

Episode 222: Is Long-Term Care Insurance Worth It Anymore?

Thu, Apr 02, 2026 11:53AM • 27:54

SUMMARY KEYWORDS

Long-term care insurance, retirement planning, financial personality, coverage options, premium increases, hybrid policies, elimination period, benefit amounts, reimbursement method, indemnity method, cash method, qualified longevity annuity contracts, inflation adjustment, budgeting for long-term care.

SPEAKERS

Briana Corbin, Alex Murguia, Wade Pfau

Briana Corbin 00:00

The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to retirewithstyle.com/style, and sign up to take the industry's first financial personality tool for retirement planning.

Briana Corbin 00:41

Long Term Care Insurance can feel complicated fast in this episode, Wade and Alex simplifies the moving parts so you can better understand how these policies actually work in practice.

Alex Murguia 00:53

Hey, everyone, welcome back to retire with style where we're going to conclude our episode on long term care, which is featured in chapter seven of Wade's book, The retirement planning guidebook, Third Edition that just came out. So go get it. And in the first episode, we discussed, what is long term care. How likely are you to experience it? Where can you get long term care? What options do people have for funding long term care. How much should people set aside? And so today we want to finish that up with, what are the coverage options? Wade. What do you think sounds

Wade Pfau 01:30

like a great plan? And we thought this might be a really short conversation, but we ended up going into a lot of depth. So yeah, stay tuned. Here we go. Let's get started.

Alex Murguia 01:40

So wait across the types of policies, what are the coverage options available to folks?

Wade Pfau 01:46

Yeah, that's an important aspect. If you're thinking about long term care insurance, the traditional long term care insurance, well, it's really become less common. Only there's an

estimate out there like three to 4% of people carry a policy, they became less attractive just because of premiums can go up over time, and that's not fun if you're having trouble affording the continuing premium increases. And then also, there's this aspect, like with any insurance that you pay all these premiums, if you never get to use the benefits, you kind of feel like you wasted your money, which, again, that's true with any kind of insurance, not necessarily the way to frame the issue, but you've got that. And then also, this is relevant to the hybrid, like the long term care hybrid, more so on the life insurance side, there's two ways that works. One, it's really you have permanent life insurance, but there's a acceleration of death benefit rider, where if you qualify for long term care, instead of waiting to die to receive the death benefit, you can start receiving it in advance to pay for the long term care. So that's less relevant for what we're about to discuss. But the other thing that's more relevant would be life insurance that combines with long term care, but it's more driven by the long term care where, well, you can pay the death benefit funds the long term care need first, but then there can be additional long term care benefits beyond that. So when we're talking about insurance, you asked about the coverage options, one of these came up. It's like the elimination or waiting period. It's once it's been determined that you have a long term care need. How long do you tend to wait before the long term care insurance starts to pay you a benefit in common choices there 60 to 90 days. The longer the waiting period, well, the less likely or the less benefits you'll ultimately receive, but that can be a way to help reduce premiums, to find something that's affordable. 60 or 90 days is pretty common, okay?

Alex Murguia 03:50

And how? How? How tough of a time is it to get the insurance companies to respond? And do they take it to the last day. Is it something where, you know, customer service is our number one priority, or does it fall prey to the, you know, the, I hate to say this, but how folks, kind of, you know, Hurricane insurance, you know, you can have it, but it could be three years before you get paid out.

Wade Pfau 04:17

Oh, once, once the payment process starts, I don't think there's as big of issue about getting paid now, another where there could be some complaints. So another, there's a bunch of aspects we can talk about with insurance. What we're starting to dig into is, how are the benefit amounts determined? And there's three methods there. The one that would be the cheapest in terms of premiums would be the reimbursement method, but that's also the most work, and that's where you'll probably hear some complaints of you have to submit the receipts, and then you'll be reimbursed up to the limits of the coverage. There could be some delay there, and also some just stress. Around, keeping, maintaining and submitting these receipts. So that's the reimbursement method. The other two methods where I think you'll run into less of an issue, although there could still be some this. The second method is the indemnity method, which is basically any day that you it's been determined you needed care, that day you'll receive a fixed payment amount. There still could be an issue with demonstrating which particular dates you needed care and which particular dates you didn't need care, because you do have to demonstrate there was paid care involved. And then the third method, which would have the highest premiums, gives you the most flexibility. It's the cap cash method, which is once you're deemed to need care, you're just received cash payments after that, whether or not you received care on any particular date that could be useful to help pay for in informal caregivers like to help reimburse family or friends.

