

Do You Need Insurance for Long-Term Care?

By Lynn Brenner

AMERICANS ARE LIVING A LOT longer. That's good news. But increased longevity has created a new financial dilemma: how to prepare for the high cost of old age. Some of us will need care for chronic ailments, and many more will need assistance with dressing, bathing and housekeeping tasks. Professional help is expensive. On average, a home health aide costs \$19 an hour; an assisted-living facility is \$2968 a month; a private room in a nursing home is \$206 a day. Medicare rarely pays these bills. Medicaid does, but only for the poor.

Long-term care insurance is an alternative, but policies are expensive and may pay less than you expect. Here's what you need to know:

The Cost

The older you are when you buy, the more you pay. For people aged 60 to 70, premiums can range from \$1500 to \$8000 a year. If you buy a policy at 60, it's likely to be two decades or more before you use it—so, the younger you are, the more important it is to pay extra for an "inflation factor." This will boost your benefit over time but could double the policy's annual cost.

Your premium is supposed to stay fixed, but it probably won't. While an insurer can't single you out for an increase, it can raise premiums for all policyholders if claims exceed expectations. This has often



Your policy may not provide as much coverage as you think it will.

happened, forcing people to cancel policies after years of payments. Indeed, today's cheapest policies are the ones most vulnerable to steep increases in the future.

"A renewable policy is worthless if you can't afford to maintain it," says Allan Kanner, a New Orleans lawyer who sued one insurer on behalf of more than 13,000 policyholders, some of whom had seen their premiums jump more than 700%. Their average age: 92. The case was settled out of court.

Experts say future premium hikes are inevitable, because insurers have no reliable way to predict claims.

The Benefits

A long-term care policy pays a predetermined amount—from \$50 to \$500 a day—and the payments can last from a year to life. But you get no benefits unless you meet the policy's definition of incapacity: the inability to perform two or three of five basic tasks, such as dressing and bathing yourself. These tasks

are called "activities of daily living," or ADLs. Some policies require you to need help with two ADLs to get paid; others don't pay unless you need help with three.

Policy Language Can Be Misleading

It's easy to assume you have more coverage than you really do, so be sure to read the fine print. For example, most policies do not start paying until the end of an "elimination period," which can vary dramatically in length. Some policies determine this delay on a calendar, while others count the number of days you've been receiving care. For example, if you get one weekly visit from a health aide, a "30-day delay" could mean that you get no payments for 30 days or 30 weeks, depending on the policy.

How you receive your money also varies. Let's say your daily benefit is \$300. There are three ways it can be paid. With a *reimbursement policy*, the insurer pays you or your service providers. If they charged

\$250, the insurer uses the extra \$50 to extend the length of time your benefits last. With an *indemnity policy*, you get \$300 for each day you have a receipt for services received, whatever they cost. Finally, a *cash policy* pays you the \$300 per day, with no receipts required. How you spend the money is up to you.

Expert Advice

If you decide to invest in a policy:

- Buy from a company that has top financial ratings. You want the insurer to last at least as long as you do.
- Avoid policies you need a paycheck to pay for. You must be able to afford premiums after you retire.
- Don't buy more insurance than you need. Few people require lifetime benefits. The average stay in a nursing home is just 2.5 years, and 43% of residents stay less than one year.
- Don't choose a policy solely on the seller's recommendation. Get a second opinion from a certified financial planner or an elder-law attorney.

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PAGE 10 • FEBRUARY 17, 2008 • PARADE

LONG TERM CARE

Consultant

2812 Fairlane Avenue
Waterloo, IA 50702

Bruce Sperry
Long Term Care Agent

319-240-4612

bswaterloo@hotmail.com

