

## LONG TERM CARE COVERAGE

Long-term care includes services provided to those who cannot care for themselves, either through a nursing home, skilled nursing or home health care. The federal government estimates that 60% of the 76 million baby boomers will need long-term care, but high premiums, industry consolidation, and vague policy provisions have all contributed to confused consumers, leaving less than 10% of Boomers with a long-term care coverage.

For those with an asset base between \$1 million and \$3 million, this coverage is vitally important and not just an emotional decision. A \$1 million retiree runs out of money 6.5 years earlier when \$60,000 annually is figured in for the cost of long-term care.

In 2001, many insurers raised rates and even exited the long-term care industry, creating additional hurdles. However, the need is a serious one and there are several things to consider when shopping for a plan.

Consider the rate you'll be paying. The average premium is about \$2,000 per year. Rate increases are common and only 5 companies have not raised rates. You are more likely to avoid rate increases by choosing an "A-rated" insurance company. Even then, rates may increase, but will do so across the board for people in the same demographic (e.g., all males age 65-75). Rate increases shouldn't deter you from long-term coverage, as long as they are in line with industry averages.

Consider also the quality of care you will receive by paying for long-term care with private funds versus participating in Medicaid. Without even considering the fact Medicaid is underfunded with no underlying trust, many higher quality facilities don't want, or limit, the number of Medicaid patients.

You should discuss long term care coverage with an agent who works primarily with this type of insurance, since there are thousands of permutations, but here are a few points to discuss and consider:

1. You can choose a daily benefit policy that pays a smaller daily rate (such as \$200) or one that pays a lump sum (such as \$200,000) to be divided over the full stay. The largest claim ever paid is \$890,000.
2. In 2006, almost 20% of applications from people ages 60-69 were declined. That rate rose to 42% for those ages 70-79. Those with existing medical conditions are more likely to be turned away, although other options will likely be offered.
3. Women are more likely to need coverage since 72% of nursing home patients are women.
4. You may not need a lifetime policy. According to the American Association for Long-Term Care Coverage, only 5% of policyholders exhaust 4 years of benefits. The average stay is 2.3 years.
5. If you buy as a couple, there are significant discounts. You can also transfer unused coverage to the other spouse with a shared care rider.
6. Buy compound inflation protection, especially if you're purchasing your policy at a younger age. Long-term care expenses are growing at 5% a year.
7. Consider a survivorship and paid-up premium rider so the survivor doesn't have to pay premiums.

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8. Be wary of the new generation products that combine long-term care with an annuity (that provides a better payout if you are unhealthy). They have opposing underwriting criteria, which can result in conflicts.

Despite its challenges, long-term care is certainly something to consider. We encourage our clients to closely consider their needs when planning for the future. Investors should obtain a fiduciary financial planner who can help develop a written financial plan and investment policy statement. Having a plan in place will take much of the guesswork out of this potential financial burden.

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