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# Thinking Long Term

By AMY FELDMAN

***Skeptical of long-term care insurance? You're not alone, and more and more advisors are arguing that the benefits outweigh the costs.***

For Lana Leger, 72, a retiree in Naples, Fla., it was her mother's illness that prompted her to think about long-term care insurance. When Leger was in her late 50s, her aging mother needed help. She eventually wound up in a home where she died, peacefully, after requesting her little Christmas tree be lit up.

"She had the money to sustain herself," Leger says, but it triggered a new concern -- one that many of us can relate to: "What would happen to me? What if I didn't have the money?" Leger recalls. "It was out there, looming, but until my mother needed care, I didn't want to address it."

Like her mother, Leger has savings: Retired from a successful career in real estate, she has built up a seven-figure nest egg, and been able to live well during her first four years of retirement. Long-divorced and with grown kids, she's planning a 20-day cruise from Singapore to Mumbai, and prides herself on staying active, traveling, and spending time with a far-flung network of friends. But while she's healthy, she has reached the age where she has seen other friends of her generation suffer illnesses. And so she figures that the long-term care policy she bought years ago gives her the flexibility she might not otherwise have.

"I'm very happily retired, and really able to do anything I want," Leger says. "I think it would put a damper on today's living if I did not have long-term care insurance because I would be concerned about the future."

The aging of the U.S. has changed retirement planning dramatically, as even substantial portfolios need to be stretched to last 30 years or more; today's low interest rates have made that stretch even tighter. More than any other expense, the costs of care during old age can throw a monkey wrench into even the best of

Alex Stafford for Barron's

Lana Leger, 72, opted for long-term care insurance.

plans. After all, the drawback of living longer is that some of us -- and it's impossible to know who -- will face Alzheimer's or other forms of dementia, or suffer from osteoporosis, arthritis, diabetes, or other ailments that may make living on our own difficult.

Many people think -- wrongly -- that regular health insurance or Medicare will cover the costs of long-term care. Medicare will pay for short stays in a rehab center or nursing home (up to 20 days of skilled care following a hospital stay, plus another 80 days after $148/day coinsurance), and it will also cover hospice care at the end of life. But Medicare won't foot the bill for those who need to move into assisted-living facilities or nursing homes because of mental or physical declines, or who need help at home because they've become too frail to do all of their daily tasks, like getting dressed or bathing. In fact, the majority of long-term care costs -- which total more than $200 billion a year -- is paid by Medicaid, the program for the poor, which is straining state budgets under the costs of doing so.

Even families who think they've saved respectably for retirement can find themselves scrambling to cover long-term care costs, which can exceed $100,000 a year, or spending down assets to qualify for Medicaid, a strategy fraught with significant limitations and complications. While the risks are lower for wealthier families, the unpredictable and often astronomical costs of long-term care still create enormous financial-planning issues. Get the trade-offs right and you may be able to enjoy your retirement while you're healthy, and be cared for with dignity once you're not. Get them wrong and you may need to make unpleasant decisions in your old age, such as using up your nest egg on nursing care instead of leaving it to your spouse or children.

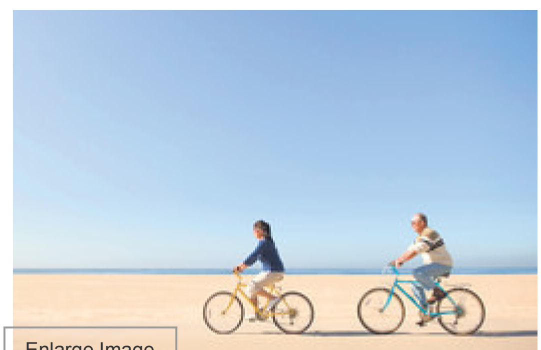
**LONG-TERM CARE INSURANCE**, which covers the costs of care, whether at home or in a facility, is one option. Like homeowner's or auto insurance, it'll cover you if you need it, but if not, you've paid the premiums for peace of mind. Many employers offer long-term care insurance, and it's sold on the individual market, but so far it has not been that popular: Less than 10% of Americans ages 50 or older have it. Given the cost and complexity of shopping for it -- and an industry shakeout that has resulted in tighter underwriting for new policies and significant increases for old ones -- perhaps that's not surprising.

