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The New Retirement

# TAKE (LONG-TERM) CARE

## Don't overlook this essential part of retirement planning

By Peter Keating

Most retirement planning is about means, not ends. It's about making sure you have as many options as possible, not telling you how to spend your money. This month, however, I want to suggest that you set aside a significant amount of your monthly budget for a purchase that is often considered somewhat controversial: long-term-care insurance.

Long-term care includes medical and nursing services beyond your typical visits to the doctor, treatment for illnesses and short hospital stays. It's the kind of ongoing help you need when you can't handle activities of daily living, such as bathing, eating or dressing. It can take place in your home, assisted-living facilities (residences with services that monitor your health and provide your meals) or nursing homes.

The case for insuring yourself and your family against the costs of long-term care is straightforward and essentially statistical. First, however hale and hearty you may be today, you may well need help tomorrow. Americans age 65 and over have a 40 percent chance of entering a nursing home at some point during their lives, according to the Department of Health and Human Services. Meanwhile, today 55 percent of Americans age 85 and over are impaired seriously enough to require long-term care, according to America's Health Insurance Plans, a trade group. Many of these seniors will get help at home, but a good proportion of them will have to move into a facility.

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Second, this kind of care is extremely expensive and getting more so every year. The annual cost of private nursing-home rooms averaged a whopping $75,190 in 2006, up 7.3 percent since 2004, according to the Met Life Mature Market Institute. The average cost of 12 months in an assisted-living facility was $35,616 in 2006, up 17.6 percent since 2004—and that doesn't include extra charges that some impose for dementia care.

Third, for most Americans long-term care isn't covered by other types of insurance. Don't be confused by the fact that Medicare pays for "skilled nursing care." That refers to short-term help you may need to get over an injury or acute illness. If you break your leg, for instance, Medicare will cover the cost of "medically necessary" care, like physical therapy, for 20 days. (It will then cover part of your costs for another 80 days; after that, you're on your own.) But if you are chronically sick or permanently incapacitated, Medicare won't help. Neither will Medigap or Medicare Advantage policies.

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Medicaid, the federal health care program for low-income Americans, will pay for long-term care. But to qualify in most states, a senior must have less than $2,000—that's right, *$2,000*—in assets. In recent years Medicaid's eligibility rules have triggered concern among middle- and upper-middle-class seniors, worried they might need to give away their houses and investments before entering nursing homes—anxiety that has only worsened as the federal government has tightened its guidelines. The whole mess has spawned an entire industry of "Medicaid planning," and in a future column, we will return to the subject of how to pay for long-term care if you (or your parents) aren't fully insured. For now it's enough to note that you shouldn't rely on Medicaid if you don't have to. You will be impoverishing yourself to get federal money. You will have to surrender any income, such as Social Security or pension benefits, to keep it. And maybe most important, you might not keep full control over the kind of care you receive.

Add up these three factors—you could well need care, it's hugely expensive, and most insurance won't cover its costs—and you arrive at this stark conclusion: Long-term care is the single most catastrophic financial risk you face. And that's why the protection of insurance is so important.

It's also why some states now encourage people to purchase this kind of insurance as they would for other financial risks. Sacha Millstone, senior vice president of the Millstone Evans Group of Raymond James and Associates, a planning firm in Boulder, Colo., points to how often people use insurance to cover expenses of more than $100,000. She says there's a one-in-1,200 chance that your house will burn down, a one-in-240 chance that you'll be involved in a car-accident lawsuit, a one-in-15 chance you will incur a major medical expense—and a one-in-four chance you will rack up a long-term-care bill.

To be sure, long-term-care insurance can be pricey precisely because it's a hedge against big expenses—and risky because it's sold by insurance companies to customers who, by and large, don't understand the ins and outs of their policies. So here's what you need to do to keep your costs down and benefits up.

- **Buy now.** As you age, the price of signing up for long-term-care insurance skyrockets, typically more than doubling between the ages of 55 and 65. And if you wait you could develop conditions like high blood pressure or osteoporosis that can make getting insurance harder or impossible.
- **Ask your employer** if group insurance is available. It's typically about 5 percent cheaper than buying on your own.
- **Comparison-shop,** but buy from a strong, well-established insurer. You want to make sure your insurance company will be around as long as you will. Start by taking a look at policies from John Hancock (*www .johnhancocklongtermcare.com*) and Met Life (*www.metlife.com*), which the federal government has chosen to underwrite for its employees. Check the financial ratings of other insurers at Standard & Poor's (*www .standardandpoors.com*). And avoid Conseco, its subsidiary Bankers Life and Penn Treaty, whose alarmingly high rates of policy-holder complaints have drawn attention from *The New York Times* and congressional investigators. (All of the companies said their denials of claims had been proper.)
- **Pay for daily benefits,** not lifetime coverage. Long-term-care policies pay a benefit per day over a specified period of time. To avoid a shortfall on the former, you need to research facilities near your home, because costs vary widely by region: In 2006 nursing-home prices ranged from $123 a day for a private room in Shreveport, La., to $282 a day for the same in Cherry Hill, N.J. But you don't want to overpay for the latter. Most people will stay three or fewer years in a nursing home. So unless you have a family history of chronic illness, it makes no sense to pay for lifetime benefits. Instead, go with a policy that offers coverage for three or four years.
- **Limit your costs** with an elimination period. A policy's elimination period is basically its deductible—the number of days you'll pay for long-term care out of your pocket before your insurance kicks in. If you can manage a 60- or 90-day waiting period, you'll find your premiums easier to manage too. If you're in your 50s, a long-term-care policy with unlimited and immediate benefits can easily run more than $5,000 a year. With a $200 daily benefit, three years of coverage and a 60-day waiting period, you're looking at annual premiums of around $2,000 instead.
- **Make sure your policy covers dementia**. Cognitive decline can ravage your finances just as easily as physical problems.
- **Protect yourself** against inflation. Most policies will give you an option to increase your benefit by 5 percent every year while keeping your premiums level. It's expensive but important to do this. Otherwise, given rising medical costs, you could easily retire with, say, $200,000 of insurance to cover $1 million in long-term-care costs. Stay away from "future-purchase" or "guaranteed-purchase" alternatives, which don't increase benefits automatically but allow you to buy more coverage later in life—at hugely increased prices.

Finally, once you have long-term-care insurance, keep meticulous records. You want to be able to show that your premiums are fully and promptly paid and that any health problems you develop will not disqualify preexisting conditions. Peace of mind is a lot of work, but in this case, the end justifies the means. S



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