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Choosing long-term care insurance

When Alzheimer's disease, an accident, a stroke, or aging leaves you incapable of performing activities on your own, long-term care, in a nursing home, your own home, or another residential setting, may become an essential part of your daily life.

By the numbers

- **2.5 years** is the average nursing home stay.
- **$192 dollars per day** is the average cost for nursing home care.[1]
- **60% of individuals** who reach age 65 require long-term care.[2]

1 metlife.com
2 waysandmeans.house.gov

About 60% of individuals who reach age 65 will need long-term care at some time in their lives.[1] Most health insurance programs will not typically cover long-term care expenses. The state-funded Medicaid programs, for example, pay for some long-term care but only if you have already spent most of your savings or other assets.

There are some 35 million Americans over the age of 65 today; that number will increase to over 70 million by 2030. As baby boomers see their parents grow old and begin to understand the costs of taking care of them as they age, they are seeking ways to cover those costs for themselves. For many, purchasing long-term care insurance is the most effective way to do this.

A long-term care insurance policy helps you pay for long-term care services in whole or in part. With such a policy, you pay monthly premiums, and in the event you need long-term care, your costs are covered as specified in your policy. A long-term care policy may also give you choices about what long-term care services you receive and where you receive them.

Protecting your assets, freeing your family from concern, and controlling where and how you receive long-term care services are all good reasons to investigate this option.

What does long-term care insurance cover?

The only way to ensure that your long-term care needs will be covered when you need them is by purchasing a long-term care insurance policy. While such policies vary greatly with respect to premiums and benefits, most policies cover the cost of

- nursing home care
- in-home assistance with daily activities
- adult daycare and other community-based programs

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Key points

Why long-term care insurance?

- Most health insurance programs do not cover long-term care costs.
- Most of the costs of caring for the elderly occur before they enter a nursing home.
- Buying long-term care insurance is the only way to guarantee that long-term care costs will be covered.

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- assisted living services, including meals, health monitoring, and help with daily activities provided in a setting outside the home
- daily nursing supervision for those with chronic illnesses

Should you buy long-term care insurance?

Whether long-term care insurance fits in your financial planning picture is a question best answered with the help of your investment, tax, or legal professional. The decision to buy long-term care insurance will depend mostly on your

- age
- health
- retirement goals
- income

How much coverage should I buy?

Long-term care policies come with a variety of features. But three key components that you select — the daily benefit amount, the benefit period, and the waiting, or "elimination," period — will greatly affect the cost of your policy.

A reasonable daily benefit. Long-term care policies pay a per day benefit. Nationally, the average cost of nursing home care is $130 per day2, but costs vary considerably depending on the location and quality of care. How much of a daily benefit do you want? While the norm today is $100 to$150 per day, the higher your daily amount, the more choices you may have.

A lifetime benefit period. When buying insurance, some recommend that you estimate how long a potential stay in a nursing home may last and buy accordingly. Nationally, the average stay in a nursing home lasts approximately 2.5 years, but 10% will stay longer than 5 years.3 Of course, those with Alzheimer's disease or other chronic disabilities may have a stay that lasts much longer. That's why some investment and insurance professionals recommend a policy with a lifetime benefit period. Policies with a lifetime benefit period, though markedly more expensive, eliminate the worry that coverage will run out.

A cost-effective "elimination period." Policies with short elimination periods — those that begin paying benefits after someone's 30th day in a nursing home, for example — are expensive. If your savings would cover a longer period, you may want to consider a longer elimination period, which will reduce your cost.

Additional features to consider

Inflation rider. Eighty-four is the average age at which people enter nursing homes.3 Someone who buys a policy at age 65, then, might not need coverage for almost 20 years.

Over that time, the average cost of a nursing home stay might rise from $130 per day to $274 if inflation averages a modest 4% annually. A long-term care policy with an inflation rider will ensure that your daily benefit amount keeps pace with rises in the costs of long-term care.

A home health care option. In-home custodial care accounts for most long-term care expenses. That's why it's important to purchase a policy that covers home health care. Often divided into custodial care, intermediate care, and skilled care, in-home care is not always covered by long-term care insurance. Most people who require long-term care need help with daily activities before they require nursing home services.

Must-knows about every long-term care policy

Benefit triggers. Coverage often begins when a doctor certifies that you need assistance in performing two or three activities of daily living, such as dressing or bathing. A policy with an additional trigger, "medical necessity," may be a good choice because it makes it easier to qualify for benefits. On the other hand, terms like "medically necessary" carry a different meaning. If a nursing home stay must be defined "medically necessary" to trigger benefits, you may need to prove that a specific medical condition exists before your admission to a nursing home or other facility is covered.