Alex Murguia 05:56

Now, going back to the indemnity, can you explain that? And I'll ask you about the cash in a second, but okay, just explain that that timeline one more time, just to make sure I understood it. If you don't mind, because I had a question, but then I wasn't sure about it. Yeah.

Wade Pfau 06:14

So the the reimbursement method is you get reimbursed for the exact costs of the receipts you submit, the indemnity method is on days that you need care, you receive a fixed payment amount, and that could be more or less than the cost of your care for those dates.

Alex Murguia 06:32

What determines the payment amount the insurance that you bought? I would

Wade Pfau 06:35

imagine, yeah, yeah, the type of insurance. So we'll get into that too. That's a little bit of a real it's a related topic. But, and then the cash method is, you don't have to demonstrate you actually received paid care in a particular date. You can get paid either way. But yeah, and you can pay based

Alex Murguia 06:53

on a certain amount that's already pre ordained.

Wade Pfau 06:56

Yes, not based on once you've qualified and have gone on through your waiting period, then you receive

Alex Murguia 07:02

period, then this sounds silly, but couldn't I just get at that point? And it has nothing to do with long term care, but couldn't I just buy a deferred annuity that starts in five years, paying out a certain amount, and I in my head saying this will be towards long term care needs.

Wade Pfau 07:22

Yeah, yeah. And that's not silly, actually. That's, I talk about that in the book too. It's, it's a little bit less precise, but Q lacs, the qualified longevity annuity contract that's inside my IRA. I get a deferred income annuity that starts paying at, say, age 80 or 85 and then it's a rough estimate. But the idea is, well, I don't know when I'm going to need long term care, but there's some sort of correlation. The odds are higher when I get to 85 or beyond, I might need long term care, and so

Alex Murguia 07:53

I just reinvest. Who cares, right?

Wade Pfau 07:55

Yeah, just have an annuity kicking in at the approximate time you might need it for long term care. It's a less precise method, but it works late in life, I might need long term care. Late in life I get this annuity payment coming in. That's another way to think about it.

Alex Murguia 08:10

But if you're saying other than the reimbursement method, then the last two methods are seem to be imprecise anyways, because they're they're not based on actual expenses, or based on probably more or less what you would think you would need. And you could kind of engineer that yourself in your head and then buy a and then buy an appropriate annuity that kind of backs into that number anyways, correct?

Wade Pfau 08:35

Yeah, yeah. And, and so in that regard, qualified longevity annuity contracts that's discussed quite a bit as a approximation of a kind of using that for long term care, and then also long term care expenses are tax below the line, tax deductions. So if you're getting this qualified longevity annuity contract that's ordinary income, you now also have income that potentially you're not going to waste your tax deduction because you need income to offset it, and if you didn't have the income at that point, you don't get the benefit of the tax deduction. So that can be a nice way to approximate it's not long term care insurance. It's just a way to design the annuity to probably help out with long term care as needed Well, I mean, but

Alex Murguia 09:21

call it whatever you want, right? Whether it's called Long Term Care Insurance or not, it's serving the purpose. I To me, it seems like the first option is something that's truly long term care insurance, because you're matching receipts. The next two is just a mechanism for which you get money based on such and such, I would imagine, because you have these qualifications that you need to qualify for long term care, the premium is less on those than on a regular annuity. Because a regular annuity, you're going to get money no matter

Wade Pfau 09:52

what right. That's true. And then also with the reimbursement method, though you just have to some if you need long term care, it might also mean. You're not going to be the one submitting receipts to insurance companies.

Alex Murguia 10:03

Good point. Good point.

Wade Pfau 10:04

Good point. Do need to have an informal caregiver, or even paid someone that you have to pay to submit receipts on your behalf? So that could be a potential downside, but that would lead to lower premiums.

Alex Murguia 10:19

I'm just trying to get, I'm trying to be play a little bit of a devil's advocate for the listener, from the standpoint of what, what's the special sauce that makes the last two things long term care insurance, as opposed to just an annuity insurance?

Wade Pfau 10:36

Well, because they at least make their payments linked to you qualified for the long term care need. You had two to two of your six activities of daily living were certified that you need help.

