Back to Long-term care insurance can be expensive

Long-term care insurance can be expensive

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A new guide from the Canadian Life and Health Insurance Association highlights the increasing cost of long-term care and reasons for buying long term care insurance. However the high cost and restrictive provisions of long-term care coverage may make it inaccessible for those who need it most.

Long-term care is described in the guide as ongoing around-the-clock care in either a specialized residential care facility or by a professional or family member in your own home. In general, long-term care homes offer higher levels of personal care and support than those typically offered by retirement homes or supportive housing.

The CLHIA reports that in-home care including meal preparation, personal care and skilled nursing could add up to $35,000 to $65,000 a year, depending on the level of services required. Local Community Care Access Centres administer the limited provincial subsidies available for at-home care.

However, all residential long term care is subsidized by the Ontario Ministry of Health with most Ontario residents currently required to pay only about 35 per cent of the actual cost. For example, based on the type of accommodation, residents are responsible for the following amounts:

- Basic or standard accommodation $1,674.14/month
- Semi-private: $1,947.89/month
- Private: $2,274.86

Residents who cannot afford the full amount for basic accommodation can apply for a rate reduction.

"One reason the industry is focusing on a need for long-term care insurance is the concern that with the aging workforce, Ontario will no longer be able to maintain the government subsidies at this level," says Caring for Clients financial planner Rona Birenbaum.

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But underwriting rules for long-term care insurance are very rigorous. For example, any person who is using an assistive device (e.g. wheelchair, walker or motorized scooter) is not eligible for coverage. Applicants with a variety of pre-existing conditions (e.g. dementia, metastatic cancer and stroke) are also ineligible.

Furthermore, premiums for long term care insurance can be very expensive for limited coverage.

I asked Birenbaum to get a hypothetical quote from Manulife Financial for a 50 year old couple (John and Mary) for a maximum of $300,000 shared coverage that would pay $3,000/month to a residential facility or $1,500/month for non-facility care with a waiting period of 90 days.

This means that in total John and Mary will have 100 months (8.33 years) of residential care benefits of $3,000/month they can draw on. If one predeceases the other, the balance of the protection will be passed on to the second spouse and the premium reduced to single life.

To qualify for benefits under the policy, John or Mary will have to show that at least two of the following cannot be performed without substantial help:

- Bathing
- Dressing
- Toileting
- Transferring (e.g., moving from a chair or out of bed)
- Maintaining continence
- Eating

The basic monthly premium is $210.40. With the addition of inflation protection and a return of premium at death, the premium increases to $375.38/month, with the premium level guaranteed only for five years.

"Because John and Mary may never need the service or qualify for it, I would prefer that they have the money to use for other things," says Birenbaum. She suggests that money they spend on travel and other lifestyle enhancements in the first 10 years of retirement can be re-allocated to health care in later years.

She also advises clients to use their liquid resources such as RRSPs, pensions and other savings to fund retirement to age 90, leaving real estate as a hedge to sell later in life when they may need long term care.

Renters and people without paid up properties do not have this option to fall back on, but she says it's also likely people of modest means will not be able to afford premiums for long-term care insurance in addition to other ongoing expenses.

"In long-term planning for my clients I prefer to focus on life, disability and critical illness insurance plus helping them to accumulate sufficient assets to self-insure for long-term care," says Birenbaum.

Where there is a real need for long-term protection, she suggests critical illness insurance that can be converted to long-term care insurance. For example, Sun Life guarantees that a long-term care product is available at the time of conversion between ages 60 to 65 and insured clients do not have to answer questions about their health.

See: A guide to long-term-care insurance, CLHIA

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