

Life insurance vs. long-term care insurance: Which do you need?

Insure Me

While life insurance is designed to protect your loved ones when you die, long-term care insurance provides money to help you maintain a good quality of life while you're alive. But with the rising costs of long-term care insurance, some Americans with limited money may be contemplating which of the two they'd be better off buying.

A life insurance policy provides a payout to your beneficiaries after you die. A long-term care insurance policy provides money to pay for such expenses as nursing home care and assisted living services if you're no longer able to live independently on your own.

The cost of long-term care insurance has risen in recent years, partly because the cost of long-term care has gone up. According to a 2012 survey by MetLife, the average yearly cost for a semi-private room in a nursing home in 2012 was \$81,030, up from \$78,110 in 2011.

Another reason long-term care premiums have spiked is because interest rates are so low, says Jesse Slome, executive director of the American Association for Long-Term Care Insurance. One of the ways that insurance companies make money is by investing the funds they receive through premiums. With long-term care insurance providers making little money through interest and other investments, many are raising their rates to keep their profit up.

Since the functions of life insurance and long-term care insurance differ, choosing between the two should not be an either/or proposition, Slome says. The importance of each type of insurance depends most on your needs.

Assessing your situation

Many people need life insurance and long-term care insurance at different times in their lives, says Tony Steuer, director of financial preparedness at consumer advocacy group United Policyholders. For many, life insurance is most important when they're working and have young children, as a life insurance policy would provide money to survivors if the policyholder died unexpectedly.

Long-term care insurance, on the other hand, is something you'd typically need later in life. The best

time to buy long-term care insurance is between ages 52 and 64, Slome says. Rates climb as you grow older; many insurers will disqualify you from coverage if you have major health conditions, such as cancer or Alzheimer's disease.

By that point in your life, your need for life insurance may have waned because you have other assets, Steuer says, or your children may be grown and able to take care of themselves.

Cutting your costs

If you need to buy both types of insurance at the same time, you can cut your costs and make it more affordable. Term life insurance policies, which provide coverage for a limited period of time such as 20 years, are less expensive than whole life insurance policies, which cover your entire life. Since a whole life policy premium could cost five to 10 times more than a term life policy premium, Steuer says, consumers buying a term life premium would have more money to spend on long-term care insurance, Steuer says.

It's also important to pay only for what you need. When you buy long-term care insurance, you must decide how much you'd need in benefits on a daily basis if you no longer care for yourself, and you'd need to estimate how long you'd need the benefit.

For example, the average long-term care insurance policy in 2011 for a single 55-year-old cost \$1,480 a year, according to Slome's group. For that cost, the insured person would get a maximum daily benefit of \$150 for three years.

Most people who require long-term care need it for two to four years, Steuer says. A long-term care insurance policy that provides a benefit for 10 years would cost more than a policy that provides a benefit for three years, so if you're squeezed for cash, you can pay for a smaller benefit period so that you at least have some coverage.

Other options

Some types of insurance do combine the benefits of life insurance and long-term care insurance.

Typically, these are life insurance policies that come with a rider – or additional coverage – for long-term care costs.

With so many options, the good news is you may not need to give up one type of insurance for the other. "You could buy very affordable term insurance to protect your life," Slome says, "and you could buy very affordable long term care insurance that would provide some long term care benefit."