



As Life Expectancy Goes Up, so Does the Cost of Assisted Living

Insuring for Your Long-Term Care

by Alexandra Armstrong, CFP, and Kelly Wright, CFP

One of the major concerns among older people is the possibility that as they grow older, failing health will require long-term care either at home or in a nursing home.

According to a recent study by the American Association for Long-Term Care Insurance, the average annual cost for care in a private room in an assisted-living facility was \$40,200, compared with \$85,045 for a private room in a nursing home. (The cost can be higher in major metropolitan cities.) Overall prices for assisted living are increasing 4 percent annually. The average stay remains three years.

What are the odds you'll need long-term care? The answer depends on your sex, health, family history and family relationships. But the fact is we're living longer, the cost of long-term care is going up and many of us cannot (or will not) rely on family members to care for us.

Many think that Medicare will pay for these costs. Medicare is health insurance and doesn't pay for long-term convalescent care. The program is supposed to pay for 20 days in a skilled nursing home after hospitalization and then a small percentage of the next 80 days.

But it's difficult to meet the many requirements to qualify for this coverage. Medicaid would pay the balance of payments, but to qualify for Medicaid you must have first exhausted your personal resources. It's been our experience that Medicare and supplementary medical policies provide very little coverage in this area, as the care needed is supportive rather than skilled.

Some individuals don't buy this insurance because they think family members will provide the care, others don't think about the need until a crisis occurs and still others believe the premiums are too high to justify the lessened risk. We think everyone should consider applying for some amount of long-term insurance.

Increasingly, individuals are buying long-term care insurance so that they don't have to completely deplete their personal resources to cover these potential health care costs. Unlike medical policies that reimburse you for a portion of a covered medical expense, long-term care insurance pays a daily benefit to help offset costs when care is needed.

You can choose the benefit amount you want, the length of time it'll be paid and the time you wait until the

payments start. You can also buy inflation protection, which provides an annual increase in daily benefits.

The long-term care coverage available today has fewer restrictions and offers more types of care than was offered in the past. Today, covered expenses include not only those for nursing homes but also ones for home care, adult day care and assisted living.

Remember that long-term care insurance is an insurance policy and, therefore, you can be declined coverage, especially if there's any kind of health history that will make claims on the policy more likely. The older you are when applying for coverage, the higher the chance of being declined.

According to a study of 250,000 policy applicants conducted by the American Association for Long-Term Care Insurance in the summer of 2008, 14 percent of applicants ages 50 to 59 were declined, whereas 23 percent of applicants age 60 to 69 were declined.

The younger you are when you buy this coverage, the lower the annual premiums. The coverage you buy should be renewable for life and noncancelable except for nonpayment of premiums. We

suggest clients buy this coverage when they're in their 50s. Increasingly, we find adult children buying this coverage for their parents.

Key Decisions to Make When Selecting Long-Term Care Insurance

■ **Elimination Period:** This is how long you've been in a nursing home or receiving home care before the insurance company starts paying benefits. Typically, you may select 30, 60, 90 or 180 days, or 365 consecutive days. The longer the waiting period, the lower the premium will be. This decision depends on how much of your costs you want to or are able to personally pay. Keep in mind that the need for short-term convalescent care is increasing as hospitals and insurers limit the length of hospital stays.

There should be a "once in a lifetime" elimination period. Your elimination period should start with the first date of service and should count either calendar days or credit one day of home care per week toward seven days of elimination.

■ **Daily Benefit:** You select the amount of the daily or monthly benefit. Coverage for long-term care should be 100 percent of the daily benefit or monthly benefit up to



the amount of actual charges for room and board. Typically, you can select a monthly benefit ranging in increments from \$1,500 to \$15,000 or a daily benefit in \$10 increments from \$50 to \$500.

The daily cost of staying in a nursing home varies in different parts of the country. Call nursing homes in your area to see what the daily costs are. These costs will vary according to the type of facility and amenities offered. Depending on the number of hours required, home care could be more expensive than nursing home coverage.

■ **Inflation-Adjusted Coverage:** Nursing home costs are increasing at an annual rate of 4 percent, including the low-inflationary period between 2009 and 2011. If you take out this insurance when you're 55, you may not need to use it until you're age 75 or 80. Costs could easily triple during that time, so this type of coverage will enable you to keep up with rising costs. This inflation feature should compound the benefit on the accumulated pot of money without reduction for claims paid.

Inflation coverage typically will increase benefits by a certain percentage each year on a simple or compounded basis (we recommend the latter option), or it may be tagged periodically to cost-of-living increases. The latter would mean an increased premium for voluntary increases in coverage of 5 percent, 10 percent or 15 percent, with the premium depending on your age in the year of increase.

■ **Length of Coverage:** You can select the number of years you're entitled to receive benefits. These can range from one year of benefits to coverage that provides benefits for the rest of your life. Here again, the longer you're entitled to receive benefits, the more costly the insurance will be.

■ **Qualification to Receive Benefits:** To qualify for benefits, you must require substantial assistance with two or more activities of daily living (such as bathing or dressing) for a period

expected to last 90 days or have a cognitive impairment (memory loss) requiring substantial supervision. This assessment for benefits should be completed by an independent health care professional.

