



# Long-Term Care Insurance

INSURANCE LIKE THIS IS RELATIVELY NEW, EXPENSIVE – AND NO ONE PLANS TO COLLECT.

When we imagine the future, financial planning can be bathed in a soft, dreamy light. Families enjoy exotic holidays together, couples play golf on an island course, and retirees in their 80s or 90s grow nostalgic as they rock on the front porch swing, gazing at photos that capture a moment in their shared past. For these reasons and a thousand more like them, we want our portfolios to grow strong. We want to support our private goals and aspirations.

### Erroneous Perceptions

Public perceptions about the realities of long-term care are as inaccurate today as they were found to be in a similar study six years ago, according to an AARP survey published in December 2006. “Americans age 45-plus know less about long-term care than they think they do,” the AARP editors say. Surveyors found that respondents:

- Underestimate long-term costs (only 8% correctly estimated monthly nursing home costs within 20% of the national average);
- Believe public programs will cover long-term care, when they will not (Medicare doesn’t pay for extended nursing home care or assisted living costs; nor will Medigap/Medicare Supplemental Insurance);

bodies and our mental faculties. Besides, who wants to contemplate wasting away, physically, mentally or both, while sharing space in a facility with strangers? Perhaps it is human optimism at work; perhaps it’s denial – we sympathize with others whose families must send them to a nursing home, but we don’t expect that to happen to us.

### A New Era

To some extent, the long-term care insurance dilemma is a product of our medical successes (see accompanying story, page 25). Such insurance didn’t exist before the 1970s. It became common in the late ’80s, and from 1987 through 2002, the last year for which this statistic has been published, about 9.2 million policies were sold. In

# Can Ease Future Financial Burdens

But there is another aspect of life that should be part of the financial planning discussion, too. It is cast in a harsh, unpleasant light that most of us try to avoid until circumstances force us to confront an uncomfortable truth: at some point, we may need long-term care because we can no longer function independently. If that happens – and there may be 12 million Americans in need of long-term care by 2020<sup>1</sup> – it will be a catastrophic event that removes the last levels of security a person possesses: his or her independence, good health, assets and income.

No amount of financial acumen or planning can influence the first two factors, but individuals and families may be able to protect each other from financial disaster by considering long-term care insurance. It isn’t for everyone, but you’re prudent to examine your own circumstances to see if it’s appropriate. Long-term care insurance might be a surprisingly sensible strategy for you.

- Think they own long-term care insurance when they actually do not.

### Confronting the Possibilities

Study after study shows that few Americans put long-term care needs near the top of any list of concerns. We want to live in our own homes without interference from anyone else. We hope to maintain good health and have adequate health care. We want enough money for our needs and we don’t expect to outlive our assets.

We embrace the idea of life insurance if we need it for the sake of our family’s security; we appreciate the value of home insurance, though we’d rather not have a fire; and we know health insurance is necessary. We’re clearly aware that we can’t control outside forces and are subject to accidents of one kind or another. But we don’t acknowledge a situation in which we might not be able to control our

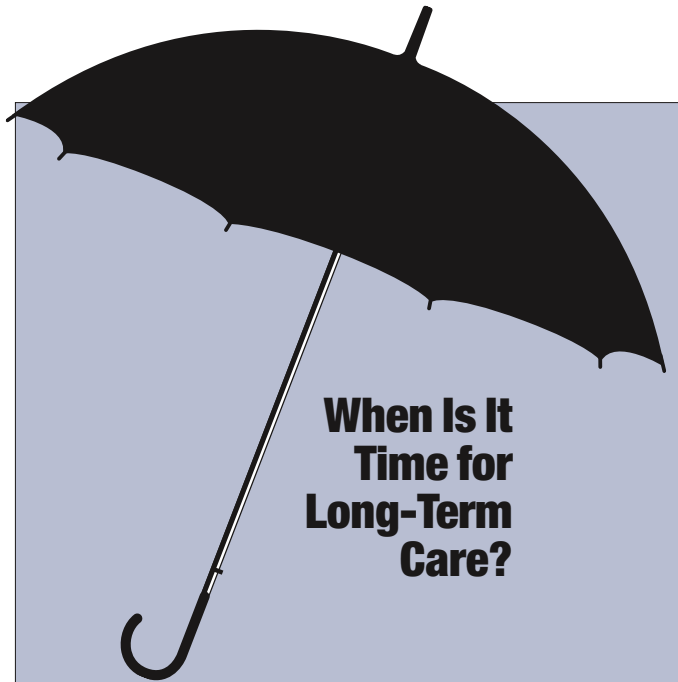
2002, nearly a million new policies were sold, says the trade group America’s Health Insurance Plans. The number is expected to grow as a flood of baby boomers reach their sixth decade.

If you or a relative needs a nursing home, assisted-living facility or in-home visits, you can expect sticker shock. The average cost today for a one-year stay in a nursing home is \$75,190 (\$206 a day)<sup>2</sup>. A 5% rate of inflation in long-term care costs would triple that figure over the next 20 years.

Long-term care insurance is clearly the answer for many people. These policies charge a fixed monthly premium, with the costs based on your age when you sign up, and will cover the costs of a nursing home, assisted-living facility, adult daycare and/or in-home care. The younger you are when you sign the policy, the lower the premiums, of course. Costs may be very high if you wait until you are in your late 60s or

<sup>1</sup>U.S. Department of Health & Human Services, Medicare, Long-Term Care Home Web site.

<sup>2</sup>The MetLife Market Survey of Nursing Home and Home Care Costs, September 2006, The MetLife Mature Market Institute.