But for those who choose to forgo it, the risks are high. "We will probably live a lot longer than we ever expected, and for any number of reasons, our bodies may not continue to serve us very well," says Malcolm Makin, president of Professional Planning Group in Westerly, R.I. "The question to begin with is, 'How will you pay for expenses if you need some type of long-term care?' If the answer is, 'I'm not sure,' then long-term care coverage is a very viable option."

**LET'S JUST SAY IT STRAIGHT OUT:** Thinking about whether you might need long-term care is depressing. And, unless pushed by someone, many folks would simply rather postpone -- or ignore -- the possibility. The problem is that if you don't plan for a strategy for long-term care when you're healthy, you'll end up with fewer options if you should need it when you get older. If you imagine that your spouse will take care of you as you age, then picture the potential reality of a five-foot, 120-pound woman getting a six-foot, 250-pound man out of bed and into the shower.

The sweet spot for buying long-term care insurance is in your mid-50s to early 60s. That's old enough to be thinking about retirement and avoid paying extra years of premiums for little reason, but young enough that your rates aren't through the roof and your application is more likely to be approved. Only 17% of people in their 50s were declined last year, but rejections rose to 25% for those in their 60s and to 44% for those in their 70s, according to the American Association for Long-Term Care Insurance.

But do well-heeled baby boomers, who have been saving diligently for retirement, and are lucky enough to have $4 million, or $10 million, socked away really need long-term care insurance? Why shell out thousands of dollars a year to an insurance company just in case the worst-case scenario comes to pass? Why not simply cover the costs yourself, if it turns out you need care?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If you believe you could cover the costs, and you're the type of person who feels comfortable with unknowable risks -- and that's the rub -- self-funding is an option. You also might be able to limit your risk in other ways, such as purchasing longevity insurance, an annuity that pays out in your old, old age. The advantage of longevity insurance is that it's less complicated than long-term care insurance, and the funds can be used for other living expenses if you remain healthy; the disadvantage is that you choose a payout age -- 80, say, or 85 -- many years in advance, and if you need long-term care before that, it won't cover anything.

But the big problem with trying to fund your own long-term care costs out-of-pocket is that you can't know how high they'll be, when they'll hit, or what your mental and emotional state may be to deal with them at that point. Some 70% of people who reach age 65 will need some form of long-term care; women need on average 3.7 years, men, 2.2. Health advances mean boomers are living longer than their parents did. But, today, Alzheimer's and other forms of dementia, which render people incapable of taking care of themselves, are on the rise. Neither public policy, nor retirement planning, has kept up with these tectonic demographic and health shifts.

And long-term care is expensive. The median cost of a private room in a nursing home is $230 a day, according to **Genworth**'s 2013 cost-of-care survey, equivalent to $83,950 a year; in New York State that same room would run you $344 a day, or $125,560. And if you hope to choose the nicest facility in your area, expect to pay more. The median rate for a one-bedroom in an assisted-living facility is $3,450 a month. And a licensed home health aide will cost a median $19 an hour, which, while a low wage, works out to more than $166,000 for someone who needs round-the-clock care.

### The Devil Is in the Details

There are many nuances, but pricing for long-term care insurance is based on two main factors—your age when you apply, and the benefits that you choose. Here's an example of what a New York State couple ages 50 and 55 might pay annually under three different levels of coverage, versus what they'd pay at ages 60 and 65.

| | Basic Policy | Better Policy | Best Policy |
|---|---|---|---|
| **Couple in their 50s** | $1,506 | $3,775 | $7,802 |
| Individual, 50 yrs | 723 | 1,805 | 3,626 |
| Individual, 55 yrs | 783 | 1,970 | 4,176 |
| **Couple in their 60s** | 2,224 | 5,882 | 11,318 |
| Individual, 60 yrs | 892 | 2,449 | 4,804 |
| Individual, 65 yrs | 1,332 | 3,433 | 6,514 |
| WHAT'S IN THE POLICY? | | | |
| **Benefit Coverage** | $150/day | $6,000/month | $7,000/month |
| **Benefit Duration** | three years | four years | five years |
| **Total Shared Pool** | $328,500 | $576,000 | $840,000 |
| **Inflation** | none | 5% simple | 5% compound |
| **Waiting Period** | 90 days for all care | 90 days for facility; no wait for home care | 90 days for facility; no wait for home care |

Note: Scenarios are for a New York State couple based on a shared policy with an A.M. Best A-rated insurance carrier, using standard rates. All plans provide for care at home or in a facility, and a waiver of premium for both while on claim. New York does not use gender-based pricing, so it would not matter whether the woman or man is younger. Total shared pool number is before any inflation adjustments; at year 10, the shared pool for the better policy would be $864,000, and for [illegible] $1.37 million.

