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Insuring Your Future Care

DO YOU NEED LONG-TERM-CARE INSURANCE? Do your parents need it? To anyone who has seen, up close, how much it costs to care for a failing relative or friend, the answer is “yes, for sure.” Nursing homes charge about \$75,000 a year for a private room, with home-health aides clocking in at \$19 an hour. How would you pay?

Families, especially spouses, step up for care at home. For nursing-home care, there's Medicaid, a government program that covers people who can't pay the bills themselves. But Medicaid isn't the answer for people with substantial financial assets. Couples, in particular, want to be sure that one spouse's care doesn't impoverish the other.

When you shop for a policy, however, the price may stun you. The industry has jacked up premiums in recent years by 20 to 55 percent, to cover rising interest rates and other costs as well as higher numbers of claims than it had expected. Not surprisingly, sales fell off sharply before picking up again last year. To win back more customers, insurers are designing new forms of LTC coverage. In particular, they're targeting boomers who might be willing to buy at a younger age.

A traditional, comprehensive policy gives you the following: (1) a basic benefit, such as \$200 a day, to cover expenses; (2) an inflation rider, so your benefit will keep up with future costs; (3) a waiting period before benefits start, typically three months from the day you're certified as needing care; (4) a specific term—say, payments lasting for five years, and (5) a rider covering care at home. For benefits like these, a 55-year-old in good health should expect to pay about \$2,300 a year, says financial planner Robert Pagliarini, author of “The Six-Day Financial Makeover.” At 65, you'd pay \$3,900. Discounts are available to couples, including unmarried partners.

To cut costs, you might buy fewer benefits, planning to fill the gaps with your

personal savings. A policy covering three years of care instead of five might save you \$405 a year at 55 and \$760 at 65. Insuring for \$150 a day instead of \$200 saves you \$590 at 55 and \$983 at 65. Inflation protection is especially expensive—typically doubling the premium you'd otherwise pay. Most insurers build 5 percent annual increases into their coverage. John Hancock's new Leading Edge policy links future increases to the consumer price index, currently running at 2.6 percent. That cuts premiums by 20 to 40 percent, the company says. (But do you really want less coverage? LTC consultant John Timmerberg says that most buyers prefer to buy full benefits, for their peace of mind.)

Insurers are offering new forms of long-term-care insurance for boomers who might be willing to buy at a younger age.

For younger people, insurers are pitching the idea of starting small. With Allianz Life's Generation Protector II, you might sign up for protection worth \$100 a day and raise it to \$200 in later years. MetLife will introduce a similar policy later this year. Genworth's new Cornerstone

Advantage policy cuts costs by requiring co-pays: there's an upfront deductible, and you're covered for only 80 percent of your qualified expenses. MedAmerica's Simplicity policy decouples its coverage from your specific bills: it pays you straight cash regardless of who gives you care.

Group long-term care through your employer offers coverage at even lower costs. Benefits may be skimpier than those offered by outside policies, but they're usually good enough.

There's an advantage to buying at 50 or 55. Premiums are lower than if you wait 10 years. You're more apt to be healthy (most insurers won't take you if you're sick, although Penn Treaty offers a limited-benefit policy to poorer risks). What's more, you'll need a larger policy in 2017 to cover the increase in costs, says Jesse Slome of the American Association for Long-Term Care Insurance. LTC agent Geoff Gordon of Maga Ltd. in San Diego adds that future policy designs may be more expensive, too.

On the downside, you don't know whether your company will stay in the LTC business. That's an argument for buying from the majors (Genworth, John Hancock, MetLife, Allianz Life) or a large membership group such as AARP.

For people with large sums of money they don't expect to use for retirement income, the industry is pitching new combination products. For example, you might drop \$100,000 into a life-insurance policy. If you do need long-term care, you can get up to 100 percent of the death benefit in cash, tax-free. If you don't need care, the policy's proceeds go to your heirs. Look at Genworth's Total Living Coverage, John Hancock's LifeCare Benefit option or policies from Standard Life.

If you can't get life insurance because of poor health, consider the combo tax-deferred annuity from State Life, Great American Life and others. Thanks to a change in the law last year, it too can be used tax-free to cover long-term care, starting in 2010.

You'll need an experienced LTC agent to sort out these choices and hold your hand while you're writing the check. But believe me, you won't regret the cost, if long-term care becomes necessary for someone you love.

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