

May 26, 2022

Insurance (Disability and Long-Term Care)



Disability and long-term care insurance are two important types of insurance coverage that tend to go under the radar for many people, but each of these can be critical if you find yourself in a position where you are not able to work or cannot care for yourself. While the circumstances can be unpleasant to think about, it's important to consider these types of coverage as there is a significant possibility that we may need to rely on them during our adult lives.

There is a common misconception that disability insurance is mainly for people with dangerous jobs, but this is not necessarily true. In 2021, the U.S. Social Security Administration reported that the probability of becoming disabled between age 20 and the normal retirement age is 25 percent. The most common reasons for short-term disability claims are pregnancy, musculoskeletal disorders, or injuries to bones, muscles, or ligaments. Worker's compensation and Social Security do not cover most of these claims. Disability insurance provides income to the policyholder in the event they are prevented from working and earning income because of a disability. This insurance will compensate you for a portion of lost income, generally 50% to 80%.

There are two types of disability insurance: short-term and long-term. The difference between short-term and long-term disability insurance is the period in which you will receive income while you are unable to work. Short-term disability coverage is generally 3-6 months. Long-term disability coverage is generally anything over 1 year. Additionally, policyholders will need to choose between any occupation or own occupation coverage. Any occupation disability insurance coverage provides income to a policyholder when they are unable to work in a job that is reasonably suitable for them given their age, education, and experience. Own occupation disability insurance coverage provides income to a policyholder when they are unable to perform a majority of the job duties they have been trained to perform for their current occupation. The average long-term disability claim lasts about 3 years, however, a 3-year policy likely will not provide the reassurance and peace of mind you are looking for. This is why it is important to get a policy that will last to retirement age.



Long-term care insurance is also a very important consideration. Average life expectancy is increasing and the odds that we will one day need someone to help care for us as we go about our activities of daily living (such as bathing, dressing, and eating) is increasing as well. This is where long-term care insurance comes in. Long-term care insurance helps cover the cost of this care at a variety of locations, such as: your home, a nursing home, an assisted living facility, or an adult daycare center. According to data from the U.S. Department of Health and Human Services, nearly 70% of 65-year old people need some form of long-term care services or support. Regular health insurance and Medicare do not cover long-term care. You may be able to get help through Medicaid but only after you have exhausted most of your savings.

Long-term care insurance can either be purchased as a stand-alone policy or as a hybrid life insurance policy. Most of the long-term care insurance policies sold today are hybrid policies. This helps eliminate a major concern for policyholders because there is a life insurance death benefit available to their beneficiaries if they do not file a claim for long-term care insurance. One of the most important components of a long-term care insurance policy is the inflation rider on the policy. Health care costs continue to rise faster than the general rate of inflation and you will want to ensure you are protected against this and will continue to have

enough income to cover the services you need. Once a policy is purchased and a claim is made, a certain amount of time must pass between filing a claim until you begin receiving benefits, this is known as the elimination period. This works similar to the deductible on auto insurance, but is measured in time instead of money. Most policies will have an elimination period between 30 and 100 days, with the average being 90 days. Per the American Association of Long-Term Care Insurance, the average length of a claim is between 1-3 years, but the length may vary depending on factors such as if you are married or single, your health condition, or your gender. If you have a spouse, it is key to discuss purchasing a long-term care insurance policy together, as married couples can qualify for 20% to 40% discounts on premiums, as statistics show that individuals who are married are much less likely to file a claim than those who are single/divorced.

When purchasing policies such as disability and long-term care insurance, it's important to remember that you will most likely be younger and in much better health than you'll be when you need the benefits of these policies. Considering that, it's important to purchase an abundant amount of insurance as soon as possible, as it is very likely that you may need to use them at some point in your life.



Sources:

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