Source: Schneider & Shulman Associates

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Eric Stallard, a research professor at Duke University and associate director of its Center for Population Health and Aging, has studied the costs and calculates the average 65-year-old will spend some $90,000 on long-term care during his or her lifetime, with women spending far more than that and men far less. But that average, which includes people who spend zero, he notes, obscures the wide variability in spending. "If you have a $500,000 house that burns down, you have capped your loss at $500,000," Stallard says. "But the big risk you are looking at with long-term care is a continued accumulation of costs on a daily or monthly basis." Worst case, he figures, you could spend more than $1 million. The single-largest claim for long-term care insurance topped $3 million, according to the Society of Actuaries Long-Term Care Experience Committee's latest report.

While a million-dollar claim is an outlier, even a more typical scenario could wreak financial havoc. Consider an aging San Francisco couple with a $4 million nest egg. Let's say they planned to draw down 5%, giving them $200,000 in spending for the year (excluding any pensions and Social Security, for simplicity) that one of them needs long-term care. If the healthy spouse spends $10,000 a month, including fixed expenses like the mortgage, and the ill one goes to a private room in a nursing home at a cost of $165,000 a year (the price in their city, according to John Hancock's cost-of-care calculator), their annual costs have ballooned to $285,000, implying a 7% withdrawal rate. If investment returns are in their favor, or it's only for a short time, that might be doable. But if the ill spouse needs to stay in the nursing home for two years, or five, the healthy spouse would have to cut back or risk running down their funds.

The risk of draining funds away from one spouse to care for another is real. To illustrate this potential drain on resources for his clients, Frank Marzano, managing principal of GM Advisory Group in Melville, N.Y., models different scenarios based on what care might cost in their area. "For those clients where the long-term care expenses would draw down their assets, and they'd basically run out of money, long-term care insurance is a requirement," Marzano says. But even for those who wouldn't immediately be affected by a nursing-home stay, he says, "it could impact inheritance, and what they want to do with their capital." That is to say, you might wind up spending on long-term care the cash that you'd planned to give to your children and grandchildren, or hoped to donate to your favorite charity.

Worse, with emotions typically running high in families when someone gets ill, things can get ugly, even, and sometimes especially, when there is money. Your family may not be willing to pay caregivers because they intend to take care of you themselves even if it kills them. Or they may be counting on those funds as part of their inheritance, and are reluctant to spend. And if you're struck with Alzheimer's -- the most frequent cause of claims and reason for the most expensive ones -- someone else is going to be making the decisions for you.

"One benefit of long-term care insurance is that families have to have conversations," says Jamie Hopkins, associate director of the retirement income program at the American College of Financial Services. "People are more willing to spend insurance money than their own money even if they have it."

**LONG-TERM CARE INSURANCE** sounds great in theory, but its history in the real world has been a lot more problematic. The industry is in a state of consolidation and turmoil, as insurers come to terms with the double whammy of earlier faulty underwriting assumptions and today's low interest rates. Big players like **MetLife**, **Prudential Financial**, and **Unum Group** have stopped writing new policies. Genworth, John Hancock, and others that remain have been rejiggering their product offerings, tightening underwriting standards and increasing rates. While insurers aren't allowed to raise your rates even if you have health issues as you age, they can get permission to increase them on holders of particular policies as a group. Buyers of some older products have suffered through premium increases as high as 90%.

Today's policies offer fewer benefits than old ones, and at higher premiums. New policies this year are at least 10% higher than two years ago, according to the American Association for Long-Term Care Insurance, with the average annual premium for a 60-year-old couple at $3,700 for a policy with 3% compound inflation. Generous benefits like lifetime coverage and inflation adjustments that increased at a 5% compounded rate have either gone by the wayside or are prohibitively expensive now. Instead, today's coverage is generally for a three- to five-year period, and inflation adjustments are typically calculated less generously. Meanwhile, insurers are moving to gender-based pricing, in which women (whose long-term care costs are higher) pay significantly higher rates than men when applying alone, and they're requiring more tests, such as blood work, upfront, to weed out people with health risks.

