Pursuing Peace of Mind

Long-term care insurance provides security for a rainy day. But can you afford it?

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Boomers who have helped a frail or sick parent search for a nursing home or hire a home care aide are learning hard lessons early: Long-term care is expensive—it can cost tens of thousands of dollars a year—and only those who are virtually impoverished qualify for government aid.

Those lessons are pointing a growing number of boomers toward long-term care insurance, an intriguing idea designed for this brave new world where many more Americans will live until they need help just to get up and dressed in the morning.

About 7 million people now have these policies. First sold as nursing home insurance in the 1970s, and purchased mainly by people in their 70s, long-term care policies today can cover a range of services, including extended care at home or in an adult day care center as well as in an assisted living residence or nursing facility. Some even cover home modifications. Benefits are usually triggered when a person cannot perform at least two key daily activities, such as bathing or dressing, or is cognitively impaired by Alzheimer's or another form of dementia.

This insurance can protect assets, help guarantee care and soothe anxieties. And recent surveys show boomers are buying it so they can control how they're cared for later in life, when they are at their most vulnerable.

The policies, however, are not for everyone. Many people simply cannot afford the kind of coverage they need to make a policy worthwhile.

The best long-term care policy has a reasonable deductible, covers a wide range of care options, guarantees a sufficient financial benefit and is buttressed by inflation protection. This kind of security doesn't come cheap: It could cost a 55-year-old $3,000 a year and a 65-year-old more than $5,000. (By way of full disclosure, AARP makes available long-term care policies underwritten by the Metropolitan Life Insurance Co.)

Long-term care insurance makes sense for those who earn good salaries, have accumulated assets they want to protect and have planned for a comfortable retirement. TheStreet.com Ratings says households with annual income of at least $50,000 to $75,000 and assets of $150,000—not including a car or house—might want to consider a policy. Financial planners typically recommend it for their clients, who tend to earn more.

Many experts say flatly that those who can't afford a good policy shouldn't buy one at all. The worst approach, they say, is to start with a solid, comprehensive policy and whittle it down to something affordable, tossing out expensive but critical provisions such as inflation protection.

Moreover, even those people who can afford a good policy while they're still working may not be able to pay the premiums in the future.

"When you think about these policies, focus on how affordable that premium will be when you're living on a fixed income," advises Robert Friedland of Georgetown University's Center on an Aging Society. "If you don't have a good retirement package, if you haven't been actively saving for retirement, then long-term care insurance is the least of your problems."

Long-term care insurance is complicated. Policies are extremely difficult to compare, so even savvy consumers should seek advice from a financial planner or trained insurance agent.

"For us, buying long-term care insurance was all about peace of mind," says Arnie Kimmel of Chicago. Kimmel, vice president of a private hospital company, and his wife, Laura, an events planner, bought policies four years ago when they were in their mid-50s.

Even though Kimmel deals with insurance issues in his work, he says he "can't imagine trying to buy a policy like this on our own. We relied on our financial adviser to sort out the best combinations for our policy."

Recently the profile of who buys long-term care insurance has changed dramatically—from people in their 70s to those like the Kimmels, in their 50s and early 60s. "Today, two-thirds of all purchasers are still working," says Marc Cohen, president of LifePlans Inc., a Boston consulting and research company that gathers facts and figures for the insurance industry.

The trend could continue. More employers are offering policies, and some politicans are now pushing this kind of

How Much Does Insurance Cost?

That depends on the options you choose. The premiums below include options many experts recommend: 3-year benefit duration, 5% compound inflation protection and benefits that kick in after a 60-day waiting period.

Age at purchase	$100/day benefit. You pay annually:	$150/day benefit. You pay annually:	$200/day benefit. You pay annually:
50	$1,821	$2,732	$3,634
55	$1,971	$2,957	$3,943
60	$2,438	$3,657	$4,876
65	$3,258	$4,887	$6,516
70	$4,866	$7,299	$9,732

SOURCE: AARP METLIFE

private insurance as a way to encourage people to secure their own future.