Alex Murguia 10:48

And but if I did it with an annuity, I can get the money back just with one thing. I don't need any qualification. I'm not answering

Wade Pfau 10:55

to anyone. And so to your point, long term care insurance is not popular with the public, so maybe it's you'd rather take that annuity route as a way to approximate that.

Alex Murguia 11:07

I'm not trying to sandbag it. I'm just trying to I'm like, I said. I'm playing the role of somebody listening, being like, wait, what's going on

Wade Pfau 11:14

here, that kind of thing. Oh, it's definitely a legitimate approach. Use a deeply deferred income annuity as an alternative, with the idea that you get this money at the same time you need long term care support. So it's your informal long term care insurance that's absolutely a legitimate option. I do talk about that in the book, but, yeah, I don't list it as it's not like I don't list it as the fifth long term care funding mechanism, but it's definitely an option. What's the fourth? Well, that the fourth the self fund, Medicaid, traditional long term care. All right, I got traditional long term care insurance, and then these hybrid life insurance, or annuities alongside long term care.

Alex Murguia 11:56

And how popular are these annuities that have the long term care option on the rider,

Wade Pfau 12:02

not popular. That's really been a function of interest rates that as interest rates had been so low it's hard to guarantee any sort of yield on the annuity, plus also have a long term care benefit. You really need higher interest rates so they could become more popular now that interest rates have normalized more, but for the most part, it's not been the annuity that's the attraction of the hybrid policies. It's been life insurance combined with long term care. Okay,

Briana Corbin 12:36

are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers eight tips to becoming a retirement income investor by heading over to [retirementresearcher.com/eight tips](http://retirementresearcher.com/eight-tips) again. Get your copy of retirement researchers eight tips to becoming a retirement income investor by going to [retirementresearcher.com/eight tips](http://retirementresearcher.com/eight-tips). That's the number eight tips.

Wade Pfau 13:14

Yeah. So we were going through what long term care insurance might look like. We talked about the waiting period. The other thing is, it's very rare to find permanent, long term care. There's going to be a benefit pool. It's either monthly or daily.

Alex Murguia 13:32

Amount. There goes the book. Your book fell.

Wade Pfau 13:37

That's okay. Anything can happen when we're recording? Retire with them. Yeah, someone the garage chapter that just fell out of that.

Wade Pfau 13:53

Somebody slammed a door and it knocked the book off my wall.

Alex Murguia 13:56

For those of you listening to the podcast, Wade has like a bookshelf behind him, and one of his He has him stacked like that position, up and straight up or whatever. And yeah, I try to tilt

Wade Pfau 14:09

it so you don't see the white, but then that makes it easier to fall off the shelf. It's fine. It's fine.

Alex Murguia 14:15

I thought it was, I thought it was a message from above,

Wade Pfau 14:21

and the emphasis, no, we're just beginning here.

Alex Murguia 14:25

There we go. What do we what do we transitioning to with the

Wade Pfau 14:30

how the benefits are paid? So there's going to be, usually, it's either on a monthly or daily basis or a set period of time. So if it's a monthly benefit amount for however many months, a daily benefit amount for however many days, and then a total benefit pool. So for example, say you have a policy that has \$150 daily benefit for five years. Well then the total benefit pool would be 150 times 364 Five times five or \$273,750 you did that initially, just that didn't do that in my head, I'm reading from the third edition of the retirement planning guidebook. But if you So, then if you maybe only spent, if it's daily and reimbursement, maybe on a particular day you only spent \$60 you didn't spend the full \$150 you would still maintain you could keep using that daily reimbursement until you used up the entire benefit pool. So that's where they the total benefit pool becomes important, because if you're using less than that amount, you can save it for later. But then with the indemnity or cash. Cash method approaches, well, you're going to be getting the full daily amount each of those days. Another benefit, well, a monthly benefit pool, instead of daily, can give you more flexibility, and I do a case study in the book about this, like, suppose you're looking at monthly \$4,500 which would be equivalent to a daily 150 and then suppose you have a month where you only need care for 20 days, but it's a \$200 cost each of those 20 days. Well, with a daily benefit for each of those 20 days, you only get 150 of the 200 covered. So you're only getting \$3,000 for the month, but if you had a monthly \$4,500 pool, you can now get that full \$4,000 covered for the month. And the thinking here

Alex Murguia 16:30

is you're not going to need it for the full 30 days. You're going to need it for just a block of those days, because, for whatever reason, let's say your spouse is working, and so you know you need coverage during the weekday, but not on weekends, right?

