How to Reduce Long-Term Care Insurance Costs

While long-term care insurance can be a good way to pay for a nursing home stay or a home health care worker, it doesn't come cheap. Annual premiums vary significantly, depending on your age, health, and the type of policy, but policies can run as high as $5,000 per year. You do not need to pay that much, however. The following are some ways to reduce your costs.

Shorter benefit period. The most significant cost-saving step you can take is to not purchase a lifetime policy. Unless you have a family history of a chronic illness, you aren't likely to need coverage for more than five years. In fact a new study from the American Association of Long-term Care Insurance shows that a three-year benefit policy is sufficient for most people. According to the study of in-force long-term care policies, only 8 percent of people needed coverage for more than three years. By purchasing coverage for three, four, or five years instead of a lifetime, you can save thousands of dollars in premiums. If you do have a history of a chronic disease in your family, you may want to purchase coverage for 10 years, which would still be less than purchasing a lifetime policy.

Buy younger. Long-term care insurance premiums rise as you age, so the younger you buy, the cheaper your premiums. Be careful, however, because insurance premiums can, and often do, increase considerably from your initial purchase price. Even if you have a policy that is "guaranteed renewable," your premiums can still increase.

Shared care policy. If both you and your spouse are purchasing long-term care insurance, a shared care policy might be able to give you more coverage for less money. With a shared care policy, you buy a pool of benefits that you can split between you and your spouse. For example, if you buy a five-year policy, you will have a total of 10 years between you and your spouse. If your spouse uses two years of the policy, you will have eight years. A shared care policy may cost more than separate policies with the same benefit period, but it will allow you to buy a shorter policy, knowing that you have a pool of benefits to work with.

Longer elimination period. Most policies have a waiting period before coverage begins, typically 30-90 days. The longer you make this waiting period, the cheaper your premiums. Keep in mind, however, that you will have to pay for your care out of pocket until the waiting period is over and the insurance begins its coverage.

Reduce the daily benefit. Instead of purchasing the maximum daily benefit you might need in a nursing home, you can consider paying for a portion of the daily benefit yourself. You can then insure for the maximum daily benefit minus the amount you plan to pay. A lower daily benefit will mean lower premiums.

Inflation protection. Inflation protection increases the value of your benefit to keep up with inflation and is almost always recommended. But you can save on premiums by which method of protection you choose: compound-interest increases or simple-interest increases. If you are purchasing a long-term care policy and are younger than age 62 or 63, you will need to purchase compound inflation protection. This can, however, more than double your premium. If you purchase a policy after age 62 or 63, some experts believe that simple inflation increases should be enough, and you will save on premium costs.

You should also remember that your premiums may be tax-deductible. Premiums for "qualified" long-term care policies will be treated as a medical expense and will be deductible to the extent that they, along with other unreimbursed medical expenses (including "Medigap" insurance premiums), exceed 7.5 percent of the insured's adjusted gross income.