Should I invest the amount I would pay in premiums instead of buying long-term care insurance?

Financial Planning

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If you're under 55, you might think that, since the likelihood of long-term care outlays is many years in the future, you could invest the money you might otherwise spend for long-term care insurance premiums. That way, if you do need long-term care, you could just draw upon that investment, and if not, you?d have money for your heirs, for a charitable donation, or for your own needs.

But this strategy leaves you vulnerable if you need long-term care services in your late 50s, 60s, or early 70s. And it might also leave you vulnerable if you need these services for a long time, even if you don?t need assistance until you?re in your 80s. Here?s why:

- Assume you?re 55 and won?t need long-term care for 30 years, when you?re 85.
- Assume you save $2,000 per year[1], that you invest the savings, and that your investment grows at 5 percent per year, net after taxes.

After 30 years, your savings will have grown to $139,500.

- Assume today?s monthly cost of nursing home care grows, due to inflation, by 5 percent per year, from $7,000 per month now to $28,800 per month in the future.

At that time?that is, when you?re 85?if all these assumptions come true, your savings would be able to pay for less than three months of nursing home care; if you need more money?say, because the cost of services for long-term care grew faster than 5 percent per year or your investments earned less than 5 percent net after taxes?you?d have to liquidate other assets that you hadn?t planned to liquidate, if you have them.

It?s possible that you?ll save more than $1,000 per year, or earn more than 5 percent net after taxes, or that the cost of long-term-care services will rise more slowly than 5 percent per year, or that two or more of these things will happen. In that case, if you need long-term care services for the first time after age 85, you would be able to pay for more than the example above shows. Here are some indications of what results alternate assumptions would produce:

- Nursing home costs inflate at 3 percent per year for 30 years: monthly cost of $16,500
- Earn 6 percent per year net after taxes on saving $1,000 per year: accumulate $83,800
- Save $1,200 per year at 5 percent net after taxes: accumulate $83,700

Of course, it?s possible that you?ll never need long-term care services, or that if you do need them, you?ll need them only for a month or two. In that case, a long-term care policy won?t help. For most other scenarios, it?s probably a prudent buy.

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[1]*This figure is not intended to represent the premium for a long-term care policy for a 55-year-old, because premiums vary considerably depending on the daily benefit amount, length of benefit period, length of waiting period, and inflation and other policy features. It only shows how the overall analysis might work.*

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