■ **Type of Long-Term Care to Be Reimbursed:** Coverage should apply at home, in an adult day care center, in an assisted-living facility or at a nursing home up to the maximum benefit selected. Assisted-living coverage is important, as these facilities are a transitional alternative between home and a nursing home and may be sufficient for many elderly who would otherwise be forced into a nursing home.

In addition, home care often costs as much as a nursing home, or more, depending on the amount of assistance needed. You should be able to receive long-term care services anywhere in the world.

The policy should include respite care that applies both at home or in a facility including hospice services. If the nursing home stay is interrupted for any reason, actual charges should continue to be paid for up to 60 days per calendar year to assure that your facility bed is held for you.

Coverage should also include reimbursement for the actual expenses of "care advisory" services, which means assessment by an independent professional up to 10 times the home care daily benefit or one-third of the monthly benefit. This benefit allows you to hire and pay for a trained representative who can work on your behalf to develop the optimal plan of care to address your specific needs. You don't have to satisfy an elimination period for this benefit.

■ **Selection of the Insurance Company:** Several companies are in the field, but you want a company that's demonstrated a long-term commitment to the long-term care industry. You also want a company at which the premium rates have been stable — that is, it doesn't have a history of increasing rates.

We think it's crucial to seek the advice of a financial planner or insurance agent who really understands this kind of coverage and the companies that have demonstrated their reliability. Further, this person can help you when you actually need to apply for the coverage.

■ **Premium Reductions:** Some companies will offer reduced premiums if you're in good health or if you're married, or if both you and your spouse have applied and are eligible for coverage. Make certain to find out whether the insurance carrier allows you to maintain all applicable discounts for the duration of coverage. Some insurance companies withdraw marital discounts at death or divorce.

■ **Group or Individual Coverage:** Individual coverage is more expensive than group insurance, but group coverage tends to cover less. Specifically, group insurance tends to include more gatekeepers (reasons to refuse you coverage) and is more stringent about which preexisting conditions it'll accept before it will insure you and what it will pay for when you do need assistance.

Many employers purchase coverage or simply offer their employees individual long-term care insurance, but they're still able to offer a discount based on the size of the group. Insurance premiums paid by an employer on behalf of employees for long-term care insurance may be deductible to the business. Consult a tax adviser for details.

■ **New Features in LTC Policies:** Today long-term care insurance policies offer some unique features above what previous policies provided. These include stronger home health care benefits to encourage individuals to receive care in their own home. Accelerated premium options are now available that allow a client to have coverage "paid-up" during a limited period. Otherwise, policyholders continue to pay premiums until benefits are provided under the policy.

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Connecticut Women Take 'Careful' Approach to Portfolio Building

30 Years of Investing — and Socializing

by Women's Investment Club of Granby, Conn.

"Stock investing was so different 30 years ago," recalls Chris Jones, now the treasurer and one of the original members of the Women's Investment Club of Granby, Conn. "We actually held the stock certificates and were extremely careful," she adds. "Careful" being the operative word that coordinates with the group's philosophy when it came to investing over the years. "We were a conservative group, and over time it has served us well," Chris says.

Indeed it has. Although the group welcomed new members over the years, the core values of research, careful purchase plans and consensus among members have provided a successful portfolio, one that the members are proud to say is diverse and, at times, amusing to watch and full of unexpected pleasures. For members, these pleasures include when a stock splits or pays an extra dividend.

"We pride ourselves on involving all members," says Bridget Annulli, the club's president. "If a member believes a stock to be a profitable investment, the member brings research and a recommendation; other members participate by watching the

current news and energetic discussions develop, resulting in a final decision. We like to examine all the information available."

BetterInvesting provides guidance and a forum for the research methodology that assists members in their stock presentations. This assessment has led to conservative stock picks such as Procter & Gamble, which the club has held for many years, to the other end of the spectrum and Apple. The latter stock indicates the group's desire to realize the profitability of technology in today's global economy.

The group has evolved from the days of carefully preserving stock certificates to current communications by holding some meetings remotely via conference calls so that all members can participate even if they're traveling or if the roads aren't good.

An additional unexpected pleasure is that the members, from all different walks of life, enjoy one another's company and have maintained social relationships through the years.

"Sometimes we talk about stock investing, but not all the time," says a member, laughing. ■



Anniversary Award. Terry Dell, an original member of the Women's Investment Club of Granby, Conn., holds a plaque sent by BetterInvesting honoring the club's longevity. Other members are (bottom row, from left) Dona Marie Barrows and Julie Perrault and (top row) Nancy Schyer, Robin Young-Cournoyer, Bridget Annulli, Alice Sherman, Bonnie Quinlan and Rosemary Powers.

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Additionally, new coverage today allows family members to share in each other's benefits in a variety of ways and even allows a return of premiums at death if benefits go unused.

A Way to Protect Your Assets

As you can see, conditions for long-term care insurance can vary widely. Although some people may choose to self-insure, we find that most don't want to deplete all their assets paying for health care. Consider long-term care insurance portfolio insurance — protecting the assets you've worked a lifetime to accumulate.

We suggest that you talk to your financial adviser about whether you

should buy this coverage. If the answer is yes, your adviser should help you find the best coverage currently available. If you already have coverage, you should ask your adviser to evaluate it periodically to make sure it's still relevant.

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