RETIREMENT PLANNING 2008

A HEALTHY RETIREMENT

Protection for the rest of your life

Major insurers now offer more affordable long-term-care policies.

By Kimberly Lankford

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WHAT'S THE EASIEST WAY TO BLOW THROUGH A lifetime of savings? Spend some time in a nursing home or receive round-the-clock care in your home. Anyone who has seen their parents or elderly relatives go through the experience knows just how financially devastating it can be.

The average cost of one year in a nursing home is now $77,000. And that's in today's dollars. By the time today's 55-year-old turns 80 (when he or she is more likely to need care), the annual price could top $260,000.

Long-term-care insurance can shield your savings from these potential costs. But until recently the premiums were very high— as much as $5,000 per year for a 55-year-old who bought a fully loaded policy. And the older you are when you buy, the higher the premium.

There are several ways to lower the cost of insurance while still getting valuable coverage. You can select a shorter benefit period, buy a shared-benefit policy with your spouse, take advantage of group discounts at work or get help from your state government. Plus, some major insurers are now offering slimmed-down versions of their standard policies, to target baby-boomers who want to protect their retirement savings from devastating long-term-care costs but who don't want to pay big premiums for expensive coverage they may never need.

The new trend toward lower-cost policies surprised Harry Thalhimer of Richmond, Va., when he recently searched for long-term-care insurance. "The policies were 30% to 40% cheaper than they were four years ago," says Thalhimer, 54. Although the new policies don't have the same bells and whistles as the policies he considered in the past, they provided all the coverage he wanted. He and his wife, Marcia, also 54, ended up buying a policy that costs each of them about $2,000 a year. The insurance provides $7,500 in monthly benefits (and rises every year with the consumer price index). The two of them share a total of six years of coverage. "It was the right amount of coverage at the right cost," Thalhimer says.

YOUR DECISIONS

WHEN BUYING LONG-TERM-CARE INSURANCE, YOU have to make three decisions: the amount of the daily benefit, the length of the waiting period be-

fore coverage kicks in and the length of the benefit period. Each decision will affect your premium.

You can start by looking at the cost of care in your area. On average, a private room in a nursing home costs $213 per day, according to the MetLife Mature Market Institute. But the price varies depending on location. For example, the average daily cost of a nursing-home room in Chicago is $157, but it tops $370 in San Francisco. And round-the-clock care in your home can cost even more. The larger the daily benefit amount, the higher the premium.

You generally have a choice of waiting periods ranging from 30 days to 360 days before coverage begins. The longer you wait, the lower your premiums will be. But you could end up with a big front-end bill. If you have a 180-day waiting period and your care costs $200 per day, you'll pay $36,000 *before* benefits begin. Most people choose a 60- or 90-day waiting period, which generally has a good balance of coverage and cost.

One of the most difficult decisions is the benefit period. The average nursing-home stay is about three years. But a three-year benefit period could leave you with hundreds of thousands of dollars in uncovered expenses if your stay lasts longer than average. You may want to buy a longer benefit period if your family has a history of Alzheimer's or other debilitating diseases.

That's what Tony Corcozza, 58, decided to do when he bought a Northwestern Mutual policy a few years ago. "The statistics show that most people need care for six years or less," he says. "But I tend to be conservative. With the advances in medical science, who's to say what we'll need then?" He bought a policy that has a lifetime benefit period. "It doesn't take much to wipe out all of your savings," says Corcozza, who lives near high-cost New York City. "I felt uncomfortable that my children would have the burden of making a decision. Now I don't have to worry about it."

A policy with lifetime benefits can be great—if you can afford it. But the premiums are steep. A 55-year-old would pay $4,100 a year for a Northwestern Mutual policy with a $200 daily benefit and lifetime benefit period, compared with $3,067 a year for a similar policy with a six-year benefit period.

If you'd like lower premiums but still want a large pool of benefits, more insurers are offering shared-benefit policies that give married couples access to a combined pool of benefits that either spouse can use if one needs care for much longer than the other. The Thalhimers each bought a policy with a three-year benefit period, but the shared-care feature lets either of them tap into a pool of six years. "The odds of both of you needing care are not that great," says Thalhimer.

Shorter policies tie in well with state long-term-care partnership programs, which help people protect some of their assets from Medicaid if they buy special long-term-care policies (see box on next page).

NEW OPTIONS

SOME MAJOR INSURERS RECENTLY INTRODUCED NEW policies that make it easier and cheaper to buy long-term-care coverage. "Companies have been trying to strip things out of their policies to address the sticker-shock issue," says Dennis O'Brien, senior vice-president of New York Life. Increasingly, some customers are deciding that they'd like to pay for some coverage even though they'd rather not pay for all of the bells and whistles. "It's better to have something than nothing," says Jesse Slome, executive director of the American Association for Long-Term Care Insurance.

The Thalhimers bought a John Hancock Leading Edge policy, which costs about 30% less than the company's standard policy. All Leading Edge policies have a 100-day waiting period before benefits kick in, and lifetime benefits are not an option. Buyers can choose among three benefit periods: three years, five years, and five years with an additional $1 million in coverage. To trim premiums, John Hancock and other insurers have changed they way they calculate the daily benefit amount to keep up with inflation.

Rather than using the costlier 5% compound inflation adjustment, benefits in the stripped-down policies rise with the consumer price index. (Be aware that nursing-home costs usually increase at a faster pace than overall consumer prices.) By the time you need care, you could face a shortfall in coverage. However, if the CPI rises more than 5% a year in the future, the pool of coverage dollars could be larger. This protection should be enough to cover the cost of home care, which has risen about 2% a year.

