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How To Lop Costs For LTC Insurance

Trim Certain Benefits

If you're 50, premiums can cost just one-third of what they will at 70

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Regular health insurance and Medicare generally don't help you pay for non-medical needs that can arise when you're ill or recovering. And those needs can arise more often as you progress into your golden years.

The insurance industry calls those needs activities of daily living. They include getting dressed, eating, washing and going to the bathroom. The elderly and frail sometimes need help performing those tasks.

Often labeled custodial care, that's what long-term care insurance specializes in. LTC insurance can also pick up where time limits on Medicare or regular insurance cut off their coverage.

And LTC insurance can cover you before you're even eligible for Medicare at age 65.

The sooner you buy it, the cheaper it will be. "If you wait until age 70, you can pay triple the premium you'd pay as a 50-year-old," said Jerry Miccolis, senior financial adviser at Brinton Eaton Associates, a financial planning firm in Morristown, N.J.

Even in your 50s, LTC insurance can be pricey. But there are ways to shave costs.

Say a hypothetical Joan Jones, age 55, is shopping for coverage. She wants a top-of-the-line policy. That could include:

- A daily benefit of $200 a day, if Jones needs care.
- Coverage that will pay benefits for as long as she needs care. That could last the rest of her life.
- A 5% compound annual adjustment for inflation. So the initial $200 daily benefit would be around $400 when Jones is 69.
- A 30-day so-called elimination period. With this feature, Jones would pay for 30 days of care herself. Then the insurance benefits would start.

Miccolis says such a policy would cost nearly $7,000 a year.

If Jones wants to trim that bill, the biggest single cut would come from trimming how long the policy pays a benefit. Suppose she buys a policy that will pay benefits for up to three years instead of a lifetime policy. That would cut her annual premium to $3,000 from $7,000.

Tactical Trims

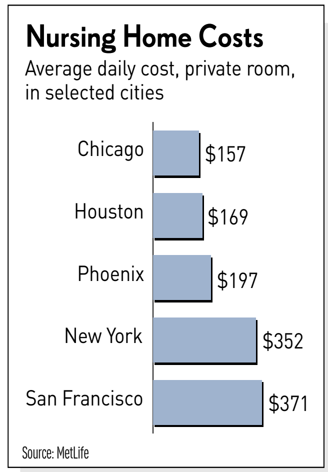
And three years is often enough. "Among people over 65 who are in nursing homes, half will leave within three months," Miccolis said.

For the other half, the average stay is 2 1/2 years.

But people with dementia, for instance, tend to stay longer. So you might want to get more coverage if that's in your family history.

A policy providing benefits for, say, five or 10 years costs more than a three-year policy. But it would still be cheaper than lifetime coverage.

Another way to save costs is to change the formula for inflation adjustments. You can choose simple rather than compound increases.



Say Jones picks a 5% simple inflation adjustment. Her $200 daily benefit would go up $10 a day each year. Jones would have a $340 daily benefit after 14 years.

A 5% simple cost of living allowance (COLA) would cut the premium on the top-of-the-line policy from $7,000 to $4,500 a year.

Miccolis says that a simple COLA might work best for people 70 or older. Odds are that they have fewer years for the gap between a simple and a compound COLA to cost a lot.

In your 50s, a compound COLA might make sense. And you can cut costs by taking a lower daily benefit to start with.

Some LTC policies offer a so-called future purchase option. That gives you a chance to buy extra coverage every two or three years, without taking a physical exam.

Yet another budget move is to take a longer elimination period. You might choose a 90-day rather than a 30-day wait for benefits.

That's like taking a higher deductible for regular medical. You might pay more for any needed care before the coverage kicks in.

But you'll pay lower yearly premiums. Taking a 90-day elimination period instead of a 30-day cuts the cost of a $7,000 top-of-the-line policy to around $5,750.

And you don't have to limit yourself to one cost-cutter. Say Jones uses all the above suggestions. She buys a $200 daily benefit, three years of coverage, a simple COLA and a 90-day elimination period.

Instead of $7,000 a year for a top-of-the-line policy, her annual premium would be less than $2,000.

And Jones may decide that she doesn't really need to start with a $200 daily benefit. That depends on where she might need care.

Balancing Benefits

In Los Angeles, the average cost of a private room in a nursing home was $215 a day in 2007, according to a survey by MetLife. In Boston, the average was $297.

Jones might plan to live in Florida after retiring. The average daily room cost in Miami is $211. In Jacksonville, it's $188.

Jones might cut back on the daily benefit she buys. A policy with a $180 daily benefit, for example, costs 10% less than one with a $200 benefit.

The more LTC costs you expect to be able to pay from your own assets, the lower the daily benefit you'll need and the less LTC insurance will cost.