

The Benefit Period

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The benefit period defines the total amount of money that is available in your policy to pay for care. For most policies it is something of an anachronism and the term benefit multiplier is actually more accurate. Most policies today don't actually have a specific length of time after which benefits are no longer payable (a benefit period). Instead, they set aside a certain amount of money for you based on the daily benefit and the benefit period you select. For example, if you buy a \$100 per day benefit and a 5-year "benefit period" they multiply \$100 per day times 365 days per year times 5 years (the benefit period selected).

i.e. \$100 per day x 365 days per year = \$36,500 per year
\$36,500 per year x 5 years = \$182,500,

and that is the total amount of money available to pay for your care. When the money runs out, the policy stops paying.

While many people refer to this as a "pool of money", I tend to think of it as a bucket of money. As I discuss in more detail on the article about the benefit maximum it's as if the company fills the bucket with money and gives you a ladle to dip money out of the bucket each day. When the bucket is empty, you're done. If you filled the ladle to the brim every day, your money would last as long as your benefit period. Since you can't take out more than the ladle will hold, the money in the bucket will not last less than the benefit period but if you used less than the maximum available each day or if you didn't need to dip into the bucket every day (perhaps with intermittent home care), the money in the bucket would actually last longer than the benefit period.

If you also purchased an automatic benefit increase option (also called an inflation rider or a COLA) with most policies, this will automatically increase the amount of money in your bucket every year. Be very careful to make sure the inflation rider does actually increase the size of your bucket and not just the size of the ladle. I have only seen one policy so far that only increases the ladle, not the bucket. Since only the ladle increases with this policy, not the bucket, effectively your benefit period gets shorter every year. I do not recommend purchasing such a policy.

You might well be asking, "What benefit period should I buy?" No one knows how long their need for care will last. It might be 1 day. It might be 20 years. The average nursing home confinement is 2 to 5 years. Your typical choices for benefit period are 2 years, 3 years, 4 years, 5 years, and Lifetime (or unlimited). The ideal benefit period is Lifetime because very few people have a need for care that lasts longer than that. However, the longer the benefit period, the higher the premium. Only about 10% of the population will need care for longer than 5 years. The average is between 2 years and 3 years. If you can afford a lifetime benefit period, buy it. If not, buy the longest benefit period you can afford.

You might wonder, "What happens if I use up part of the money in my bucket and then recover"? This is of course a moot point with a lifetime benefit period since there is an unlimited amount of money in the bucket, but the shorter the benefit period you buy, the more important this question is. With most policies, any money you use is gone forever. Next time you need care, you only have what's left in your bucket to pay for your care. Some policies either include or offer as an option "Restoration of Benefits". With restoration of benefits, if you have not required care (met the benefit triggers in the policy) for a period of time, usual 180 days, they refill your bucket. The shorter the benefit period you purchase, the more attractive it is to have restoration of benefits in your policy.

Not intended to provide legal or accounting advice. Long Term Care is a complicated subject. It takes time to consider the implications of many of the options available. In addition to any necessary legal or accounting advice from the appropriate professional you should discuss your financial situation and objectives regarding long term care with a knowledgeable agent.