100 of earnings to the state's workers. Once they meet the necessary requirements, eligible participants may receive a benefit to pay some costs associated with long-term care.¹¹ Similar tax-based programs are planned for other states.

If a person has financially prepared on their own, they may not need help to pay for care. A financial planner can help determine how much is enough to skip long-term care coverage.

If not, some type of long-term care insurance coverage might be a good idea.

Consider this: On average, people requiring long-term care need services between two and four years, and 20% require more than five years of long-term care services.¹² For people who have not saved enough to cover care for an extended period without facing serious financial hardship, insurance coverage is the next best option.

Coverage types include long-term care insurance or permanent life insurance with an accelerated death benefit for long-term care rider, also known as "combination life insurance."

Long-Term Care Coverage Comparison

Though most Americans will need long-term care services in their lifetime, Life Insurance Marketing and Research Association (LIMRA) estimates that less than 10% of Americans own long-term care coverage.⁹

There are two types of insurance coverage to pay for long-term care:

- 1. Long-term care insurance:** A person purchases a policy. Should they need long-term care services and qualify for coverage benefits, they may submit a claim and receive a benefit specifically to pay for services received. If they never need or qualify for long-term care coverage benefits, the policy terminates when they stop paying or pass away. This type of coverage is also referred to as “pure” long-term care insurance.
- 2. Combination life insurance:** A person purchases a policy with an accelerated death benefit option. Should they need long-term care services and qualify for coverage benefits, they may submit a claim and receive some or all of their policy’s death benefit amount, which can be used to pay for long-term care services or any other related costs.

If they never need long-term care, their beneficiaries can still receive the death benefit when the covered person passes away. Also, the policy can build a cash value that the owner may access should they experience a financial emergency.

	Long-Term Care Insurance	Combination Life Insurance
Life Events		
Insured becomes chronically ill	They file a claim, and if they qualify for coverage benefits, they begin to receive a monthly payment to help pay for the cost of care.	They file a claim, and if they qualify for coverage benefits, they begin to receive a monthly payment as an acceleration of their death benefit that may be used to help pay for the cost of care.
Insured dies	The policy terminates and all funds are lost.	Beneficiaries may receive a lump-sum cash payment that may be used to help pay funeral and final expenses.
Insured has an urgent need for funds	They must dig into savings. Long-term care insurance generally does not build cash value and the benefit cannot be accessed for cash.	They may be able to withdraw funds from the policy’s cash balance or borrow against it to help cover those costs.
Other Features	<ul style="list-style-type: none"> • May have strict underwriting restrictions • Generally more expensive, especially if enrolled as an individual policy • Potentially subject to rate increases • Possible spending limited to approved costs 	<ul style="list-style-type: none"> • Generally easier to qualify for; may require a short questionnaire • Potentially more affordable, especially if enrolled as a group policy • Rates are typically fixed • Spending not limited

The Current Market & Forecast

There is no doubt that the market for long-term care services is expanding. The worldwide long-term care market is expected to swell as the population ages, according to Grand View Research.¹³

What is driving the long-term care insurance market?

- Rapidly growing older population (those 65 and older)
- Increase in population that is dependent on others for care
- Reduction in intra-family care (family members caring for other family members)
- Rise in number of individuals who have special needs
- Care requirements due to diseases like dementia and Alzheimer's disease

The market for long-term care will continue to grow as the population of older consumers continues to increase.¹⁵

-2021 LIMRA Insurance Barometer Study

In fact, the hospice service segment is expected to see the fastest growth due to conditions like dementia and Alzheimer's disease.¹³

According to U.S. Census Bureau data, **people 65 and older are projected to outnumber children under 18 by 2034 for the first time in U.S. history.** That means that the need for long-term care will continue to increase.

However, the list of companies offering traditional long-term care insurance is shrinking.¹⁴ Between 2004 and 2019, companies offering long-term care insurance dwindled from more than 100 to about a dozen, according to the National Association of Insurance Commissioners.¹⁶

On the other hand, interest is shifting to companies offering combination life insurance.

Like most industries, COVID-19 and its economic impact further affected companies offering all types of long-term care coverage. However, for combination products, considerable consumer interest remains. A 2021 LIMRA study found more than 6 in 10 Americans would consider a life combination product.⁹

LIMRA's top reasons consumers give for considering a life combination product:¹⁷

1. Concern that long-term care costs may deplete or exceed my savings - **35%**
2. It is a more economical use of my current assets - **33%**
3. Benefits will be paid even if I don't incur long-term care expenses - **29%**
4. Long-term care insurance (on its own) is too expensive - **26%**
5. I can't afford two separate (life and long-term care) policies - **25%**

Summary

The one certainty in life is uncertainty. But the newest innovation in life insurance can help.

Employers can now provide combination life insurance —**permanent life insurance with an accelerated death benefit for long-term care rider**—as part of their benefits portfolio. This coverage blends traditional life insurance with the broad protection employees need when faced with life’s uncertainties.

Whether due to injury or illness, most of us will need long-term care services at some point in our lives. These services can be expensive. When an employer offers combination life insurance, they are providing solutions that may be used to help cover these expenses and create a more secure future for employees and their families.

No matter what path life takes, combination life insurance offers **financial protection** to help make the journey a little more certain.

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This material is valid as long as information remains current, but in no event later than September 1, 2025.

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