Wade Pfau 16:44

Right? And that's right. Within this would be more of an in home care, where you don't have that paid caregiver coming every day of the month.

Alex Murguia 16:52

Okay? So there's a daily pool, which is a fixed amount,

Wade Pfau 16:57

whatever it could be, daily or monthly, but then it's How many years does this last? And then a total benefit pool is the daily or monthly rate times the number of possible days or months.

Alex Murguia 17:09

But you're saying the monthly gives you more optionality, to borrow a research term, yes,

Wade Pfau 17:15

okay, yeah, so it might cost a little more,

Alex Murguia 17:19

and if you don't use it for whatever reason, if you happen not to use it,

Wade Pfau 17:23

you know, whatever. That's like. The idea in this example I just gave, where monthly \$4,500 but you only used \$4,000 for that month. That would just extend if you had a five year policy, you know, you've got an extra \$5,000 to extend it. Carry Over minutes? Yeah, you can carry it right? It's not like a cell phone where you lose all your minutes or something. For the most part. You do have to read every policy carefully, but generally, you get to carry it over, although there could be exceptions out there to be careful about.

Alex Murguia 17:57

Could you switch between daily or multiple?

Wade Pfau 18:01

I don't think so. I think you generally are going to pick one at the time you choose your coverage. Okay, of course, anything I say, there's the creativity of the insurance company, and they give you that

Alex Murguia 18:15

optionality, they probably charge you more for the premium for it, yeah,

Wade Pfau 18:18

or they just, it's, they're developing something they can market. So it's like, Oh, we've created a policy where you can switch between daily and monthly. So maybe something like that is out there. But generally speaking, that would not be common.

Alex Murguia 18:30

And if there was, you probably pay, you probably you pay for that risk. Yeah. Like that to you

Wade Pfau 18:37

as soon as you get some none of these benefits are free. It's like when they talk about with annuities, you get a bonus signup bonus. Well, it's not a free signup bonus from the charity of the insurance company. They're just changing some other lever to give you a lower benefit elsewhere, they focus on what's salient, so that you pay attention to that and don't look behind the curtain to see what's been changed to allow that attractive?

Alex Murguia 19:02

Well, that's a very cynical view of the world.

Wade Pfau 19:04

Wade, hey, I'm a cynical guy. It doesn't it's like they're not creating things out of magic. If you get a nice benefit in one area, it's got to be offset somewhere else. No, I know it's all

Alex Murguia 19:20

about risk transference and how it goes about doing it, and they still have had to make their margin. But that's not neither good or bad. It's just their growing concern, and they need to do without, to do to make sure they keep on going. Yeah, all right. So in terms of levers, with just, I know you, we spoke about them, so you have another lever. Is there you go, the monthly inflation whatever.

Wade Pfau 19:41

What else inflation do you is it just a fixed benefit amount, or will it grow with inflation? And it would be really rare to find something that will grow with the CPI. It's usually maybe either a 3% or 5% growth rate, and then simple or compounded compound, like a 5% cost. Compounded growth rate, that will be incredibly expensive. So people are usually having to develop some sort of compromise around maybe 3% simple growth, something to keep the benefit growing over time. But it may be hard to have the benefit fully keeping pace with if you project long term carriers costs are going to grow at 5% a year. Well, you could buy a benefit that grows at 5% a year, but it get really expensive to do that, so you usually have to make some compromise with with that particular issue.

Alex Murguia 20:30

So it's a smart way to think about long term care is that it's not a type of insurance, let's say, like Medicare or something, where you're going to match expenses. It's just not gonna happen, right? You should look at it as something where you get an estimate of what an expense will more likely be, and then you're on the hook for whatever the surplus that expense actually ends up being out of pocket. Yeah, you're on the hook out of pocket for whatever the expense surplus is relative to the money you've got now, right?

Wade Pfau 21:02

Yeah, long term care will not magically eliminate any out of pocket costs exactly related to long term care, you still pay what the policy doesn't cover.

