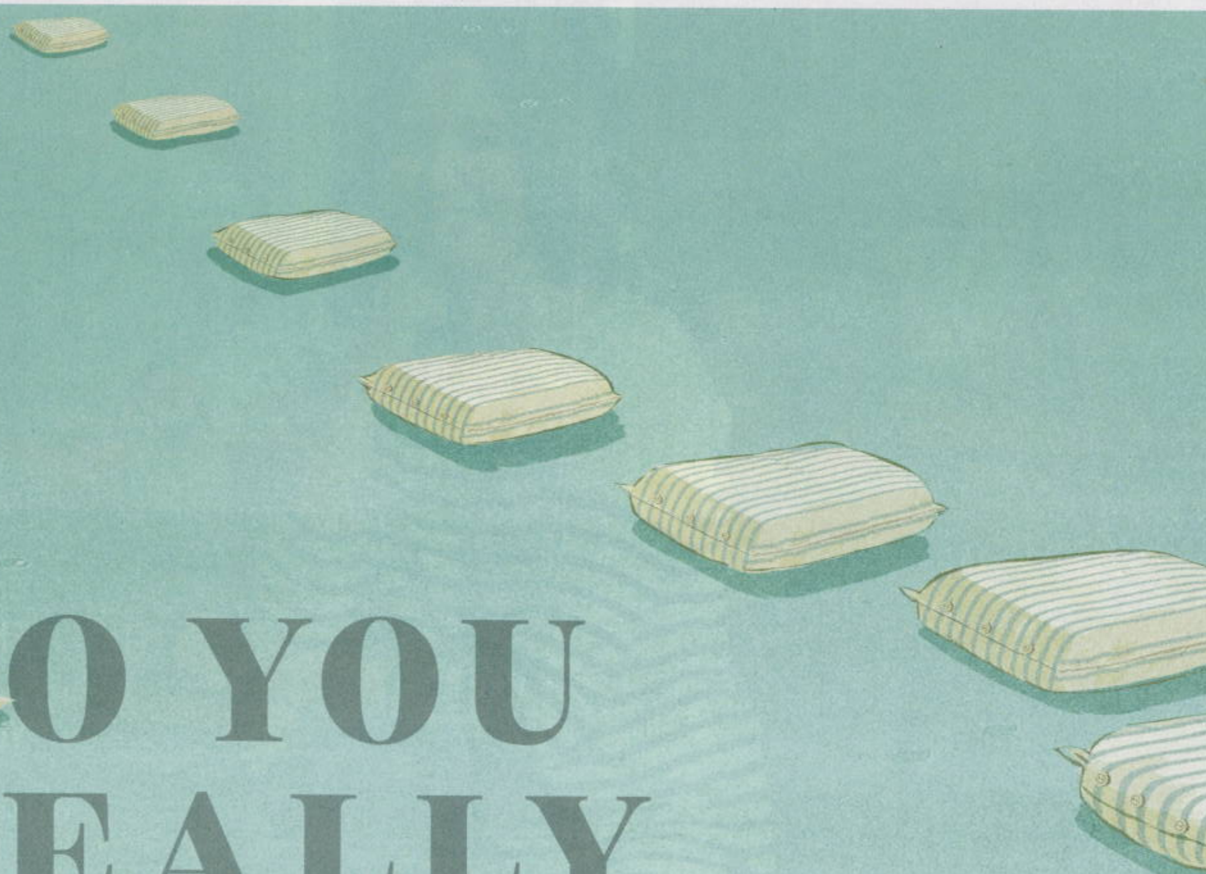

DO YOU REALLY NEED A LONG-TERM CARE PLAN?

[BY DAN KADLEC / ILLUSTRATION BY SHOUT]

A LENGTHY STAY IN A NURSING HOME COULD WIPE OUT YOUR SAVINGS, BUT COSTLY INSURANCE MAY NOT BE THE BEST WAY TO PROTECT YOURSELF. TO CUSHION THE BLOW OF AN EXPENSIVE HEALTH CRISIS LATE IN LIFE, TAKE THESE STEPS NOW.

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HEN CRAIG AND JAN KLAAS, both 60, decided to buy long-term-care insurance three years ago, they settled on a total benefit of $495,000, which would rise 3.5% a year for inflation. But the Rockford, Ill., couple reviewed their policy in January and found it lacking. Nursing-home costs in their town had risen faster than expected. So they boosted the benefit to $750,000 and bumped the inflation rider up to 5% to prevent a future shock. Now they are dealing with sticker shock: a $7,500-a-year price tag, up from $5,500. "I don't like paying the premiums," says Craig, a financial planner. "But I don't want to work and save for 40 years only to give half back to a long-term-care facility."

