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## Long term care insurance: Peace of mind at a price

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(Photo: Doug Kapustin for USA TODAY)

If you ask what most people fear most in retirement, it's being a burden. Long-term care insurance can alleviate that fear, but it doesn't come cheaply.

About 70% of all retirees need long-term care at some point, although that includes help from family and friends as well as assisted living and nursing homes, says Jamie Hopkins, professor in the Retirement Income Program at The American College.

About two-thirds of long-term care comes from family members, Hopkins says. About a third of those who need help will eventually wind up in nursing homes or assisted living facilities. Men typically need 2.2 years of assistance, while women, who live longer, need an average 3.7 years.

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Assisted living doesn't come cheap: An average of \$3,022 a month for a room at an assisted living facility, or \$36,264 a year, according to the Assisted Living Federation of America. The costs go up if you need help with taking medications, getting dressed, or other daily activities. Full-scale nursing home assistance can run about \$85,000 a year, says Frank Darras, a lawyer in Ontario, Calif.

Most times, you're not going to get assisted-living care from the government, unless you're a veteran or on Medicaid — and that's typically reserved for the very neediest people. Medicare doesn't cover the costs of assisted living if all you need is custodial care, such as help getting dressed. It does help with many medical costs, however.

The mistaken belief that the government will pay for long-term care is one reason why people don't get long-term care. Another is that people don't think they will need it. But the biggest cause is the cost: about

\$1,985 a year for a typical policy for a 55-year-old man, says Jesse Slome, executive director of the American Association for Long-Term Care Insurance.

And there are plenty of variables in the cost. The main one: Age, says Hopkins. The older you are, the more likely you are to need long-term care insurance in the near future, and the more expensive the policy.

Other factors that affect the cost of a policy:

- Inflation riders. Most policies now have inflation riders -- a wise choice, if you're buying insurance you might not need for 20 years.
- Deductible. Most policies have a 90-day deductible period, Slome says, meaning that you don't get any benefits until you have used 90 days of long-term care assistance. Shorter deductibles cost more, and longer deductibles cost less.
- Daily benefit. Policies will pay up to a certain amount a day, typically \$150, for long-term care. Increasing or decreasing the daily benefit will raise or lower your benefit. Most people get benefits in the \$100 to \$200 a day range.
- Maximum benefit. Some policies will pay a set number of years of benefit. A lifetime policy is more expensive than one that pays five years' worth of benefits. Most people opt for four years of coverage or less.

To qualify for benefits, you typically have to be unable to perform two activities of daily living such as bathing, dressing, grooming, cooking, managing medications, using the bathroom or driving.

What are the drawbacks? One is that you might not qualify, typically for health or age reasons. Age is the main factor in whether or not you get declined for a policy. About 15% of people in their 50s get declined, Hopkins says, and that rate doubles for people in their 60s. "The 50s are the sweet spot," he says.

The other is cost. You can expect premium increases, and sometimes steep ones. The \$1,895 policy for a 55-year old has risen 15% in the past two years, Slome says. Rates have risen about 30% to 50% over the past five to seven years, he says.

One alternative: If you have a paid-up life insurance policy, you may be able to exchange it for one with a long-term care rider, says Hopkins. The policy would let you tap your benefits if you needed long-term care. You could use a 1035 tax-free exchange to get the new policy with the long-term care rider. "It's a good avenue for some people," Hopkins says. "They don't have to spend more money on long-term care."