Kiplinger's PERSONAL FINANCE
Retirement Planning
YOUR GUIDE TO SECURING YOUR DREAMS
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Long-term-care insurance can save your nest egg from the ravages of nursing-home costs. *By Mary Beth Franklin*

Peace-of-mind INSURANCE

EVEN though it has been 30 years since audiences first screamed during the attack scenes in the movie *Jaws*, some beachgoers still think twice before venturing into the ocean. Many consumers contemplating long-term-care insurance—which was introduced about the time that *Jaws* debuted—may feel the same way. Haunted by reports of major insurers leaving the market over the past few years and frightened by tales of existing policyholders being slapped with steep premium hikes, baby-boomers now in their forties and fifties want to know if it is safe to go back in the water. The answer from many leading long-term-care experts is a firm yes.

"We're going through this adjustment in the market right now, and the result is a stronger, more stable industry," says Buck Stinson, president of the long-term-care division of Genworth Financial. "Insurers are pricing their new products more prudently, so consumers can be relatively confident of rate stability." Translation: You will pay more for one of the new-generation long-term-care insurance policies than for those offered a few years ago, but you're less likely to see premium spikes in the future.

Still, how do you judge if it's worth the gamble to buy long-term-care insurance? The fact is, you don't have a lot of other options. Medicare doesn't cover most long-term-care costs, and medicaid, which won't step in to help until you spend down assets to the poverty level, is already facing severe budget problems even before the first boomer retires.

In fact, the Department of Health and Human Services has teamed with the National Governors Association to launch the Long Term Care Aware pilot project. The goal: to alert citizens that they need to think about how to finance their future care. "We're trying to encourage people, especially boomers, to talk about this issue and plan for it," says Michael O'Grady, HHS assistant secretary for planning and evaluation. "They shouldn't assume that medicaid will step in."

The high cost of care

"MOST AMERICANS cannot have financial freedom in retirement without considering how they will pay for long-term care," says Joyce Ruddock, vice-president of MetLife, which, like competitors Genworth and John Hancock, has never raised premiums on in-force long-term-care insurance policies. "People have to ask themselves: 'If something happened to me tomorrow that required custodial care, how would my family provide that care and how would we pay for it?'"

Such costs can easily wipe out a lifetime of savings. In 2004, the average cost of a private room in a nursing home was $65,200, up 13% from the year before. Prices vary dramatically depending on where you live. Average fees ranged from a low of $41,600 a year in rural Missouri to a high of more than $191,000 in Alaska, according to

the 2004 Genworth Cost of Care Survey. The average national cost of assisted-living facilities was nearly $29,000 a year, and the average cost of a home-health aide was more than $18 an hour.

Today, more than 35 million Americans are 65 and older, and by 2011—just six years from now—that figure will more than double, to 77 million. An estimated four out of ten people will use a nursing home at some point after reaching age 65, and many will need either home care or an assisted-living facility at some time as well. "With the baby-boomers streaming down the pipeline in unprecedented numbers, the need and the cost of care will only go up," Ruddock predicts.

The right to choose

Laurie Dellise, a divorced mother of four from Green Bay, Wis., bought a long-term-care policy two years ago at the age of 43. The office manager of an insurance agency, Dellise said she watched too many people be turned down for the insurance because they waited until they developed a medical problem that made them ineligible.

"Maybe if I were not single, I would not have thought about it as early as I did," says Dellise. "But I don't want to be a burden on my children if I should ever need care. I want the time I spend with them to be pleasant. But I didn't do it just for them," she adds. "I did it for me, too. I want control over where I receive care. It's an important part of my retirement security."

Because of her young age at the time of purchase, Dellise was able to buy coverage of up to $120 a day for an unlimited number of days for less than $600 a year. That's a bargain compared with the thousands of dollars a year that older policyholders often pay. Of course, it's likely that she'll pay premiums for many more years than those who buy in their fifties and sixties.

Long-term-care premiums are based on several factors, including the size of the daily benefit; the length of the care covered, known as the benefit period; and how soon benefits start after care begins, known as the elimination period. Dellise chose inflation protection, which will increase her daily benefit by 5% a year. After two decades, for example, that initial $120-a-day benefit will rise to about $320. While crucial for younger buyers who may not need benefits until 30 years down the road, inflation protection can often double the premium. As noted, policy prices are also affected by your age at the time of purchase. The younger you are, the cheaper it is.

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Pay now or pay later

Middle-aged consumers in their forties and fifties are often preoccupied with more-immediate goals, such as saving for college for their kids or retirement for themselves. But for every year you delay purchasing a long-term-care insurance policy, the price increases about 10%, says John Ryan, of Ryan Insurance Consultants in Greenwood Village, Colo. "Let's say you could buy a policy today to pay for $100 a day of care. If you waited until next year to buy it, you would be a year older and that would raise the cost about 5%," says Ryan, who advises fee-only financial planners on the best policies for their clients. "Plus, with 5% inflation protection, you would have to buy $105 a day of coverage compared with last year's $100-a-day policy, so there's another 5% increase."

Ryan says the 10% annual increase assumes the same policy would be available. But over the past few years, insurers have been pulling old policies off the market and introducing new ones with premiums running 25% to 30% higher. "It's been frenzied over the last two years," he says. "But the products have evolved to the point that they are about as good as they can get, and they are priced correctly."