Alex Murguia 21:10

Hence, with regards to your comment about inflation or something like that, they're going to suffer from the same ills as a normal annuity contract would, because it's just too hard to price that you know, in a manner that's cost effective for for anyone really at

Wade Pfau 21:25

that point. Yeah, it pricing out a CPI adjusted long term care policy would be or and it's not you don't necessarily want, because for the most part, we expect long term care costs to rise faster than the consumer price index. So even just having a CPI adjusted policy may not keep up with the cost of long term care.

Alex Murguia 21:46

Now, are there any other levers before I ask another question?

Wade Pfau 21:52

I think we hit the key levers. I mean, there could just be other, just general differences and what expenses are covered, or what does the underwriting look like? That's what I want. I wanted

Alex Murguia 22:03

to get into what what expenses are covered or not. Because if it seems to me that if they're just giving you, effectively, a cash allowance on a monthly basis, why do you even have to match anything? Why can't they just give it to you?

Wade Pfau 22:15

Yeah, they they would, if you qualify that you need care, even if you're not receiving care, you'd still the cash method would give you those payments. That's going to make it more expensive, though it's not a great be to do that, all right, but yeah, if you have a reimbursement method, then you do want to make sure you understand what they'll reimburse, because they may not reimburse. What is it? What do they reimburse? Well, they these days, most things will be reimbursed, but like that would include things like adult daycare centers, but there could be policies out there that don't reimburse such expenses. So you just need to be careful about that.

Alex Murguia 23:02

Could No, I won't be. I was just thinking about food or but, no, it's really more, not so much the materials itself. But if you needed someone to cook for you, or something like that, as opposed to the groceries,

Wade Pfau 23:20

yeah, that's the you'd be paying for someone to come into your home to provide care, and that care could include cooking. Right now, if that's Cook, well, eating, that might be one of the two of the six activities of daily living, you have to demonstrate a need. It might be harder to demonstrate that need, but if you need help with cooking, you might be able to demonstrate other needs that would be easier to then make you eligible for the benefit.

Alex Murguia 23:52

Okay? And so, just to sum it up, in the book you pretty much go through then you know, what are the qualifying factors for long term care? How likely are you to experience long term care? Where can you get long term care? What options do you have available for long term care? What levers you know, do the long term care policies use that you can, like, choose to pull on them or not. Correct, does that? Does that cover? And then what are the coverage options available? Yeah, yeah. Do we hit all of those?

Wade Pfau 24:31

Yeah, that's a pretty good summary. And then it's just the chapter ends with how to budget for long term care. We talked about that already with the our long term care reserves estimator to help you work through those issues.

Alex Murguia 24:42

Okay, and this the long term care reserves estimator. Do you have a link in your book on it, or do you just go through step by step on how to figure that out?

Wade Pfau 24:49

Well, I show how to think about it. We do as an it's a tool inside the academy. So members of the retirement Academy, what's the academy? That is our membership site at. Retirement researcher. So inside the Academy, the spreadsheet, the long term care reserves estimator, it's available for users. But otherwise, if you're not part of the academy, I've given you a good enough explanation that if you're good with Excel, you have everything you need to create your own Excel, I suppose. But if that's too much work, we do have that as a tool in the academy.

Alex Murguia 25:23

So wait, are you? Are you a carbon based intelligent agent

Wade Pfau 25:30

for AI? Yeah, I guess now you could ask AI to create you a long term care reserves estimator, retirement

Alex Murguia 25:38

researcher. The trick

Wade Pfau 25:41

with this one is you have do different inflation rates applying to your offset expenses and your long term care expenses. So the formula is actually pretty complicated, but we figured

Alex Murguia 25:54

a bit off here. It seems AI does a good job with a lot of things, but it hasn't gotten down the math right on certain things. Have you noticed? Weird, right?

Wade Pfau 26:03

Really been compelled that it was giving good suggestions on when I asked it about trying to simplify some of my calculations.

Alex Murguia 26:15

All right, wait, well, that's the two parter on long term care. Everyone, bye, everyone we'll catch you next week on retire with style. I'm Alex.

Wade Pfau 26:29

I'm Wade and yeah, we'll continue next week with our journey through the retirement planning guidebook, looking specifically at housing and retirement. All right, everyone, take it easy.

Briana Corbin 26:39

Wade and Alex are both principals of McLean Asset Management and retirement researcher both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you consult your financial advisor. All investing comes with the risk, including Risk of Loss past performance does not guarantee future results.