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Five Things to Watch Out for When Buying Long-Term Care Insurance

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You've researched long-term care insurance (LTCI) and are seriously thinking of buying a policy. Just make sure you're doing it for the right reasons--don't be swayed by unsubstantiated sales pitches. Here are some claims you'll want to think twice about.

A long-term care policy is a great tax write-off

Though it's true that premiums paid on a tax-qualified LTCI policy can reduce your tax burden, you must itemize deductions to be eligible. When you're older, perhaps you'll no longer itemize deductions. And even if you do, LTCI premiums fall under the write-off for medical and dental expenses, which is limited to expenses that exceed 10 percent of your adjusted gross income. So, for example, if your adjusted gross income is $60,000, you are able to deduct only that portion of your unreimbursed medical and dental expenses (including LTCI premiums) that exceeds $6,000.

And there's another caveat. Even if your LTCI premiums exceed 10 percent of your adjusted gross income, you can't include all of the premiums in your deduction for medical and dental expenses. Instead, your premiums are deductible according to a sliding scale that depends on your age. So what might look like a great tax write-off at first glance may not be so great after all.

Note: The threshold is 7.5 percent for those age 65 and older until 2017, at which time it increases to 10 percent.

You should buy a policy now so you can lock in the price forever

With most LTCI policies, your age at the time you purchase the policy is a factor in determining your premiums. However, this doesn't mean that your premiums will stay the same as long as you own the policy. In fact, your premiums can increase if your insurance company establishes a rate increase for everyone in your class, and that increase is approved by the state insurance commissioner.

As a relatively new type of insurance, LTCI may be particularly susceptible to rate increases, because insurance companies lack a sufficient amount of underwriting data to predict the number and size of claims they can expect in the future. And unfortunately for you, if your insurance company does raise your premium, it may not be so simple to take your business elsewhere. Any premium on a new LTCI policy will still be based on your age, which will be higher, and your health, which may be worse. So no matter when you buy your policy, make sure you can afford the premiums both now and in the future.

It doesn't matter how the policy defines "facility"

Currently, there are no national standards on what constitutes a long-term care facility. This means that an "assisted-living facility" or "adult day-care facility" may mean one thing in a particular policy or state and another thing in a different policy or state. This can pose a problem if you buy the policy in one state and then retire to another state--there may be no facilities in your new state

that match the definitions in your policy. To protect yourself, make sure you understand exactly what types of facilities the LTCI policy covers before you buy it.

It's not necessary to check the financial rating of the insurance company

A large number of unexpected long-term care claims could potentially devastate an insurance company that isn't financially strong. So before you buy an LTCI policy, it's always a good idea to check the company's financial rating by using a rating service like Standard & Poor's, Moody's, A. M. Best, or Fitch. You can also check with your state's insurance department for more specific financial information on particular companies.

You should get rid of the policy you have now and buy a new one

Although in some cases a new LTCI policy might have an attractive added benefit that your old policy doesn't, red flags should go up if an insurance agent encourages you to ditch your old policy for a new one without providing a clear explanation of the added benefits. For one thing, your premiums are based on your age and your health at the time you purchase the policy, so all other things being equal, your new policy will be more expensive. For another, you run the risk that a pre-existing condition won't be covered under the new policy.

If you're unhappy with your current policy, an alternative may be to upgrade it rather than replace it (though the agent earns a larger commission if you replace it). Unfortunately, there are unethical agents who make misleading comparisons of LTCI policies in an attempt to get you to switch policies for no reason other than their commission. If you're considering switching policies, make sure you understand exactly what the new policy offers, whether this additional coverage is important to you, and what you're giving up.

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