

## Is long-term care insurance right for you?

By [Mark Terry](#) • Bankrate.com



Given a choice, almost everybody would prefer to live out their last days at home in good health. Unfortunately, that doesn't always happen. According to the National Center for Health Statistics, some 1.6 million people currently reside in nursing homes. That number is likely to increase significantly when the baby boomer generation gets on in years.

Recent legislation makes it harder for Americans of limited means to depend on help from the government to pay for nursing home costs through Medicaid. The Deficit Reduction Act, signed into law in February, tightens restrictions for nursing-home eligibility to anyone who gives away assets to charities or family members for less than fair market value. The so-called "look-back" period for these asset transfers has been extended from three years to five, and the penalty period begins when someone applies for Medicaid, rather than at the time of the asset transfer, as was the case before.

For example, let's say that on March 1 of 2006, grandma gave \$55,000 to grandson Teddy to help pay college costs. To keep it simple, let's imagine that grandma requires nursing-home care within five years, in January of 2011, and that nursing home costs in her state at that time run \$55,000 a year. Her penalty period begins in January 2011, when she needs care; before, it would have begun in March 2006. As a result of this law, she will have to wait a year before she becomes eligible for nursing-home care through Medicaid, because the gift amount to Teddy equaled one year's worth of nursing home costs. Under the old rules, her penalty period would have expired in March of 2007.

In addition, single individuals with more than \$500,000 in home equity won't be eligible for Medicaid benefits (some states may raise that amount to \$750,000). Also, if Medicaid is used to pay for long-term care, the government may become the patient's first beneficiary, before other heirs, with certain types of assets.

### **A harsh reality**

A good nursing home -- especially one that specializes in Alzheimer's disease or dementia care -- costs roughly the equivalent of a four- or five-star hotel. The average cost of a nursing-home stay in the United States is \$150 per day. That adds up to about \$4,562.50 a month, or \$54,750 a year. This number varies widely from state to state, with lows of around \$99 a day (Louisiana) to highs of \$448 per day (Alaska). And the average length of

stay in a nursing home facility is about two-and-a-half years, according to the National Center for Health Statistics.

If that isn't sobering enough, consider that the rate of medical inflation is between 10 percent and 15 percent a year, according to Paul Fronstin, Ph.D., director of the Health Security and Quality Research program at the Employee Benefits Research Institute.

That means, if the going rate for a nursing home is \$72,000 a year in your state now, in 10 years the price tag will be close to \$200,000.

"If you ask people, 'Are you prepared for four years of long-term care at \$200,000 a year,' they're going to say, 'Of course not!'" says Joshua M. Barron, J.D., with JMB Financial Services Group LLC in Troy, Mich.

Basically, you have three options, says Don Rosenberg, an attorney with Barron, Rosenberg, Mayoras and Mayoras PC, The Center for Elder Law. "You have to be rich. Or be poor, and go on Medicaid. Or you can plan."

Barron puts it much the same way. "You can either have the insurance in place or you can self-insure. Self-insuring means you pay out of pocket and hope you've accumulated enough wealth in your life to cover the cost of your care and not impoverish a spouse if there's still one living." The third option is Medicaid, he says, "which essentially means spending down your assets and working with an elder law attorney to protect what you can."

Clearly the preferred options are either to be so wealthy you don't have to worry about spending thousands of dollars on long-term care, or having insurance. Although a relatively new concept, long-term care insurance is becoming increasingly common, and the government's recent measures certainly encourage it.

Randolph J. Shine with Shine Financial Inc., in Deerfield Beach, Fla., traces the popularity of long-term care insurance to the Kennedy-Kassebaum Act, passed in 1996. Prior to the signing of this act, it was possible to distribute assets to family members in order to protect the income and go on Medicaid or other assistance. The Kennedy-Kassebaum Act and the recent Deficit Reduction Act make it more difficult to give away assets and apply for Medicaid. "The government flat-out said, 'We are not going to be responsible for providing long-term care,'" says Shine.

### **The insurance route**

People buy health insurance or car insurance to protect themselves in case

of illnesses or accidents. In the same way, long-term care insurance pays for the cost of home care or nursing-home care if and when it becomes necessary.

As with life insurance, buyers need to be healthy enough to qualify. Someone who has already been diagnosed with Alzheimer's disease, for instance, is not likely to qualify for long-term care insurance. You can't insure a house that's already on fire.

"I tell my clients that they should explore long-term care insurance if they're healthy enough, if they can afford it, and it won't affect their lifestyle," says Rosenberg. "The cost of an entire lifetime's premiums typically will never equal the cost of half a year's long-term care."

Shine provides prices for a standard policy that pays \$160 per day with a 90-day elimination period (which means that the benefits won't start for 90 days). The policy provides coverage for five years and is priced for two different age groups. These premiums will vary from state to state.

#### **50-year-old**

\$2,000 to \$2,900 per year for a single person  
\$2,600 to \$4,600 per year for a couple

#### **65-year-old**

\$3,100 to \$5,300 per year for a single person  
\$4,800 to \$8,500 per year for a couple

In general, you pay those premiums until your benefits actually begin, although some plans are designed to be paid off in full within a particular time frame, for example, 10 years.

#### **Who should get it?**

It's unlikely that someone in his twenties or thirties is going to invest in long-term care insurance unless it's offered through an employer. Both Rosenberg and Barron suggest that people between the ages of 55 and 65 are ideal candidates.

"I think it's important to point out that most people are as healthy as they're ever going to be -- today," says Barron. "So it's hard to tell a 50-year-old that it's not appropriate for them to consider it."

Barron offers the example of the late Christopher Reeve, an actor who became paralyzed after a horse-riding accident. "He was a young, healthy person who required long-term care for quite some time. We never know if

there's going to be an event that comes up in our life. Assuming that your health is pretty constant, though, I think between the ages of 55 and 65 is ideal."

