

## Long-Term Care, Disability and Critical Illness Insurance: Worthwhile Protection or Waste of Money?

As long as human beings have walked the earth, they've been exposed to risk — risks that threaten their health and well-being, their property, their lifestyle and their livelihood. Insurance affords us protection for those moments when risk becomes reality.

At its core, insurance is a contract — commonly known as a policy — designed to provide protection against a specific risk, where if certain circumstances covered by the policy come to pass, the insurance company provides the holder of the insurance contract with some form of reimbursement — the insurance benefit — to compensate them for the damage they sustained or the costs they incurred when that risk becomes reality. To gain coverage, the contract-holder makes payments to the insurance company in the form of premiums.

The value proposition for insurance boils down to a simple question: Does paying the premium for coverage to address a specific risk make more financial sense than potentially having to pay much more than the premium amount out-of-pocket should that risk actually become reality. If the answer is yes, then it's a matter of finding the appropriate insurance coverage to address that risk.

The appropriate type of insurance and level of coverage depends on an individual's circumstances and risk factors, including their age, health, financial standing, family and employment situation and more. But generally speaking, an insurance policy is a wise investment if it's affordable for the policy-holder, provides them with adequate protection against a real risk the person faces, and gives them peace of mind, contends Certified Financial Planner™ Rita Cheng, who heads Blue Ocean Global Wealth in Rockville, MD,

What, then, is the appropriate type of insurance to address one of the biggest risks people face, that of a catastrophic and potentially very costly illness, injury or health/medical crisis? There's a variety of options to consider, including critical illness insurance, long-term care insurance and disability insurance (short- or long-term)? But which is right for you, if any?

**Critical illness insurance** provides exactly what the name suggests: insurance in case the policyholder is afflicted by a critical illness (cancer, heart attack and stroke, typically). It provides a cash benefit (usually via a lump sum payment) to a policy holder to cover out-of-pocket costs associated with a severe (and likely expensive) illness/sickness.

Critical illness insurance is often offered to employees as a voluntary workplace benefit. If it's available inexpensively as a voluntary benefit, Cheng says it may be worth considering. People who are considering purchasing critical illness insurance as a workplace benefit should check with their benefits provider to be sure the policy is portable — that employees can take the policy with them if they change employers. They should also be aware that premiums for critical illness policies may escalate unexpectedly and significantly, according to Cheng. For more about critical illness insurance, visit [www.criticalillnessinsuranceinfo.org](http://www.criticalillnessinsuranceinfo.org).

A **disability insurance** policy might be a wiser use of a person's insurance dollars, Cheng says. That's because disability insurance not only may cover the aforementioned critical illnesses, it also may cover other disabling health and medical issues that prevent a person from working, such as a serious injury. Another compelling reason to look into disability insurance: the odds of being disabled. About one in

five adults in the U.S. have some kind of disability, according to government statistics. Disability insurance comes in two categories: short-term and long-term. Each provides a financial benefit, usually in the form of a monthly payment that serves to replace a percentage of the policyholder's salary. If you're employed and people depend on the income you provide, having some form of disability insurance is a good idea, says Cheng. **Short-term disability insurance** typically provides coverage for a short period of time, such as several months. **Long-term disability insurance** offers an added level of protection, providing benefits for several years or more, making it a good fit for the primary income-earner in a household, for whom the loss of that income could be financially devastating.

While disability insurance is designed to replace a person's income during their working years, **long-term care insurance** is designed primarily to protect a person's income and nest egg when they're no longer working and face a potentially costly health or medical issue that requires some form of long-term care, be it in a nursing home or in their own home. Long-term care insurance policies are available to cover all or a portion of the costs associated with that care, typically for a specified period of time, such as three or five years.

In certain circumstances, says Cheng, a stand-alone long-term care insurance policy can make good sense, especially when a person buys it at a younger age (like in their early to mid-50s) and they're in good health. While the benefits offered by these stand-alone policies can be much more robust, their premiums can be high and prone to increase.

Alternative forms of long-term care insurance may be more affordable, she notes. Those alternatives include certain types of annuity contracts and life insurance policies that can be packaged with a long-term care benefit, typically for an extra fee.

One way or another, a person who has retirement assets they want to protect "needs a plan as to how they are going to handle long-term care costs." Because the likelihood a person will need some form of care is high; about seven in 10 people over 65 will need some form of long-term care services and support during their lifetime, according to the U.S. government. Meanwhile, an estimated 58% of women and 44% of men will need nursing home care at or after age 65, according to a report from the Center for Retirement Research (CRR) at Boston College.

Whether you're in your 30s, 40s, 50s, 60s or older, and whether you're male or female, the risks of someday needing long-term care, or being afflicted with a critical illness or disability, are substantial enough to warrant considering some form of insurance.

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