Genworth, the nation's largest long-term-care insurer, recently introduced its Cornerstone policy, which costs up to 50% less than the company's standard policy. Instead of calculating coverage by the daily benefit, you buy a pool of money, from $100,000 to $1 million. But the policy requires you to self-insure part of the cost by paying 20% of the daily cost of care until you exhaust the pool. Unlike other long-term-care policies, Genworth's Cornerstone policy won't pay the room-and-board portion of assisted-living costs, so it's not a good

States to the rescue

A new law is changing the way people buy long-term-care insurance. For the past 15 years, four states—California, Connecticut, Indiana and New York—have offered long-term-care partnership programs, which helped people protect some assets from Medicaid if they purchased special long-term-care policies. The Deficit Reduction Act of 2005 opened the door for more states to introduce similar programs, and by the end of 2008, 25 states are expected to sponsor such programs.

Individuals can buy policies from selected insurers and protect additional assets if their long-term-care costs exceed the policy's total payout. Say you buy a partnership policy that provides $200,000 of coverage. If you exhaust your benefits but still need more care, you can protect up to $200,000 of your assets and still qualify for Medicaid. Normally, you would have to spend virtually all of your assets, down to your last $2,000. (Higher allowances apply to married couples.)

The idea is to encourage consumers to buy shorter, more affordable policies that protect some of their assets while saving states and the federal government a lot of money.

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option if you expect to choose assisted living. But if you expect to receive care at home or in a nursing home, it could be a good deal. A 55-year-old would pay $1,014 a year for a Cornerstone policy with a $275,000 maximum, $150 daily benefit, 90-day waiting period and 5% compound inflation.

MetLife's LTC LifeStage Advantage encourages younger buyers to purchase a policy with limited benefits and gives them until they turn 65 to double their coverage without a medical exam. "It gives people a comfort level," says Jodi Anatole, vice-president of MetLife Long-Term Care. "They don't have to think about buying all their coverage at once."

With most policies, you choose the inflation protection upfront and the premiums stay the same for the life of the policy (unless the insurer raises rates for all policyholders). Some insurers allow policyholders to start off with lower premiums and to buy more inflation protection every year or so. In most cases, the cost of the extra protection is based on the buyer's age when the new coverage is purchased. That means the premiums are increased to reflect both your age and increased inflation protection.

To reduce a buyer's cost, New York Life offers a policy that lets you buy additional CPI-based protection that is based on your age when you first bought the policy. The premium will rise only by the size of the CPI increases. So if the CPI goes up 4% and you choose to increase your coverage, your premium would rise 4%. New York Life's new policy with the CPI-protection buy-in starts out costing about half as much as its standard policy with level premiums and 5% compound inflation protection. But if the policyholder continues to buy extra inflation protection, the premium could eventually become higher than that of the standard policy.

RECENT RATE HIKES

ALTHOUGH SOME SMALLER INSURERS HAVE imposed double-digit rate hikes on policyholders, most major companies—including John Hancock, MetLife, New York Life and Northwestern Mutual— have not. Therefore, it was significant when industry leader Genworth announced that it would raise rates by 8% to 12% for about 440,000 existing policyholders.

When the company originally priced the policies, it had expected more people to drop their coverage before they claimed benefits. But the lower-than-expected lapse rate meant less money was forfeited to cover the rising costs of the remaining customers. Some of the policies date back to the 1970s, and policyholders are paying much less than current buyers. "The premiums are $800 or $1,000 a year, so they're getting an $8 or $9 a month increase," says long-term-care broker Mike Ashley, whose premiums on his own Genworth policy increased by 9%.

Policyholders who don't want to pay the extra premiums can reduce their benefits or shorten their benefit period and continue to pay the current rate. But Ashley says all of his clients decided to keep their coverage intact and pay higher premiums.

Meanwhile, Northwestern Mutual, which is known for its expensive policies and rich benefits (most of its customers buy lifetime coverage), actually lowered its premiums for current policyholders. The company is in the midst of paying out dividends that have reduced premiums by as much as 25% for people who bought policies ten years ago.

Anyone who buys a long-term-care policy today is much less likely to face rate hikes because most states have laws that make it harder for insurers to raise rates in the future. **K**

» WHAT COVERAGE COSTS

Long-term-care insurance prices and trade-offs

Annual premiums in this table are for a 55-year-old who buys a long-term-care insurance policy with a $200 daily benefit and 5% compound inflation protection and who receives a spousal discount. A longer benefit period increases premiums, while a longer waiting period before benefits begin reduces premiums. Policies with three to five years of coverage and a waiting period of 60 to 90 days are appropriate for most consumers.

WAITING PERIOD	BENEFIT PERIOD 3 YRS.	5 YRS.	10 YRS.	LIFETIME
30 days	$1,871	$2,443	$3,171	$4,142
60 days	1,715	2,239	2,906	3,797
90 days	1,559	2,036	2,642	3,452
180 days	1,403	1,832	2,378	3,107

SOURCE: John Hancock Insurance Co.

Employers help out

You might also cut your insurance costs by buying coverage at work. Nearly 10,000 employer groups now offer a long-term-care benefit, according to the American Association for Long-Term Care Insurance. The policies tend to have simplified underwriting—asking just a handful of medical questions—and a group discount of 5% to 10%. You can have your premiums deducted from your paycheck, and you can keep the coverage when you leave the job as long as you continue to pay the premiums.

Ronald Shink, co-owner of a technology sales and consulting business in Yarmouth, Maine, recently decided to offer Genworth's Cornerstone policy to his employees. "It was sort of a no-brainer to make this available and extend our employee benefits," he says. Although the company doesn't subsidize the premiums, employees can get a 5% discount.

Shink and his wife, Kathy, both 53, were the first to sign up. They don't mind self-insuring part of the long-term-care expense. "We look at it as wealth preservation," he says. "We've seen recent examples of folks who wished they had it."

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