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New Insurance Plans For the Long Term

It's easy to be intimidated by the cost of long-term-care insurance. A fully loaded policy with lifetime benefits could cost more than $4,000 a year for a healthy 60-year-old.

To entice sticker-shocked consumers, insurers are introducing long-term-care policies that provide slimmed-down coverage at big savings. Companies are experimenting with cheaper forms of inflation protection and offering policies that allow couples to share their benefit periods. Some policies hold down premiums by requiring policyholders to take on more of the costs of future care.

This new generation of products can halve the price of long-term-care insurance. Many of these policies often cost less than $2,000 a year for someone in their early sixties. But these models do make some trade-offs in coverage to keep the premiums low. Before you buy, make sure you understand the policy's restrictions.

Chuck and Bonnie Benson of Bloomington, Minn., had been thinking about long-term-care insurance for a while. They took action six months ago, when Chuck's life-insurance premiums were about to jump.

As a retired 62-year-old, Chuck decided that long-term-care insurance was more important than life insurance to protect his finances at this stage in his life. He dropped his life insurance and uses the extra cash to help pay for long-term-care coverage. He pays about $1,800 a year for a John Hancock policy with a monthly benefit of $5,300 for three years. Bonnie, 58, pays about $1,600 a year for similar coverage.

"I'm a financial guy, and I went into this being very cognizant of the costs," says Chuck, who spent his career as a certified public accountant and financial consultant. "This made the most sense when you look at the cost and the risk. It's one less thing I have to worry about now."

The Bensons made some key decisions that helped them keep the premiums manageable. The couple chose a daily benefit of about $175 a day, which is slightly less than the average cost of nursing-home care in their area.

This strategy was based on advice from Pat O' Neill, their insurance agent, who is based in Falls Church, Va. She recommends considering the "progression of care" when deciding on a daily benefit.

O'Neill notes that most people receive care in their home, at least at the beginning, and the average home health aide charges $21 an hour. Even if the policy's daily benefit falls below the average nursing-home cost, it's still likely to exceed the cost of a few hours of home care a week. Most policies will put any unused benefit back into the pot for future coverage. If you need nursing-home care or more home health care later, that extra money can help cover the difference between your daily benefit and the actual cost of your care.

To find the average long-term-care costs in your area, go to the Web site of the MetLife Mature Market Institute at www.metlife.com/mmi.

The Bensons also reduced their premiums by choosing a 90-day waiting period before benefits would start. Most policies offer a waiting period for nursing-home coverage, but O'Neill says buyers should look for a policy that either has no waiting period for home care or lets you pay $250 to $300 for a rider that eliminates the wait for home care.

Once you are eligible under the policy to receive home care, the clock will start ticking on the 90-day waiting period for nursing-home care. Look carefully at how the waiting period is calculated. Some policies base the waiting period on "days of service." That means a policy with a 90-day waiting period could take 30 weeks before coverage begins if you only have home care for three days a week. Other policies base the waiting period on a "calendar day" schedule, meaning that the clock starts ticking as soon as you start care.

Lifetime Benefits Are Rarely Used

One of the most important decisions is the length of the benefit period. Most people who need long-term-care services will not need them beyond three to five years. A study by actuarial consulting firm Milliman found that only 8% of claimants who had policies with a three-year benefit period exhausted their benefits. Of those with a five-year benefit period, only 1.5% used all their benefits.

The Bensons hedged their bets by buying a shared-benefit policy. Chuck and Bonnie each have three-year policies, but the shared-benefit feature gives them a pool of six years to use between them. If one ends up needing care for two years, for example, the other has four years to use.

Shared-benefit policies tend to cost about 15% more than buying two separate policies without shared benefits. But couples like the idea that both spouses will probably be covered even if one spouse needs longer-than-average care. "You need to make some decisions based on the statistics," says Chuck.

A few new policies lower costs significantly by requiring buyers to self-insure a part of the long-term-care costs. Genworth's new Cornerstone policy, for example, automatically builds in a 20% cost-sharing to the benefit amount—for a 40% price reduction.

Instead of calculating the coverage by the daily benefit, you buy a pool of money, from $100,000 to $1 million. But the policy requires you to pay 20% of the daily cost of care until you exhaust the pool.