Congress recently passed legislation allowing states to set up "partnership programs" that permit residents who buy long-term care insurance to protect a portion of their assets if the benefits run out and they eventually qualify for Medicaid.

Twenty years ago, assisted living residences and adult day care centers didn't exist—and more changes are expected in the next 20 years. New technologies and fresh, innovative public policies could offer more options to all Americans.

"The economist Herbert Stein once said, 'If something cannot go on forever, it will stop,' " says Mark Merlis, a health care consultant and the author of a study on long-term care insurance for the Henry J. Kaiser Foundation. "I think we could see some profound changes coming in the next 20 or 30 years." ■

Where to Go

- A new site: **www.longtermcare.gov/LTC/Main_Site/index.aspx.**
- National Association of Insurance Commissioners, **www.naic.org**. Click on "More Consumer Alerts" for long-term care information and links to state insurance departments.
- "Caring for Those You Care About" (D18186), free booklet. Write: AARP Fulfillment EE01696, 601 E St., N.W., Washington, DC 20049.
- Visit **www.smartmoney.com** and click on "Personal Finance."

What You Need to Know

1 The best policies are flexible, allowing you to use your benefits for a range of services from home care aides to care in a nursing facility. Only about 4 percent of the current population over age 65 lives in a nursing home. The average stay there is 2.5 years.

2 Long-term care policies offer a maximum daily payment for a fixed period of time. Most people opt for one to six years. Some experts say three years is adequate. Those with a family history of Alzheimer's or dementia may want to consider lifetime coverage if they can afford it.

3 Some plans offer spousal and healthy living discounts.

4 Don't use a national cost average to determine the coverage you need—check the cost of care in the area where you expect to retire. Costs can vary wildly. A private room in a nursing home costs $111 a day in Shreveport, La., $346 in New York and $578 in Anchorage, Alaska.

5 If you're under age 70, get a policy with automatic compound inflation protection. This protection will double the cost but is essential for younger purchasers, experts say. Without it, your daily benefit could be worth a fraction of its original value in 20 or 30 years.

6 Consider a policy with a "pool of money." This feature provides flexibility and allows you to choose how you'll spend your insurance money—from home care to nursing home care—and extends your coverage if you haven't used all your benefits during the specified period. For instance, if you sign up for a maximum benefit of $100 a day for three years (a total pool of about $100,000) and only draw $50,000 worth of benefits during those three years, you can continue to draw from the remaining pool of money. A policy with this feature costs up to 40 percent more.

7 Most policies sold today qualify for a tax deduction, but the deduction is limited to a portion of the premium and can only be taken by people who have spent more than 7.5 percent of their income on medical expenses during the year.

8 A typical policy has an "elimination period"—the amount of time you pay for your care before insurance takes over. The shorter the period—30, 60 or 90 days—the more expensive the policy. But don't try to reduce premiums by opting for too lengthy an elimination period. You could wind up broke. Paying for nursing home care today during a 180-day elimination period would cost you about $37,000. In 25 years, if the cost of care continues to rise by about 5 percent a year, you'd pay $125,000 during that period.

9 Long-term care insurers guarantee not to raise your premiums because of changes in your health. But they can exercise a blanket rate increase for a whole class of policyholders—say, everyone over age 75—and they have.

10 Read the actual policy outline provided by the insurer to check what coverage you're buying. Don't rely on a sales brochure or a salesman's promises.

11 Tell the truth about your medical history. If you don't, the company can deny you coverage years later when you try to claim your benefits.

12 Buy long-term care insurance from a solid company that is likely to be around in 20 or 30 years. In the field of long-term care insurance, the major players include John Hancock, MetLife, Prudential, MassMutual and New York Life. For a small fee you can check ratings with financial firms like TheStreet.com Ratings (1-800-289-9222), A.M. Best (908-439-2200) and Moody's Investors Service (212-553-1658).