When even a financial professional struggles to get this decision right, you know that doing the math on long-term care is no easy chore. Millions of boomers are wondering how to prepare for the possibility of needing costly care some day.

Count me as one of them. At age 58, I am in the sweet spot for buying this coverage—assuming I want it at all. After weeks of research, I still haven't decided. But I have sorted out the moving parts. What I've found is that the rising cost of both care and the insurance that pays for it is only one piece of the puzzle. New types of insurance give me more options to mull over. And recent research calls into question how common lengthy nursing-home stays really are, leaving me to think harder about the odds of needing coverage.

What's more, I have to be concerned about the health of an industry that I would need to rely on for the next three decades. Insurers badly miscalculated how many policyholders would make claims, leading to a mass exodus of big players from the business in recent years.

The upshot: drastic price hikes from the insurers who remain. A typical long-term-care policy written 10 years ago has seen annual premiums rise about 70%, says Michael Kitces, director of research at Pinnacle Advisory Group. Even so, those old policies are cheaper by half than what a person nearing 70 has to pay for the same coverage today. That's because the insurers that have stayed in the business have jacked up the price of new policies. Those premiums rose an average of 8.6% last year alone, reports the American Association for Long-Term Care Insurance. For some, the price hikes are even worse. Today, for example, a healthy 55-year-old man would pay $2,075 a year for comprehensive single coverage—up 17% from last year.

All in all, the answer to the question Do you need long-term-care insurance? is a personal one—and far from easy.

THE PROMISE OF INSURANCE

Long-term care is something you hope you never need. Or at least you hope that when and if you aren't entirely

self-sufficient, your spouse or another family member can pitch in. But when you need more of a hand with daily activities than a lay helper can provide, or around-the-clock or more expert medical care becomes a must, you'll have to pay for a professional.

The high cost of help. The national average for a shared room in a nursing home is $77,380 a year, according to the Genworth 2014 Cost of Care Survey, but the tab can go much higher—$120,000 is typical in Massachusetts, for example. Even assisted living, where you get just some one-on-one help and basic medical care, averages $42,000 a year.

Medicare covers 100 days in a nursing home if you are recovering from an illness or injury and showing improvement, but it offers no help at assisted living or in your home. Medicaid picks up the tab for a nursing home and some in-home help only after you have all but exhausted your savings (in some states, the program helps with assisted living too).

How insurance fits in. Enter long-term-care insurance, which reimburses you for at least a portion of the cost of a nursing home, assisted-living facility, adult day care, or in-home help. To qualify for benefits, you must be unable to perform two of these six day-to-day activities—bathing, dressing, moving from bed to chair, using the toilet, eating, and maintaining continence—and a medical pro must expect your disability to last at least 90 days.

HOW TO DECIDE IF YOU'RE A CANDIDATE

You may figure you'll roll the dice and fund your care out of savings. In fact, sales of long-term-care policies fell by 24% in 2014 and are down 65% from 2004 levels, reports LIMRA, an insurance industry trade group. Just 13% of people 65 and older have a policy, according to estimates by Anthony Webb, a senior economist at the Center for Retirement Research at Boston College. Here's how to make the call.

Start with what you're worth. The rule of thumb is that you're a candidate to buy long-term-care insurance if you have between $200,000 and $2 million in assets. With less, you can't swing the premiums and don't have enough to protect. Medicaid will cover most of the costs of care after you whittle your savings down to as little as $2,000 if you're single. With $2 million, you can reasonably plan on paying your own way. But even in that doughnut hole, the answer isn't always clear.

Understand the true odds. You may have heard figures that make rolling the dice seem like a foolish bet. One frequently cited stat is that 70% of Americans who reach 65 will eventually need some sort of long-term care.

But a recent paper from the Center for Retirement Research paints a less alarming picture. As the graphic on page 78 shows, a high number of people will need nursing-home care at or after 65, but only a small portion will remain long enough to run up big bills. Half of men and 39% of women stay less than 90 days, before most long-term-care policies even kick in. The average stay for a man is less than a year; for a woman, a year and a half.

Previous studies had estimated that a long-term-care policy made financial sense for 30% to 40% of 65-year-olds. The CRR pegged that number around 20%. "We're getting more people going into care for a shorter period of time," says Webb. "That's what's driving down the value of insurance."

