Kiplinger's PERSONAL FINANCE

MONEY // INSURANCE

LONG-TERM-CARE INSURANCE FOR LESS

SHORTER-TERM POLICIES SAVE YOU THOUSANDS BUT STILL COVER NEARLY EVERY EXTENDED ILLNESS. **BY KIMBERLY LANKFORD**

THE RAP ON LONG-TERM-CARE INSURANCE IS THAT IT'S pricey. You may be looking at $4,000 a year (if not more) to buy comprehensive protection against a monstrously expensive chronic illness that requires years in a nursing home or prolonged in-home care.

Expenses that big can bust even a well-off retiree's budget.

But Medicare rarely covers such custodial care. So it's refreshing to see the insurance industry devising simpler, less-costly long-term-care policies. State governments are helping with partnership plans to defray some catastrophic expenses, provided you buy LTC insurance. They're also dogging insurers to treat claims fairly.

HOW TO CUT COSTS

All of that makes now a good time to shop for this insurance, but be prepared to make some trade-offs. A healthy 55-year-old who buys a fully loaded policy with lifetime benefits, a 5% annual increase in benefits and a waiting period of 60 to 90 days will generally still pay at least $4,000 a year. The savings come once you realize that you and your family do not need lifetime coverage.

The key to lower-cost LTC policies is that they pay for a maximum of three or five years. That is long enough to cover most home-care needs or nursing-home stays. At Genworth, the largest long-term-care insurer, the average claim is two and a half years. The American Association for Long-Term Care Insurance surveyed insurers and found that 92% of buyers who have three-year benefit periods and eventually file a claim do not exhaust their benefits.

There is a risk that you could develop a chronic condition, such as Alzheimer's, and blow through the benefit period. But about 25 states offer, or will soon offer, partnership programs that let you apply for Medicaid without turning yourself into a pauper once you run out of LTC insurance benefits. The rules are complicated and vary by state, but the principle is this: If your insurance pays a total of $200,000, for example, you can shelter $200,000 of assets from Medicaid above and beyond what the law allows (see "Help From the State," on page 2).

Stephen Simmons, 55, and his wife, Kathryn, 57, have experience with crushing elder-care medical bills. Simmons had financial power of attorney for his father, who died in 2007 after a debilitating battle with heart disease. For three years, Simmons wrote $5,000 a month in checks from his father's funds to pay for help with his father's bathing, dressing, eating and other activities of daily living. "He saved his whole life, and he thought he had a nest egg that would take care of everything," says Simmons. "I watched the whole depletion of his savings."

The Simmonses didn't want the same thing to happen to them, but they didn't want to pay a fortune for insurance, either. So they compromised with a limited but flexible joint LTC policy from John Hancock that costs $1,700 a year for the two of them combined. Hancock's low-cost plan, called Leading Edge, was introduced in 2006.

The Simmonses each have a five-year maximum benefit period; but if either Stephen or Kathryn develops a chronic illness, he or she can use all the available coverage. In effect, a husband and wife are insured for any combination up to ten years. "Statistically, that would cover most cases," says Simmons.

The pair also saved by choosing a reduced daily benefit of $100. The average private room in a nursing home costs $213 a day, according to the MetLife Mature Market Institute (rates top out at $352 a day in New York City). The average daily cost in Kansas City, near the Simmonses' home in Lee's Summit, Mo., is $140.

The Simmonses' $100 daily benefit rises with the annual change in the consumer price index. But the policyholders might have to pay part of the bills themselves. "We fall into a category where our net worth probably can take care of us, but I don't want to chance it," says Simmons. "We can cover some of it, but how much do we want to cover? I don't want to deplete our retirement savings." The couple do have the option to raise their benefit amount by 10% every three years, regardless of their health, if they pay more.

NOT TOTALLY BARE-BONES

Downsized LTC insurance isn't just a half-measure. It has some useful nuances. It used to be that only services provided by professionals were covered, even for feeding and bathing. But now John Hancock allows you to use your insurance money to pay unlicensed caregivers instead of insisting on licensed health-care agencies. "That's exactly what we did with my father—it was a way to decrease expenses," says Simmons. It cost him $18 per hour to hire a caregiver from a certified agency, but $10 an hour for noncredentialed help.

Some new policies also let you calculate your benefits by the month rather than the day. That can be a help if you're paying exclusively for care at home. "It gives you more flexibility with how you use the dollars," says Matt Brotherton, a long-term-care insurance agent in Richmond. For example, you can draw more than the one-day average when you need two or three people to come in, then make it up on days when family members are on the case. You may have to pay a little extra for insurance with this arrangement, but Brotherton says it's often worth it.

Lower-cost LTC policies would be false economy without inflation protection. The benefits of the Simmonses' Leading Edge policy increase every year in line with the consumer price index (unlike many traditional policies that automatically boost benefits by a fixed 5% a year). The change helps John Hancock trim premiums, but you may face a shortfall if long-term-care costs rise faster than the CPI.

John Hancock's isn't the only new approach. Genworth has a radical new LTC policy, called Cornerstone, that costs half as much as its standard offering. Your premiums buy a pool of benefits, from $100,000 to $1 million, that are paid to you daily or monthly, subject to a 20% co-payment. You continue to pay 20% of the cost of care until you use up the pool. Cornerstone does not cover room and board for assisted living, only the custodial services. "We're basically paying what we would pay for in the home," says Buck Stinson, president of Genworth Long-Term Care. "We don't pay your mortgage, and we wouldn't pay the rent that goes to these facilities." A 55-year-old would pay about $1,000 per year for a Cornerstone policy with a $275,000 pool, $150 daily maximum benefit, 90-day waiting period, and a 5% inflation factor. You can pay extra for a rider that covers room and board in an assisted-living facility.