Benefit/payment stoppages. Often, your first visit to a nursing home is not your last. Some policies will count your initial stay in a nursing home, even if you do not reach your elimination period, to count toward your elimination period. Example: You stay for 20 days, but your elimination period is 30 days. Other policies will restart your elimination days at zero when you are admitted a second time.

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Under some policies, you may be allowed to stop paying premiums when you receive benefits but resume paying when you are discharged. This is an important provision that can give you much-needed flexibility.

Nonforfeiture rider. Most long-term care policies have no value if they are canceled or if premiums are not paid. A nonforfeiture rider will continue coverage (with reduced benefits) even if you discontinue paying premiums.

Limiting premium increases. Insurers cannot increase the premium of a specific individual, but they can raise the premiums for a certain class of policy or increase a premium as you age. These types of premiums should be avoided. Be sure that you understand under what circumstances your premiums can and cannot increase.

Guaranteed renewability. A guaranteed renewable provision ensures that the insurer cannot cancel or refuse to renew your policy as long as you have been paying your premiums.

Deducting premiums

You can deduct payments that you have made for qualified long-term care insurance contracts, up to a limit based on the age of the person being insured.

- To qualify, a long-term care insurance contract must only provide coverage for qualified long-term care services, such as services that are both necessary and meet certain other requirements.
- The person receiving the care must also have a long-term treatment plan prescribed by a licensed health care provider.
- The insurance contract must
  - be guaranteed renewable
  - provide that refunds (except refunds due to death or complete cancellation of the policy) and dividends are used only to reduce premiums or increase benefits
  - not provide for a cash surrender value or money that can be borrowed
  - not pay items already reimbursed under Medicare

Here are the deductible amounts for 2005

Age of insured	Deduction
40 or younger	$270
41 – 50	$510
51 – 60	$1,020
61 – 70	$2,720
71 or older	$3,400

When should you buy?

A 65-year-old in good health will pay approximately $1,500 to $3,000 per year for a policy that covers nursing home care and home care. The cost increases the longer you wait, and waiting carries an additional risk: if you wait until you reach your 70s or 80s, failing health, policy restrictions, or cost could make it more difficult to purchase long-term care insurance. It's important to remember that buying earlier can reduce costs substantially.

Buyer beware

Because an insurance policy is a long-term investment, you will want to shop for a policy as you would any long-term investment.

- Check with several companies before making a decision.
- If you can't understand what a policy does and does not cover, don't buy it.

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There's no right time to buy, but there's a cost for waiting

Bill was a healthy male when he purchased a long-term care policy at age 45. Dan was a healthy 65-year-old when he purchased a similar policy. Assuming both men entered a nursing home at age 85, Bill's total premium cost would still be lower than Dan's, even though he paid premiums for an additional 20 years. The insurance would still be valuable in both examples because if they spent the average stay in a nursing home, a benefit of $139,500 in today's dollars would be paid to cover each of their costs.

Of course if Dan invested the $12,880 he saved from starting his policy later, his invested assets may make up some of the costs for the long-term care.

Policyholder	Cost per year	Number of years paid	Total paid
Bill	$478	40	$19,120
Dan	$1,600	20	$32,000

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- If you feel pressured to buy, it's better to wait.
- Don't buy more than one policy that does the same thing — you wouldn't insure your car twice!

Another step

Be sure and check with your state's commissioner of insurance or Better Business Bureau before you buy a policy. They will maintain a list of those firms about which they have received complaints.

Buying long-term care insurance is a long-term decision. Make sure you read over any literature you receive from a prospective insurer carefully.

As with all financial decisions, it's best to consult with your investment, tax, or legal professional before you decide to buy a specific policy.

Resources

AARP (formerly known as the American Association for Retired Persons)
aarp.org
The AARP has information on long-term care insurance and other topics of interest to older Americans.

Department of Health & Human Services, Administration on Aging
aoa.gov
Government resources about health and topics of interest to the elderly.

Internal Revenue Service
irs.gov
The IRS has more detailed information on deductibility guidelines.

The National Center on Women & Aging
heller.brandeis.edu/national/index
Located at Brandeis University, the center directs national attention toward the unique problems of women as they age and works to develop strategies and resources to improve the lives of older women.

State Health Insurance Assistance Program (SHIP)
http://hiicap.state.ny.us/home/link08.htm
The New York State Office for the Aging has helpful links to the program sites in various states.

Contact your investment professional for more information or visit **mfs.com**.

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