Ask yourself what you're insuring. At its root, long-term-care insurance is about protecting your estate. A desire to preserve a legacy for their three adult children is why Craig and Jan Klaas bought a soup-to-nuts policy. Last year Jan's mother died after eight years in a facility. Her father had spent two years in a nursing home. "I've seen people get wiped out," says Craig. "I do not want my estate at risk."

Without coverage, you'll still get care, funded by savings and Medicaid, if needed. But paying for it could deny your children an inheritance.

See if you even have a choice. Insurers have stepped up medical screening. Overall, 30% to 40% of applicants are turned down for health reasons, says Jesse Slome, director of the American Association for Long-Term Care. Your chances are better when you're younger. Still, 17% of 50- to 59-year-olds are disqualified, up from 14% in 2009. Common reasons include chronic health problems like diabetes and arthritis, or any condition that can leave you incapacitated. A denial from one insurer, adds Slome, will often lead to automatic denials from others.

Check your family tree. It's not just your health that counts. Since last year, Genworth has also been considering your parents' health when you apply for a policy. With early-onset dementia or coronary artery disease in the family, you might not qualify for the best rate.

You should take your family history into consideration too. Half of all claims are triggered by care associated with dementia. On the other hand, says Howard Gleckman, senior fellow at the Urban Institute, a history of cancer may argue for less or no coverage because patients usually have a decent quality of life until just a few months from the end. That's a cold calculation, but one you shouldn't ignore.

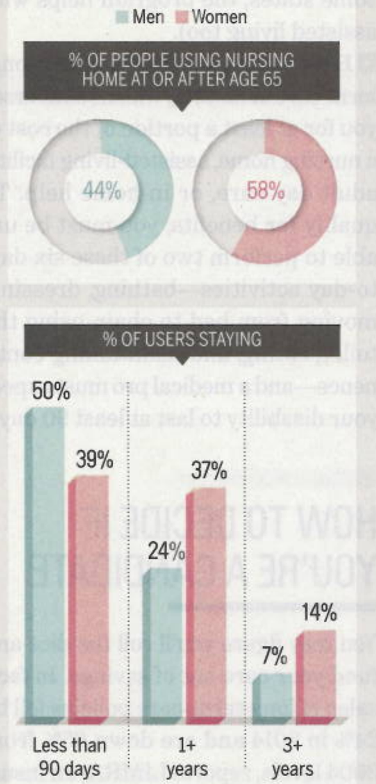
HOW TO INSURE YOURSELF FOR LESS

Given high prices, one approach is to buy just enough coverage to provide a cushion. "We advise insuring for a core amount and planning on using other sources if that runs out," says Claude Thau, a long-term-care expert at Target Insurance Services in Overland Park, Kans. It's like the peace of mind you get from having a fixed annuity in retirement. You lock into enough income to cover your housing and utilities, say, and fund travel and entertainment with other savings. Even modest long-term-care insurance will cut down your out-of-pocket costs.

The cushion approach appeals to me. The Department of Health and Human Resources projects that the average 65-year-old will need three years of long-term care, but about two-thirds of that time will be spent at home, with the rest in either a nursing home or assisted-living facility.

PLAYING THE ODDS

The chance that you'll spend many years in a nursing home may be lower than once thought.



SOURCE: "Long-Term Care: How Big a Risk?," Center for Retirement Research at Boston College

I'm leaning toward insuring for that level of coverage, knowing that if my wife or I need more care, we have sufficient assets to pay our way. That would come out of our financial legacy. But so would excess premium payments over 30 years for coverage we didn't need. I'm comfortable with that tradeoff. Here's how to assess coverage for you and your family.

Keep long-term affordability in mind. These policies have been around for decades, but only in the past five years have buyers filed claims in big numbers—exposing an underwriting disaster. MetLife, Unum, and Prudential are among dozens of insurers that have quit the long-term-care business. Others, including industry leader Genworth, have absorbed huge losses and won state approval to boost premiums on older policies to stay afloat.

New policies incorporate more realistic assumptions—and prices reflect that. "These policies have gone up so dramatically it makes them hard to recommend," says Clarissa Hobson, a financial planner in Colorado Springs.

Can you be sure double-digit premium hikes are over? Long-term-care experts say the industry is on firmer actuarial footing. "By far, the worst is behind," Kitces says. Yet others are skeptical. "The baby boomers aren't even there yet," says Jane Gross, author of *A Bittersweet Season: Caring for Our Aging Parents—and Ourselves.* "What's going to happen when boomers start making claims?" Gross, 67, bought a policy in her fifties and began to regret it with the first premium hike.

Think hard about how much you need. When you shop for a policy, the variables include the daily benefit (often \$100 to \$200), how much the benefit goes up for inflation (3% or 5%), how long payments last, from a few years to no cap, and the so-called elimination period, or how long before insurance kicks in.