A healthy 60-year-old would pay $1,588 a year for the Cornerstone policy that provides a coverage pool of about $233,000 and 5% inflation protection. That translates into a daily benefit of up to $160 for four years. The policy is less expensive than Genworth's standard policy in part because it doesn't cover room and board in an assisted-living facility.

Inflation protection is a must. An average $80,000 nursing-home stay in 2010 could cost between $150,000 and $200,000 a year in 20 years based on historic increases in nursing-home costs.

Until recently, policies with an inflation feature boosted benefits by 5% compounded each year, costing twice as much as a policy without inflation protection. But insurers are offering new versions of their policies that lower the cost of inflation protection. The Bensons, for example, bought policies that increase the daily benefit every year with changes in the consumer price index.

Going the CPI route can be risky. You can come out ahead during years of high inflation. But in low-inflation years like this one, the cost of care could grow while your benefit may not, although it cannot shrink. Nursing-home costs have been rising by 3% to 5% a year, but home-care costs have been rising more in line with the CPI. The CPI policy will likely be cheaper than the 5% compound inflation protection, but you may want to buy a higher daily benefit amount at the beginning to start out ahead.

Some new variations of inflation protection can lower costs even further. For example, MetLife recently introduced its "tiered solution" policy, which automatically raises the monthly benefit by 5% a year through age 60 and by 3% a year from ages 61 through 75.

A 60-year-old would pay $1,657 a year for the tiered policy that starts with a $3,000 monthly benefit and $200,000 total benefit amount. That compares with a premium of $3,415 a year for a policy that increases the benefit by 5% compounded every year. The tiered-benefit policy, however, stops adjusting for inflation at age 76.

Other insurers have been slashing costs by offering "guaranteed purchase option" coverage. These policies have no automatic inflation adjustment, but you can boost your coverage every few years, regardless of your health. You will pay higher premiums for the extra benefits, which are generally based on your age when you add the coverage.

At first, the price of a guaranteed purchase option plan can be much cheaper than a policy with automatic inflation increases. But after you boost your premiums several times, this option could end up costing more than a policy with automatic inflation adjustments.

The guaranteed purchase option can work well if you can't afford the higher premiums for automatic inflation adjustments now. But it may not be the best option if you want to boost your benefits after you retire and your income is limited. Also, some policies cut off benefit increases at age 65, which could leave you with too little coverage if you bought the policy in your late fifties or early sixties.

The Bensons' policy also qualifies for Minnesota's long-term-care partnership program, which is available in 34 states (see **www.dehpg.net/ltcpartnership** for the rules in each state). If you buy a partnership policy in one of these states and use up all of your benefits, you can qualify for Medicaid without having to spend down all of your savings. You can protect the same amount

of savings that the insurance pays. For example, if you have a policy that pays a total of $200,000 in benefits, you can protect an extra $200,000 in assets above the Medicaid limits.

A Broker Can Compare The Details

More people in their fifties and early sixties are buying coverage as part of their overall retirement planning. "Most advisers are really seeing the advantages of having some kind of game plan for a long-term-care event," says John Ryan, an insurance adviser in Greenwood Village, Colo.

The older you are when you buy the policy, the higher the premiums. Even if you're 70 or older, it's worthwhile to get price quotes. But the premiums may be too expensive.

Although you can find a policy on your own, it's best to work with a broker who specializes in long-term-care insurance. Details differ from policy to policy, and these brokers will know which policies offer the features that fit your needs. You can find a broker at the American Association for Long-Term Care Insurance (www.aaltci.org).

A specialized broker will also help if you have a medical condition. O'Neill says that when a client has a health condition, she will contact the underwriters at several companies to find out whether they're likely to provide the coverage. Then she will write a letter with information about the person's health and how well the client manages the condition.

For example, United of Omaha recently covered one of O'Neill's clients who had a stroke. She says that the insurer generally covers one stroke within five years if a patient had no residual impairments.

O'Neill's primary companies are John Hancock, MetLife, MedAmerica, Prudential and United of Omaha. She also sells Genworth policies. New York Life and Northwestern Mutual have strong policies, but they only sell through their agents.

It's worthwhile to consider a policy your employer offers. You'll likely pay the premiums yourself, but you can often get a 5% to 10% group discount. The underwriting tends to be simpler than it is for individual policies. Be sure to compare the cost of buying a policy on your own versus buying one through your employer. K —KIMBERLY LANKFORD

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