

Long-Term Care Insurance: Worth It?

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Long-term care insurance helps cover the cost of a nursing home, assisted living or home-health care. But, many are wondering if it's worth the investment as more employers begin offering the coverage as an optional benefit this fall.

The Saturday Early Show's financial advisor **Ray Martin** says the benefit is something to seriously consider.

Long-term care includes a broad array of services, all aimed at helping people who are no longer able to complete basic activities such as bathing or grocery shopping without assistance.

Many assume they'll never require these services. However, Martin says 50 percent of women over 65 and 33 percent of men need long-term care. And, these services don't come cheap. The national average cost of skilled care in a nursing home is about \$55,000 a year. (This cost ranges from a low of \$36,000 in Louisiana to a high of \$106,000 in metropolitan New York.)

The bad news is that prices are on the rise. Research in "Benefits Quarterly" shows that long-term care costs have outpaced inflation by about three percent in past years. Plus, increased demand for a limited number of service providers is sure to push the price tag even higher. There's no doubt that demand will continue to grow. The number of elderly is expected to nearly double over the next 30 years. As life expectancies rise, the age group over 85 will become the fastest growing segment of the population.

Martin estimates that by the time today's 45-year-old reaches 85, two years of long-term care will cost \$450,000.

Although the wealthy can probably draw on their own assets to cover these costs, middle class Americans risk losing their entire savings to finance long-term care. The poor may be able to rely on Medicaid for help but they will give up all control over choices in services or providers, often resulting in poor-quality care. The middle-class will first have to exhaust their assets to qualify for Medicaid.

Despite all of this, interest in long-term care insurance remains low. As mentioned, this is partly explained by the fact that many simply don't realize they need it.

Also, Martin points out, Workers age 37 to 55, who make up 50 percent of the workforce and are the target market for LTC insurance, are worrying about buying a home, saving for their children's education or their own retirement. It's difficult to accomplish these more urgent financial planning goals and have money left over to pay for insurance that covers the cost of long term care needs that may be 30 to 50 years away.

Putting off the purchase of long-term care insurance, however, can be a big financial mistake.

The problem is that most people do not perceive the risks of an extended stay in a nursing home to be a real and present threat to their financial security until they are older and the cost of buying this coverage becomes unaffordable, Martin says. For example, at age 50, the cost of a typical LTC insurance policy will run about \$900 a year, but this will cost 6.5 times more, or about \$6,000 at age 79.

Also, by the time you reach advanced age, you might have a health problem that would make you ineligible for coverage.

The insurance will soon become more accessible to workers, however, through employee-offered benefits. Currently, nine percent of large employers offer this benefit. This year, the federal government began offering long-term care insurance to its employees and their extended families. More companies are sure to join the trend.

In the meantime, individuals need to look into policies on their own.

Who should consider buying long-term care insurance? Individuals age 50 or over with more than \$200,000 but less than \$2 million in assets should buy the insurance. Martin recommends not spending more than 1.5 percent of gross income on LTC insurance premiums.

Long-term care insurance policies offer a myriad of features and options. Martin says that the trick to keeping costs low is to choose only the most important options and accept some risk up front.

DETERMINE GAP COST: That is, the gap in your retirement income and how much you'll need for long-term care. Just because long-term care may cost \$55,000 a year doesn't mean you need \$55,000 worth of coverage. Remember, you will probably have some source of retirement income such as social security or annuity income. If your total retirement income is \$20,000, you only need \$35,000 worth of insurance. That means instead of a daily benefit of \$150, you'll only need \$95.

COVER MOST LIKELY RISKS: Couples don't need to buy the same amount of coverage for each individual. Because women live longer, they are more likely to need the care. Also, take family medical history into account when choosing how much insurance to buy.

ASK ABOUT DISCOUNTS: Statistics show that the first spouse to fall ill is typically cared for by the other and long-term care is not needed. For this reason, married couples often can receive a ten to 15 percent discount on premiums when both apply for coverage.

CHOOSE ONE-YEAR DEDUCTIBLE: When buying a policy, you can choose to have benefits kick in immediately, or start paying after the first year of care. If you agree to pay the first year yourself, you can reduce the insurance cost by 25 percent.

Martin says whether or not you are going to buy LTC insurance, you should know that there are over 22 insurance companies that offer this product. The availability and costs will vary widely for the insurance.