Benefits for long-term care insurance are generally expressed as a benefit amount (say $150 a day) times a certain amount of time (say three years), which would give you a pool of money (in that example, $164,250 for one person). If you needed to draw on that money and met the conditions for tapping the policy, you could spend it down at a rate of no more than $150 a day until the funds ran out. Once you get the policy, it stays in force -- regardless of your advancing age or changes in health status -- as long as you pay the premium.

While people often think of nursing homes when they think of long-term care, 51% of all new long-term care insurance claims last year were for home care, according to the American Association for Long-Term Care Insurance. "I call long-term care insurance nursing-home avoidance," says Jesse Slome, the association's executive director.

**WHAT MIGHT A** long-term care policy cost? That depends on how old you are when you get the insurance, and which benefits you choose. If you buy too young, you'll shell out premiums for many years unnecessarily, but if you buy too late, the annual cost will be far higher, if you can get approved at all. Other factors that go into pricing are terms, such as the waiting period (90 days, say) before your benefits kick in, and whether you want the benefit amount to be adjusted for inflation and, if so, at what rate.

If you wanted more coverage, you might increase the maximum daily benefit to $200 or $250, or extend the benefit period from three years to four or five. To keep costs down, you could do 3% inflation instead of 5%, or calculate the inflation on a simple basis (in which the same amount is added each year) rather than a compounded one (in which it's calculated off the new, higher value each year). To get more flexibility, you could calculate the benefits on a monthly basis (allowing for the ups-and-downs of home health-care costs) or eliminate the waiting period (meaning the insurer would pay starting on the first day you needed care). If you live alone, you might add third-party notification, which requires the insurer to notify a person you designate before your policy lapses if you forget to pay the bill. Each tweak you make to the policy will change the premium.

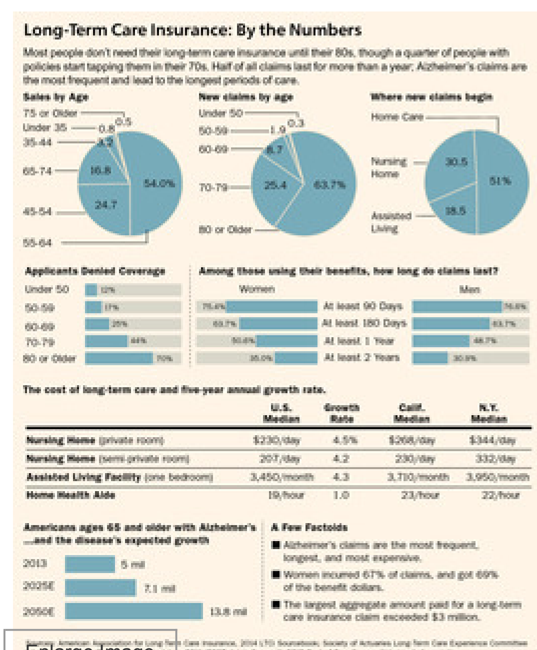
The sheer number of decisions to make, both large and small, about what you might need 20 or 30 years into the future, is mind-boggling, and makes the process of shopping for long-term care insurance infinitely more difficult than saving for retirement or buying life insurance.

There's no one set answer to sorting through those questions, which depend not just on your funds but on your family support system and your health risks. But the way to think about it is to understand what you're protecting. If you have the funds and the family support system, you don't need to cover every last penny associated with long-term care; what you want to do is to cover enough so that you feel comfortable with what you might have to pay given your savings. "I tell people all the time that we don't want to overinsure them," says Lynn Ferraina, a partner at Ciccarelli Advisory Services in Naples, Fla. "We want to make sure they have a supplement. I don't want to give them every bell and whistle, because cost becomes prohibitive."