A 90- to 100-day elimination period is virtually standard (92% of policies). You can adjust the daily benefit to save, but since nursing-home costs vary widely, first check local prices to get a sense of what you might face.

Inflation protection is an important lever. For years experts recommended policies with benefits that grow 5% a year to keep pace with medical inflation, and to be safe most still do. But that option costs about two-thirds more than a 3% adjustment.

Going with 3% may be fine, says David Wolf, a long-term-care insurance planner in Spokane. The cost of in-home care and assisted living is rising less than 2% a year, he says. Nursing-home rates are going up 5% a year, but stays are shorter than they once were.

Note that while premiums are tax-deductible, the write-off is capped based on age ($1,430 in 2015 for ages 51 to 60). And they are deductible only to the extent that they, along with other medical expenses, exceed 10% of your income (7.5% if you're 65 or older).

Buy a little flexibility. Three years is the most popular benefit period. As a couple, odds are only one of you might spend more time in a nursing home. A shared benefit can help you insure against that financial catastrophe.

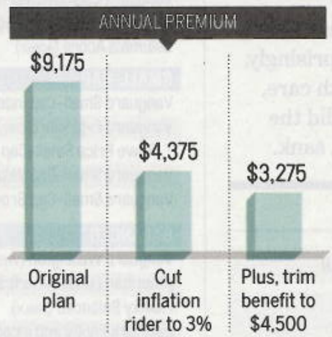
Rather than five years of coverage each, you buy 10 years to be split as needed—five and five, say, or two and eight. A 60-year-old couple can expect to pay about 15% more for a shared policy with six years of total benefits than for a joint policy with three years of benefits each, says Wolf, but in exchange you have a better shot at covering a single long stay in a facility.

Don't wait too long to shop. The average age of a buyer is now 57, down from 67 a dozen years ago, and it's easy to see why. Premiums go up modestly before age 55. The curve steepens after that, with the sharp turn at 65, when prices begin to rise about 8% a year, says the long-term-care association's Slome.

What's more, you are fast approaching an age when your health can lead to higher premiums, if it does not render you ineligible altogether. "By 65, almost everybody has some kind of medical condition," Slome says. Once you reach your sixties, the average denial rate jumps from 17% to 25%.

CUSHIONING THE COSTS

How much a couple in their fifties who are looking at 5% inflation protection and a $6,000 monthly benefit could save by scaling back.



NOTES: Assumes man is 55, woman is 52; 90-day elimination period; three-year benefit for each; no preferred health discount. SOURCE: Claude Thau, Target Insurance Services

Gather multiple quotes. For the same coverage, the highest-cost policies can cost twice as much as the cheapest ones, Slome says. Go with a broker who sells coverage from at least five insurers and specializes in the field. Search for an agent at altci.org.

Know what it takes to collect. Stalling and claims denials sometimes command frightful headlines, but just 1% of denials are without merit, the federal government reports.

Still, make sure you know exactly when your claim will qualify. One common hang-up is home care. Especially with an old plan, your policy might require a licensed home health aide when all you need is less-skilled (and less costly) help with simple chores.

THE ALTERNATIVES TO INSURANCE

If you decide against a traditional long-term-care policy—or are turned down—you have other insurance options. None provide as much coverage for care. But they have the advantage of guaranteeing you cash in old age or a legacy for your heirs.

How other policies can help. Hobson likes hybrid life insurance policies, which let you draw on the death benefit to pay for long-term care, or leave it to your heirs if none is needed. But the upfront cost is steep, and the premiums are not tax-deductible.

A deferred annuity is another option. For a single premium now, you lock in guaranteed income for life at age 82 or 85, which can go toward long-term care or anything else. Or if you can afford to self-insure and want to preserve money for your heirs, you can buy a whole life policy with a death benefit equal to your assets.

The bottom line (for one). I'll probably end up in a shared policy with six or eight years of care. My wife is younger than I am. She may be able to help me if that time comes. So I will need less coverage, leaving her with more, assuming she outlives me. And by then she can sell the house if need be.

But I'm not quite sold on this either. If I invest at 8% the $7,500 a year I would spend on reasonably complete coverage, I could amass $343,214 in 20 years. That would be taxable and amount to less than half the benefit I'd enjoy with a long-term-care policy. But it would be mine no matter what. What I am sure of: I will keep weighing the options until we're settled on a plan. I won't leave either our care as we get older or our kids' inheritance to fate. M

Additional reporting by Jackie Zimmermann