In deciding when to acquire long-term care insurance, be aware, that past the age of 65, costs start to become prohibitive.

### **Return-of-premium rider**

A typical long-term care insurance plan is much like any insurance plan. You pay a regular premium for years, and if you don't ever have a need to use it, the money's gone. But plans can have many [moveable parts](#), and some offer riders that enable you to get your money back.

Roccy DeFrancesco, J.D., founder of The Wealth Preservation Institute in St. Joseph, Mich., suggests that some people may want to consider getting a return-of-premium plan. In these plans, if they aren't used, the premium can be returned to the heirs after a policyholder's death. This approach is most common when the individual owns a small business (C corporation) and can deduct the premiums.

DeFrancesco says, "If you never need long-term care, and you want the money back, you just cash it in." With a return-of-premium rider, the premium's cost is doubled, he says.

### **Weighing the costs**

Most people want to die in their own beds at an advanced age, preferably after an excellent meal and time spent with family and friends. But there are no guarantees, and long-term care insurance is one way to minimize the risk of the cost of care, should the worst-case scenario unfold. However, if you just can't afford long-term care insurance or you, or a loved one, have already been diagnosed with something that will eventually require nursing care, what should you do?

"If you can't afford it," says Rosenberg, "you can't afford it. Then you've got to do something different. I'm a believer in long-term care insurance, but I'm also a believer in putting your affairs in order and having that coordinate with the long-term care."

Those who can't afford it should hire an elder law attorney who can help with Medicaid planning, says Rosenberg. The attorney can also help put all the proper documentation in place, such as a will and medical power of attorney.

### **Moving parts of a long-term care plan**

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The components of a long-term health insurance plan will depend on your health, age and the type of benefits you're interested in receiving. The costs, as a result, can vary quite a bit, as is the case with life insurance.

For instance, the elimination period can vary, which like a deductible, would affect the cost of the premium. "There's also the period of time that the benefit will continue -- it could be anywhere from two years to a lifetime," says Joshua Barron, J.D., of JMB Financial Services Group LLC, in Troy, Mich.

Anybody interested in long-term care insurance plans should consider inflation protection. Some policies have it, and some don't.

"What you really want to have is compound-inflation protection because that's a true measure of what it's going to cost," says Barron.

Randolph J. Shine with Shine Financial Inc., in Deerfield Beach, Fla., says currently, long-term care benefits are paid out in one of three ways.

**1. Traditional pool system.** A particular daily benefit is purchased. For example, the policy agrees to pay \$100 per day. In a single year, you have \$36,500 of benefits available to you in a pool. If less than \$100 is used in one day, and on another day you use \$50, that unused \$50 stays in the pool. Technically, you end up with longer than five years of service if you didn't consume up to the daily rate. This system is the most common and requires that the recipient or caregiver provide regular receipts for reimbursement. It is essentially, within the amount of coverage purchased, a pay-for-services policy.

**2. The indemnity policy.** This policy pays a flat fee per day regardless of the bill. For instance, if you purchase \$100 of coverage per day, that's the amount that will be paid out, even if that day's services cost \$50 or if the services cost \$200 per day. The advantage is you always know the amount that will be disbursed. The disadvantage is it might not cover your expenses.

**Weekly/monthly.** Rather than paying out a daily rate, the indemnity policy pays out a weekly or monthly rate -- for instance, \$700 per week or \$3,000 per month, regardless of the cost of services. Weekly or monthly policies are the most common.

**3. Cash policy.** This is similar to disability insurance. The insurance company agrees to pay you a monthly benefit, for instance, \$4,500, and it doesn't matter what the actual amount of the bills are. You receive a check for that amount. So, if you have \$2,000 of care costs, you still receive the \$4,500, and you can spend it on whatever you want.

With indemnity policies, the caregiver or facility is reimbursed; with cash policies, the check goes straight to you. There are also hybrids policies. In general, the cash policies and the indemnity policies cost more than the pool system, which is also called a reimbursement system.

### **Other variables to consider**

Don Rosenberg, an attorney with Barron, Rosenberg, Mayoras & Mayoras PC, provides a laundry list of things to consider when shopping for long-term care insurance, including:

- A pool of money for home and/or nursing home, assisted living or adult day care coverage. This essentially means that a pool of money is available to pay for any degree of care, whether that means at-home nursing assistance or living in a nursing home. For instance, some traditional policies pay nursing home benefits in one amount and half that for the at-home nursing benefit. This pool can also be used for both a husband and wife to draw upon.
- The financial strength of the insurance company is a good thing to check.
- You want to be able to choose where you receive care.
- Make sure the policy covers all types of care, including all forms of dementia.
- If you purchase a plan through an employer, make sure it's portable. Otherwise, it's better to buy an independent policy outside of work.
- Get upfront underwriting. All coverage should be spelled out when you get the policy, not calculated when you need it.
- Make sure you have guaranteed renewability. Rosenberg says, "You want them to only be able to change the premium in midpolicy if they change the class. For instance, if I had a policy and the company changed the premium, that wouldn't be fair, but if they changed everybody's that they sold the policy to in the same class, that's acceptable."
- Understand the contract. Make sure the policy is written in clear English. If you don't understand what it means, ask for a clarification.

Also, understand the policy when you elect to share it with a spouse. "If there's a husband and wife, there is usually a spousal discount as well as the 'one-pool of money' concept," says Rosenberg. "You can have it shared, one pool for either one of them.

"I'm also a believer -- and this might be chauvinistic -- but if you can only afford to insure one person between a husband and wife, you insure the wife because she's likely to live longer."

Should you invest in long-term care insurance? For more information, see the main story "[Is long-term care insurance right for you?](#)"

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