

Choosing a Long-Term Care Policy That's Right For You

Would a long stay in a nursing home wipe out your life savings? People living longer, tougher qualification rules for Medicaid, smaller families, and rising health care costs have increased the need for long-term care (LTC) insurance to help pay for extended nursing home or home health care. But who really needs such a policy and what benefit features should they choose?

A year of nursing home care can cost individuals \$50,000 a year or more. The wealthy generally can afford to meet that expense out of pocket. People at the other end of the economic scale generally can't afford the LTC insurance premiums and probably would qualify for Medicaid, anyway. People who have more modest assets, modest retirement income, especially those who have little or no family to provide care at home, and who don't want to rely on government programs are the ones who should consider purchasing long-term care insurance.

People should begin considering LTC insurance in their 50s, even if they don't buy it until they're in their 60s (premiums rise dramatically after that). The first step is to determine need. To do this, an individual might find out the average cost of local nursing home care and then, with the help of a financial professional, determine what portion he or she could afford to pay annually out of assets and income and what portion would have to be covered by LTC insurance. If nursing home care runs \$150 a day and the person can pay \$50 of that, the policy might need to carry a daily benefit of \$100.

The next challenge lies in choosing the right policy and features. Long-term care coverage is expensive and there are many options from which to choose. People who purchase a long-term care policy should consider the following three important benefit features:

Cost-of-living adjustment (COLA). A COLA bumps up the chosen daily benefit each year, usually at a fixed percentage, to keep up with rising health care costs. A \$100 daily benefit today, with a 5 percent annually compounded COLA would provide \$550 in daily benefits in 35 years.

Home health care. This is an important feature because living at home is preferred by many of the elderly. A home health care benefit is generally sold as a specified percentage of daily nursing home home benefit, such as 50 percent or 100 percent. Typically, 100 percent is the best choice, because home health care, contrary to public perception, is not cheaper than nursing home care. Skilled care by a nurse or therapist at home can easily run as much as a nursing home stay - plus the individual still has the continued home maintenance costs, such as taxes, utilities, food, and perhaps even a mortgage.

Liberal benefit triggers. Look for a policy that does not require previous hospitalization or skilled nursing home care before benefits will be paid. The policy generally should go into effect if the policyholder is unable to perform one or more "activities of daily living,"

such as bathing, dressing, or eating. And the policy should pay for all three levels of nursing home care: custodial, intermediate, and skilled.

One should also be sure that a policy's benefit triggers include forms of cognitive impairment, such as Alzheimer's disease. (Alzheimer's, which can strike early in life, is an argument for getting LTC coverage earlier rather than later.) Of course, each feature you choose adds to a policy's cost, sometimes substantially. The home health care and COLA features, for example, each can double the premium cost of a "no-frills" policy. To reduce premium costs, consider these options:

- *You could lengthen the period of time after the onset of need but before a policy begins to pay benefits (the elimination period). This means you pay expenses out of pocket for the first 30, 90, or 180 days of care.*
- *You could buy a policy for a shorter period of coverage, such as two to five years, rather than for a lifetime. However, this would not dramatically lessen premiums because statistics show most nursing home visits last fewer than three years.*
- *Couples might consider buying a joint LTC policy that covers both and has a lower premium than two individual policies. At the very least, if a couple each purchases an LTC policy from the same company, they should inquire about discounts. Not all companies offer these features.*

Finally, people should be aware that a change in their personal circumstances, such as divorce or death, could alter the need and type of policy. They should also look for changes in Medicaid regulations and other elder laws that might affect their needs.

— Michael Snowdon, CFP®