Whatever choice you make, though, you need to live with it. Jim Purdy, a retiree in Sterling Heights, Mich., discovered that the hard way when his mother was dying of cancer 2½ years ago. Although she'd bought a long-term care policy, between its requirements for benefits and the lengthy waiting period she'd chosen, she never saw any benefits. "We applied in June, and she was finally approved in October, but she had died in August," says Purdy, 69, who figures he'll take care of his wife at home by himself if it comes to that. "I just kind of think it's a rip-off."

Jay Schneider, managing partner at Schneider & Shulman Associates, a long-term care insurance broker in Jericho, N.Y., explains that when a client comes to him, he'll typically come up with three different levels of coverage so a person can see their options with the prices of each. "We'll say, you could start with very basic coverage, of $150 a day for three years with no inflation, and we would build in additional features," he says. "I'm looking to see how you can get the biggest impact for your premium dollars."

A New York couple, ages 50 and 55, could buy a basic plan that included a $150 daily benefit for three years each -- meaning a total shared pool of assets of $328,500 -- no inflation, and a 90-day waiting period no matter where they needed the care, for $1,506 a year, according to Schneider & Shulman. A more significant policy, with a $6,000 monthly benefit for four years each -- for a pool of assets of $576,000—and simple inflation of 5% (meaning that 5% of that initial $6,000, or $300, is added each year), would run $3,775 a year. And a comprehensive plan that included $7,000 a month for five years each -- or $840,000 total -- with 5% compound inflation would cost $7,802 a year. If that same couple waited until they were 60 and 65, the cost of the basic plan would go to $2,224 a year, while the comprehensive one would hit $11,318. (For more details, see the table.)

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Schneider prefers a monthly benefit to a daily one because it allows for fluctuations in the costs of care. So someone who's receiving care at home, who has family helping out on the weekends, but needs 12 hours of home health care on weekdays with extra expenses for physical therapy on Monday and Wednesday, could get paid for what was used rather than bumping up against a daily limit.

One thing many argue you can avoid: the 5% compound inflation adjustment. It has become prohibitively expensive, and may be unnecessary when home-health costs are going up 1% a year and even nursing-home costs are rising less than 5%. "If you're very wealthy, and want 5%, *mazel tov*, buy it, but it's going to be very expensive," says association director Slome.

While forgoing inflation completely is very risky, choosing either a 3% compounded rate (which would increase a $6,000 monthly benefit to $10,800 in 20 years) or a 5% simple rate (which would increase that same benefit to $12,000) will keep costs down.

"One of the challenges is figuring out the benefits that can get the premiums down," says Dawn Helwig, a principal and consulting actuary at Milliman in Chicago. "I personally would make as much of a contribution to the benefits as I could." For example, she says, she'd opt for a policy that didn't kick in for 90 days.

There are tax benefits to long-term care insurance. You can deduct the premiums for tax purposes as a medical expense (up to a capped amount based on your age), and if you're self-employed and claim the health-insurance write-off, you can do the same with your long-term care premiums. Some states also offer special tax benefits. In New York State, for example, you can claim a tax credit for 20% of the premiums paid for long-term- care-insurance coverage during the year.

A newer type of policy is a hybrid that combines life insurance and long-term care insurance together into one policy for one large upfront payment, typically in the $100,000-plus range. The big selling point for the hybrid policies: You pay upfront, and if you don't need long-term care, your heirs get a payout when you die. The downside: By combining the two together, you may not be getting what you need from either.

"It really is marketing," says financial advisor Makin. "The need for life insurance and the need for long-term care are not the same thing at all, and there is a cost for both."

**A BIG PART OF RETIREMENT** planning is being prepared for the worst-case scenario, but when it comes to long-term care, it's not easy even if you're prepared. Just as having home insurance protects you if your home burns to the ground, long-term care insurance offers some safety net if you become incapacitated—but that doesn't make either experience more pleasant.

Association director Slome tells the story of an architect in his 80s who drew architectural plans in his loft, even as his body was failing. For a long time, his children were running ragged looking after him rather than having the dreaded conversation about his health -- and triggering the long-term care policy he'd bought. Eventually, Slome says, they did call the insurer, though their father died before receiving any benefits.

"Getting old is ugly," Slome says. "Most people look at insurance in financial terms, and that's understandable, but when you talk to the people who are getting the benefits, they talk about the intangibles -- how it enables loved ones to care about you without having to care for you."