EVERYDAY MONEY
with Karen Cheney

Ensure Your Long-Term Care

Picking the right long-term care insurance may be the most important retirement planning you ever do—even if you never want to use it. Here's what you need to know.

PHOTO **HELEN NORMAN**

If I had to pick the one thing that I least like to spend money on, it's insurance. Like most people, when I hand over my cash, I want something in return—whether it's a fabulous vacation or just a pizza delivered to my door. Even when I pay my taxes, I expect something back: good schools, well-trained police, roads without too many potholes. With insurance, however, the best I can hope for is that I am flinging dollars to the wind. I certainly don't want to make a claim. This is especially so in the case of long-term care insurance—yet it could be one of the most important policies you'll ever own.

Unlike traditional health insurance, long-term care insurance covers care for someone who needs help with basic tasks like bathing and eating. "People think it's nursing home insurance," says Phyllis Shelton, author of *Long-Term Care: Your Financial Planning Guide*. Of course, no one likes the idea of ending up in a nursing home—which probably explains why so few people buy long-term care insurance. Right now, there are only about 4.5 million individual policies in force, according to actuarial and consulting firm Milliman. The truth is, however, that most long-term care policies cover some or all of the costs of assisted-living facilities and home care, in addition to traditional nursing home care.

"Less than 15 percent of long-term care is in a nursing home," says Shelton. "This insurance could be what keeps people *out* of a nursing home." In that light, the policies are far more appealing. There's also the fact that more than half of 65-year-olds today will need long-term care at some point in their lives. So, if I buy a policy, there's a decent chance that I will use it one day. In fact, I may be protecting myself from the only thing worse than needing long-term care: not being able to afford it.

LONG-TERM CARE AT A GLANCE

- Long-term care insurance covers care for someone dealing with a chronic health condition who may need help with basic needs like bathing and feeding.
- Long-term care policies are not necessarily for nursing home costs. Policies can cover assisted-living and home-care situations.
- Policy costs vary widely from state to state, so if possible, base your costs on where you plan to retire, not where you live now.

GO LONG AND STRONG

If you're buying long-term care insurance, it's vital to make sure you're putting your money with a company that will be around in 30 or 40 years. Until they perfect the crystal ball, the best way to make sure you're covered is to stick with insurance companies that have a high financial strength rating. You can check ratings for individual companies through such resources as A.M. Best (*ambest.com*), Moody's (*moodys.com*) or Standard & Poor's (*standardandpoors.com*).

PLAN FOR WHAT YOU NEED

Nursing home care runs an average of $213 a day or $77,745 a year, according to MetLife's Mature Market Institute. An assisted-living facility will set you back $2,969 a month on average and $4,270 for people with Alzheimer's or other forms of dementia. If you assume a 5 percent rate of inflation, in 20 years it would cost $565 a day for nursing home care or about $200,000 a year. If you have more than $1 million in assets today, you could opt to self-insure. But for most people, these sums could decimate their life savings very quickly. That's why financial planner Deena Katz strongly recommends long-term care insurance to her clients. "I believe it is one of the most important places you can put your money," she says.

WHEN TO BUY

The policies don't come cheap. The average premium is about $2,000 a year, says Shelton. You can slash the cost dramatically if you buy a policy when you're younger.

"Every 10 years you wait, the price doubles," says Marilee Driscoll, author of *The Complete Idiot's Guide to Long-Term Care Planning*. But the average age of a person making a claim is around 80. Will you be able to keep your policy in force all those years if you buy when you're middle-aged? What if your premium goes up, as they sometimes do? You may have other more pressing financial commitments when you're younger—such as paying for children's college costs.

For these reasons, most financial experts I spoke with agreed that in general you should **start looking into a policy when you turn 50.** "Many of the dreaded diseases, like Parkinson's and Alzheimer's, usually show up after age 50," says Driscoll. The average age for a first policy is 58—a good goal to set for most people. Of course, if you have a family history of Alzheimer's or another chronic condition, you may opt to buy a policy when you are younger. If you wait until you're in your 70s to buy a policy, you may not even qualify. Roughly half of policy applicants are denied coverage in their 70s and 80s for health reasons, according to Milliman.

SMART COVERAGE CUTS RATES

The next question you should ask is how much coverage you want to buy. The cost of care varies widely, depending where you live. For instance, in Louisiana, the average daily rate for nursing home care is $123, compared to $510 in Alaska. So, look into rates in your area and make sure you **buy enough coverage for care where you plan to live.** You can reduce the cost of your premium by opting for a longer "elimination" period—those weeks before the insurance kicks in when you pay the bills yourself. Most policies have at least a 30-day elimination period, but if you can self-insure for 90 days, you'll save money.

Another way to cut costs is to **buy what experts call a "short, fat policy"**—that is, get good coverage for a shorter time period rather than lean coverage for a lifetime. It's unlikely that you will need care for more than a few years. In fact, only 10 percent of claimants need long-term care for more than five years, according to 20-year study by the Society of Actuaries. So, you'd be far better off with a $200 daily benefit for three years than a $100 benefit for a lifetime. You can also save a bundle—from 10 percent to 30 percent—if you and your spouse buy policies together.

And finally, **don't skimp on inflation protection.** You may spend 40% more to get a policy with a daily benefit that increases with inflation, but it's well worth the extra money. As Katz says, "The dollars you spend today aren't going to buy a tongue depressor in 20 years."

LONG-TERM OPTIONS

- **Partnership plans** These plans protect some or all of your assets from being depleted before you might be eligible for Medicaid. For every benefit dollar you pay for, a dollar of your assets is protected. That way if your private coverage isn't enough, you can turn to Medicaid without spending down your assets. States that offer these plans include Arkansas, California, Colorado, Connecticut, Florida, Georgia, Idaho, Indiana, Iowa, Minnesota, Missouri, Nebraska, New Jersey, Kansas, New York, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Tennessee, and Virginia.

- **Hybrid plans** An example of a hybrid is a life insurance policy combined with a long-term care benefit. If you don't use the long-term care, the money rolls over into your death benefit. Long-term care annuities are similar. Starting in 2010, you will be able to pull money out of an annuity, tax-free, to pay for long-term care. No doubt many consumers will end up converting regular annuities to long-term-care annuities due to this tax benefit.