Another option, suggests Mike Ashley, president of Senior Benefit Consultants, near Kansas City, Kan., is for younger clients to buy basic coverage now and add more later, when they can afford it. For example, a 50-year-old couple could buy a $50-a-day policy today with an inflation-protection period and eight years of coverage for $909. Ten years from now (assuming they were healthy enough to qualify for coverage), they could add another policy with an additional $50-a-day coverage for $1,413 a year, resulting in a total annual premium of $2,322. If they wait until age 60 to buy a policy that gives them that combined coverage, it would cost $3,702 a year, nearly $1,400 a year more. By spreading the cost over more years, the price is more affordable in retirement.

Ryan says recent policy improvements include steep spousal discounts—as much as 40%—when married couples both buy long-term-care insurance. Another popular innovation is "shared benefits," meaning if a husband and wife (and in some cases, any two people in the same household) each buys a policy for a set benefit period, such as five years, and one of them needs care longer than that, he or she can draw on the other's benefits. The shared benefit generally adds about 10% to the cost of the policy.

Although consumers who buy the newest policies can be relatively certain of price stability, Ryan is not so confident about some older policies, particularly those that provide for lifetime care or that have short elimination periods, such as 30 or 60 days, before benefits begin. "I expect rate increases will be the largest for short waiting periods and long benefit periods," he predicts.

The cost of PEACE OF MIND

This table compares premiums for top-rated long-term-care policies issued at various ages. The policies offer a $100 daily benefit with a compounded 5% annual inflation adjustment and a 90-day waiting period between the time care begins and benefits commence (100 days for MetLife). Premiums shown are for individual policies but include a spousal discount, so the table assumes both husband and wife buy long-term-care insurance.

	COMPANY				
AGE	GENWORTH	METLIFE*	JOHN HANCOCK	PHYSICIANS	BERKSHIRE
55	$1,539	$1,450	$2,129	$1,363	$1,351
60	2,049	1,850	2,541	1,702	1,709
65	2,795	2,560	3,113	2,189	2,319
70	4,195	3,875	4,189	3,178	5,185

*Older policies are available in some states for a 30% discount.
SOURCE: Ryan Insurance Strategy Consultants (www.ryan-insurance.net)
Long Term Care Insurance is underwritten by General Electric Capital Assurance Company and in New York by GE Capital Life Assurance Company of New York.

Generally, insurers will offer policyholders an alternative to a steep premium increase by allowing them to trim daily benefits, reduce benefit periods or increase the elimination period.

Paying for peace of mind

PRIMO MACCIOLA, 64, of Diamond Bar, Cal., had planned to buy long-term-care insurance for himself and his wife, Catherine, years ago, but the self-employed real estate appraiser simply could not fit the premiums into his budget. But when a cash-value life-insurance policy became self-sustaining, he was able to divert money that had paid for life insurance to a long-term-care policy.

"We had firsthand experience with the pressures and stresses of caregiving," says Macciola, noting that both his mother and mother-in-law required lengthy care before they died. After researching the cost of nursing homes in nearby Los Angeles, the couple decided to buy a $170-a-day benefit with five years of coverage for Primo and lifetime benefits for Catherine, because women tend to live longer in general and her family has a history of living into their nineties.

They did not buy inflation protection initially, but they can add it later. Together their policies cost about $4,800 a year. Since Primo is self-employed, he can deduct the long-term-care premiums for both policies as a business expense. For those who are not self-employed, the cost is considered a medical expense. That means it's deductible if you itemize, but only to the extent that all of your unreimbursed medical expenses exceed 7.5% of your adjusted gross income. And, self-employed or not, there's a limit on how much you can deduct, based on your age. For 2005, for example, the deduction is limited to $270 for those age 40 and younger; the cap rises to $4,300 for those age 71 and older.

Delaying the purchase of inflation protection is another innovation that insurers are offering to hold down the cost of premiums initially. The insurers guarantee that inflation protection can be added later on, says Robert Davis, president of Long Term Care Quote (www.ltcq.net), a free shopping service to help consumers compare the best long-term-care policies.

Another way to free up cash is to drop disability or term-life insurance policies when you no longer need them and to use the money to buy long-term-care coverage.

If you have a cash-value life-insurance policy that you no longer need, rather than cashing it in, consider a tax-free exchange for a new life-insurance policy with a long-term-care rider. Such policies allow you to tap your benefits during your lifetime to pay for long-term-care costs. Amounts paid out for long-term care are deducted from the death benefit received by your heirs.

"You'll have your long-term-care needs covered, and if you don't use the coverage, your beneficiaries will get the life-insurance benefit tax-free," says Davis.

Combination policies are less attractive to buy outright because most require a single upfront premium. And they can be more expensive than buying a stand-alone long-term-care policy and term-life insurance. But for those who worry about paying premiums for long-term care they may never need, it may be an appropriate compromise.

For example, a healthy, 65-year-old woman could purchase a $50,000 MoneyGuard policy from Lincoln National Life Insurance Co. with a death benefit of $103,522 and $207,044 in long-term-care benefits. MoneyGuard would pay up to $4,313 per month for long-term care, stretching the $207,044 maximum over six years. The death benefit would be reduced dollar for dollar by the payouts for long-term care. But if you didn't need to use the care benefit, your beneficiary would get the full death benefit.

Marilee Driscoll, author of *The Complete Idiot's Guide to Long-Term Care Planning* (Alpha Books, $19.95), believes middle-class Americans need to insure themselves against catastrophic long-term-care costs. But the prospect of future premium hikes is daunting. Although policies that link long-term-care insurance and life insurance used to be considered a poor value, Driscoll says they're now worth a second look. But they're not available in all states, she says, and consumers must check the details carefully to make sure they cover all levels of care—at home, in an assisted-living facility or in a nursing home. K

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