## When Is It Time for Long-Term Care?


It pays to read the fine print on any insurance policy, but it's particularly important with long-term care policies, there could be potential for major disagreements between you and your insurer. For example, when does the policy take effect?

You may think you can no longer care for yourself – or cannot care for an elderly relative, if the policy is for him or her – but that's often not enough to put a policy in gear. Usually, the policy will not take effect until the insured cannot perform at least two “activities of daily living” and a medical professional agrees that the condition will last for 90 days or more.

“Activities of daily living” are:

- Bathing ■ Dressing ■ Eating ■ Using the toilet ■
- Remaining continent ■ Moving back and forth from a bed to a chair.

Most policies will begin paying if the insured develops a degenerative condition such as Parkinson's or a cognitive impairment attributable to Alzheimer's or severe dementia.

Before you purchase a policy, read the outline to determine what coverage you're actually buying. Don't rely on verbal assurances or a sales brochure. Also, check the “elimination period” typical of most policies – the amount of time you pay for care before the policy takes over. Most offer 30, 60 or 90 days. The shorter the period, the more expensive the policy. 

70s. And if your health should begin to fail, you may be unable to find insurance at any cost.

Most policies are “tax qualified,” that is, the benefit payments received by the covered person are generally tax free, and the premiums are deductible, if total annual medical expenses exceed 7.5% of adjusted gross income. If you are a self-employed sole proprietor, a partner or LLC owner, you may deduct the total cost of the long-term care policy – with some age limitations – whether or not you itemize.

Long-term care insurance is one of the most complex policies you're ever likely to buy. One study showed that the annual premium for a 50-year-old man in Delaware could range from \$983 per year to \$2,988, all because of a profusion of variables. Some policies are drawn up so that you pay for a set period of time before retirement, with the policy remaining in force until its pre-set benefits are exhausted. Others require indefinite payments. Costs for a 65-year-old can easily range upward from \$5,000 annually.

Insurers like to point out that once the policy is yours, the premiums can't be raised because of your personal circumstances –

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but rates can go up for a group or class of policyholders. That can simply apply to those who purchased a certain kind of policy over a certain time period, or, say, everyone over 75. As a purchaser, assess whether you will be able to continue payments if you need to keep the policy in force after retirement – you won't want to pay for a policy for years only to let it lapse before it is needed.

What about Medicare? The government program will pay for up to 100 days in a nursing home if skilled nursing is required and the patient has spent at least three days in a hospital before entering the nursing home. Under such circumstances, the first 20 days are fully covered, but a daily co-payment of \$124 (in 2007) is due for days 21 through 100. Costs may also be covered for a patient who has few or no assets left.

### Should You Buy?


Not everyone needs long-term care insurance, because if you do the math and your portfolio is ample, you may be able to pay future long-term-care costs yourself without significantly damaging your estate. No one can predict the future, but if you seriously investigate possible costs and set aside some funds, you may be able to, in effect, self-insure for long-term care.

Even very wealthy investors may benefit from having long-term care insurance, however, because it creates a kind of safety net and shields family members from having to bear unexpected burdens. No one knows exactly when, or if, long-term care is going to be needed. Or for how long.

Disability is a common reason for staying in a nursing home, and 25% of residents stay only three months or less – but they may be admitted for end-of-life stays later. About 50% of residents spend at least a year, but 21% live in a nursing home for nearly five years.<sup>3</sup> Self-insurers should be sure that their expendable assets will cover any likely nursing home term.

<sup>3</sup>*Aging in the Know, The American Geriatrics Society Foundation for Health in Aging, 2005.*

The best time to consider long-term care insurance is when you're still working – two-thirds of purchasers today are still in the work force, says one insurance expert.

Policy choices are not easy to contemplate, however, and they are excruciatingly difficult to compare. The best advice seems to be to make sure you purchase long-term care insurance from a dependable firm likely to be around in 20 or 30 years – and seek advice from your financial advisor to help you determine whether you need this insurance, and if it should be part of your financial plan. 

## Care Concerns Lurk in Evolving Demographics

More and more people have the need to seriously consider long-term care insurance. In evaluating whether you or your family should be concerned, consider these sobering facts.

- We are living longer; people over 85 form the fastest-growing population segment; and more than 50% of them receive long-term care.
- Older people are more likely to suffer from dementia and need long-term care. The Alzheimer's Association says about 46% of the 85-plus elderly suffer from some form of the disease.
- Obesity, a growing problem in the United States, is a major contributor to health problems among the elderly. Some estimate that by 2020, obesity by itself will drive an increase of 15% to 20% in nursing home enrollments.
- The number of single-person households continues to increase – and those who live alone seldom have a family caregiver available.
- As medical science improves its ability to prevent early sudden death, the result is often a prolonged life with impaired health – and a greater need for long-term care.
- As children move far away from home, and/or the elderly relocate after retirement, it's harder to provide long-distance family caregiving.
- By 2035, more than 77 million people will be over 65 – there are about 37 million today – with about 17 million of them in need of long-term care.\*

In addition, study after study shows that healthy people in their 50s and 60s seem to prefer to ignore the idea of long-term care. That lack of planning may help to create a crisis situation in the future.

\*Statistical Abstract of the United States, 2005.

## How to Learn More

Long-term care insurance is a difficult subject in every sense. Your financial advisor will be able to help by providing information on how to compare or replace long-term care policies. He or she will also be able to advise how such insurance – whether for the investor, a spouse or a relative – can fit into a financial plan.