Most Genworth customers still buy the company's traditional LTC policy, which offers more options, such as unlimited lifetime benefits. Cornerstone is more like a catastrophic safety net, similar to health-insurance plans that come with high deductibles and co-payments. But if the worst happens, this inexpensive LTC insurance would still save you a bundle.

> "Low premiums or not, there's no point to buying long-term-care insurance if the insurer balks at paying claims."

DOES IT WORK?

Low premiums or not, there's no point to buying long-term-care insurance if the insurer balks at paying claims or if the company can raise your rates so high you can't afford the premiums.

There's no guarantee—and never has been—that once you buy an LTC policy, the rate is fixed. However, the three largest long-term-care insurers—Genworth,

Medicaid

HELP FROM THE STATE

IN THE PAST, YOU HAD TO SPEND PRACTICALLY ALL OF YOUR SAVINGS TO QUALIFY for Medicaid to cover the cost of long-term care. About half the states either have or are in the process of establishing partnership programs that let you protect some retirement savings and still qualify for Medicaid—provided you buy an approved long-term-care insurance policy. Most new policies, and many old ones, qualify.

Say you buy a qualifying long-term-care policy with $200,000 of coverage (you can calculate the total by multiplying the daily benefit by the benefit period). If you exhaust this money but still need care, you can shield an extra $200,000 of your assets and have Medicaid pay the rest of your nursing bills for life.

States expect such programs to save money by encouraging people to buy long-term-care insurance, thus delaying Medicaid payouts. To learn if your state has a long-term-care partnership program, go to kiplinger.com/links/longterm.

John Hancock and MetLife—had never raised rates for existing policyholders (except for some former Fortis customers that John Hancock acquired) until recently. That's why it was a big deal when all three announced they would raise premiums for certain groups of existing policyholders. Genworth started the trend when it notified customers of its intentions last year. The three insurers' increases range from 8% to 18%.

Premiums went up because fewer people than expected dropped their original policies. As a result, insurers ended up paying more in benefits than they had budgeted when they set the original rates. Rates for these policies aren't likely to rise again for at least several more years.

With new policies, insurers now assume fewer cancellations. That's one reason comprehensive new policies cost as much as they do. Regulators in two-thirds of the states have made it tougher for long-term-care insurers to boost prices on newly issued policies once they are in effect (and all of the states are eventually expected to go along). But it's not impossible that rates could go up.

This uncertainty about future costs matters as you decide when and whether to purchase LTC insurance. Insurance experts say the best time to buy is in your fifties because the price is lower than if you wait until after you retire. Some plans, such as John Hancock's Leading Edge and MetLife's LifeStage Advantage, let you increase your coverage later on, when you have more disposable income to pay the extra premiums, but they don't require a new medical exam. That's a valuable option because it has become more difficult to get accepted for LTC insurance. The LTC industry says that 20% to 33% of applicants between the ages of 60 and 69 are turned down because of preexisting conditions. Among applicants in their fifties, the denial rate is 13%.

But standards are getting tougher for people in their sixties, especially if they have conditions such as obesity, says Mike Ashley, a broker with LTC Financial Partners (www.ltcfp.com). "Each carrier has height and weight ratios that are acceptable, and we run into lots of people who do not qualify." Rules vary by insurer, so work with a broker who knows the sweet spots at several companies (to find an agent in your area, go to the American Association for Long-Term Care Insurance, www.aaltci.org). "Some will offer limited coverage for people with health problems such as diabetes, but at a fairly high price," says Ashley.

There's also the issue of whether collecting on a claim will be a hassle. A few years ago, such nightmares involving individual disability claims drew national media coverage and led to a national investigation by state insurance commissioners. LTC insurance is newer, so the subject is only now attracting attention. Some small LTC insurers have been the subject of newspaper articles alleging unfair claims denials. Regulators are aware of these stories, but as yet there have been no big-dollar lawsuits or refunds. Still, check your state insurance department's complaint history before buying (you can find a link at kiplinger.com/money/insurance) and the National Association of Insurance Commissioners' Consumer Information Source (www.naic.org/cis).

Some people will always prefer to pay a premium for maximum protection against all contingencies. If you have a parent or an in-law who needed expensive care for five years or more, you may decide you cannot possibly have too much LTC coverage. But for most families, the new generation of long-term-care policies will allow you to balance coverage and costs. ■

Group Benefits

HELP FROM YOUR EMPLOYER

PURCHASING LONG-TERM-CARE INSURANCE THROUGH THE WORKPLACE IS MORE attractive than it used to be. You generally pay the premiums yourself, but you can get a 5% to 10% discount compared with buying insurance on your own, plus you can keep the coverage if you retire or change jobs.

Until recently, group insurance usually required little or no health screening, so it was a great deal for people with health problems—otherwise, you could do better on your own. But now more small and midsize companies and associations are offering better-quality policies to their employees and members. These policies give you all of the same coverage options and daily benefits that individual plans do, and they're being offered by the biggest and best carriers, such as Genworth, John Hancock and MetLife. You'll be asked some medical questions, but you'll also be offered spousal discounts and discounts for good health. That makes the new policies a much better deal than the old-school, everyone-pays-the-same offerings. Such a policy could be a good bet even if you're under age 50 because it should be quite cheap. You can always upgrade later.

John Hancock