

How to Buy Long-Term-Care Insurance

When to get it, how much you need and ways to cut the cost.



Mackey McNeill, a CPA and personal financial specialist in Bellevue, Ky., talks with clients in their fifties and early sixties about protecting their retirement savings from potential long-term-care expenses—which currently average more than \$85,000 a year for a private room in a nursing home. But when McNeill turned 58 and looked at long-term-care policies for herself and her husband, she balked at the premiums: more than \$5,200 a year for two policies that would cover the average cost of care in her area. “I understand why clients resist it,” she says

After she calculated how much extra money they’d need to save to cover the cost of care (and the risk to their portfolio if they didn’t) she decided to make the same compromise most of her clients do. “We’re buying policies that don’t cover everything but can cover about \$4,000 a month,” she says. She gets a couples’ discount for buying with her husband. If the McNeills’ future care exceeds their coverage, they are confident they can make up the difference with savings and retirement income.

Like McNeill, most financial advisers recommend buying long-term-care insurance in your fifties or early sixties. The younger you are when you buy a policy, the lower the annual premiums—but the longer you'll have to pay those premiums. By the time you reach your mid sixties, however, you're more likely to have a medical condition that makes you ineligible for a preferred-health discount or makes it tough to get coverage at all.

You're also more likely to have the cash to pay premiums in your fifties or early sixties, especially if you've finished paying for college for the kids, or paid off the mortgage. And because you're starting to form a better picture of your retirement budget, it's a good time to factor the annual premiums into your long-term plan.

How much coverage to get

Start your calculations by looking at the cost of care in your area (see www.genworth.com/cost-of-care). Then figure out how much you could cover with your retirement income and savings. The calculation may be very different for single people than for married couples, who often need to plan on spending more than singles to cover long-term-care bills for one spouse plus living expenses for the spouse who remains at home, says Donna Skeels Cygan, a certified financial planner in Albuquerque.

After you know the cost of long-term care and how much you can afford on your own, consider buying enough long-term-care coverage to fill the gap. The average length of care is about three years, but you may want a longer benefit period if you have a history of Alzheimer's in your family. (The pool of benefits is calculated by multiplying your daily benefit by the benefit period, but you may be able to stretch your payouts if you use less than the daily maximum benefit.)

Kathy Kingston, an auctioneer in Hampton, N.H., bought long-term-care insurance last year, when she turned 60. "I'm healthy and active and independent," she says. "I'm interested in setting myself up to have care at home." Kingston has a pension from her years working as a public employee in Alaska that could cover some, but not all, of the costs. She bought a Genworth policy that currently provides \$380,000 worth of coverage. The policy has 5% compound inflation protection, which means the benefit will grow to \$1.5 million by the time she's 85. It also has a zero-day waiting period for home care.

A good strategy for couples is to buy a shared-benefit policy that provides a pool of benefits either spouse can use—for example, two three-year policies form a pool of six years (and some policies add another three years to the pool). "I prefer the shared policies because the chances of both spouses needing long-term care are slim, but you don't know which one will need it," says Cygan. "It gives you a huge amount of flexibility."

Shared-benefit policies tend to cost 12% to 20% more than two separate policies, says Brian Gordon, a long-term-care insurance specialist in Riverwoods, Ill. For example, if a healthy 55-year-old couple were to buy two Genworth policies, each with a \$150 daily benefit for three years and 3% compound inflation protection, they would pay \$1,359 a year for each policy. If they added a shared-benefit rider—giving them a pool of six years to split as needed—the annual cost would increase to \$1,660 each. And if they waited ten years to buy? A healthy 65-year-old couple would

pay \$2,143 each for the same policies, or \$2,664 with the shared benefits.

Calibrating the cost

The longer the waiting period before benefits kick in, the lower your premiums. But initially you'll need to pay the costs out of your own pocket.

Make sure you understand how the waiting period is calculated. Gordon recommends a calendar-day waiting period, in which the clock starts ticking as soon as you need help with two out of six activities of daily living (such as bathing) or you provide evidence of cognitive impairment. A days-of-service waiting period only counts the days you get care. If you have a calendar-day policy with a 90-day waiting period and you need care in your home just three days a week, the policy will pay out after three months. But the same waiting period with a days-of-service policy would mean waiting more than seven months before benefits kick in.

Because you may not need care until 20 or 30 years from now, inflation protection is essential. Nursing-home and assisted-living costs have increased by about 4% per year over the past five years, and home-care costs have risen by 1.3%, although that may rise faster as baby boomers compete for caregivers.

Older policies tended to boost benefits by 5% compounded each year, but low interest rates made it expensive for insurers to offer that coverage to new buyers. Now, 3% per year is most common, and some insurers even offer 2% or less per year. Claude Thau, a long-term-care specialist in Overland Park, Kan., usually recommends 3% compound inflation protection. "The carriers have rejiggered their pricing so that 3% looks especially good compared with 5%," he says.

If spouses who are both age 55 each start with a \$175,000 pool of benefits, they would pay about \$5,850 per year (combined) for two policies with 5% inflation protection, but just \$3,000 per year for policies with 3% inflation protection and \$2,450 for policies with 2%, says Jesse Slome, executive director of the American Association for Long-Term Care Insurance, a trade group.

Insurers have different sweet spots based on your age and health and their own claims experience. For example, Slome recently worked with a 65-year-old man and his 55-year-old wife, who received quotes for annual premiums from two insurers that were \$1,200 apart.

Many long-term-care agents work primarily with Genworth, Mutual of Omaha, MassMutual, Transamerica and John Hancock (Northwestern Mutual and New York Life sell long-term-care insurance only through their own agents). Find a long-term-care specialist in your area at www.aaltci.org.

Read more at <http://www.kiplinger.com/article/insurance/T036-C000-S002-how-to-buy-long-term-care-insurance.html#FaiDhesljFETw22c.99>