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## Young Workers Must Face Realities of Long-Term Care

By FRAN HAWTHORNE

MOST of the nation's 78 million baby boomers are watching their parents grow old. While investigating caretaking options for their parents, they should also be thinking about their own old age and planning how they will pay for nursing homes or home health aides for themselves, experts say. With life expectancy steadily rising, the odds are that they will eventually need some help with basic functions, like dressing or walking, maybe for decades.

But many boomers are ignoring this prospect.

"You've got your 401(k) to fund, you've got rising health care premiums, gasoline is up, groceries are up, said Randall K. Abbott, a senior consultant in the Boston office of the benefits consulting firm Watson Wyatt. "Folks tend to look at their wallets and decide it's something they can't think about right now." Besides, he said, "people just don't believe it's going to happen to them."

If they were to pay attention, they would learn that Medicare does not cover these ongoing, nonmedical services. Medicaid does, but it has tightened its rules, making it harder for middle-income people to qualify. That leaves essentially two choices: pay cash or buy long-term care insurance.

Long-term care insurance covers services for people who are unable to perform two or more activities of daily living. It can pay for a nursing home, assisted living facility, home health aide, adult day care and family respite (someone to fill in for a family member who is caring for the insured person).

And it is not just for the elderly; young people who are paralyzed by car accidents, for instance, often need home care.

About seven million of these policies had been sold as of Dec. 31, 2007, with sales increasing slightly over the past year, according to Limra International, a trade group in Windsor, Conn. The choices among these plans can be mind-boggling. Here are some critical issues to consider:

### DO I REALLY NEED THIS COVERAGE?

Buying insurance is always a bet on probability. For long-term care, there are four basic questions to ask:

If I don't buy insurance, how much money can I afford to spend on this care from my own assets and income?

AARP reported that the average cost of a nursing home in the United States last year was about \$214 a day; a home health aide was around \$19 an hour.

Do I have alternatives? Are there friends or relatives who would take care of me — without charge?

What is the likelihood that I will need this care? (This is, admittedly, an uncomfortable question.) Does my family have a history of debilitating chronic illness, like Alzheimer's disease? Or, on the other hand, do I have a heart problem that makes it unlikely that I will live long enough to use the benefit?

Can I afford the annual premiums, which can top \$2,000? If someone's assets or income is less than \$40,000, "most likely you would be better off relying on Medicaid," said Malcolm Cheung, vice president of long-term care product and risk management at the Prudential Insurance Company.

#### WHEN SHOULD I BUY IT?

Experts suggest that people buy policies while in their 40s to mid-50s, mainly because premiums rise with age, roughly doubling every 10 years. For a standard policy at New York Life Insurance Company, the annual rate is \$1,041 at age 50, \$1,941 at age 60 and \$3,984 at age 70.

If buying at age 40 is good, why not start at 30? "Your first savings should be to take care of income replacement for retirement," said Lawrence Singer, a senior vice president at the Segal Company, a benefits consulting firm in New York City. Another reason: "The likelihood of having a claim is really remote in the 30s, 40s and 50s," he said.

But an applicant can also be too old. The cutoff at some major insurers is age 79; New York Life will sign new policies for those up to age 85, but with limited benefits.

#### WHERE CAN I GET IT?

"Look for it at the work site first," Mr. Singer said. More than one-third of companies now offer long-term care insurance as a benefit, doubling the number from 10 years ago, according to Hewitt Associates, a benefits consulting firm in Lincolnshire, Ill.

Employer-based plans have multiple advantages, experts say. Mr. Abbott of Watson Wyatt noted that the group rates are typically 5 to 15 percent lower than retail and "they often have features and benefits that are more difficult to find in individual plans." Moreover, the employer will have vetted the insurance carrier. One more advantage: policy owners will not need medical screening.

For those who have to buy coverage on their own, how can they be sure the company will still be around when they need the benefits, 20 years from now? One way is to check its standing with a rating agency like Standard & Poor's or A. M. Best Company.

About two dozen states — including New York, New Jersey and Connecticut — have extended-coverage "partnerships" that coordinate private insurance with Medicaid. Normally, if people still need help after exhausting their insurance benefits, they must pay out of pocket until nearly all of their assets are gone before Medicaid will step in. With these state programs, however, they can qualify for Medicaid while preserving more assets. (The amount they can preserve depends on the policy they select.)

#### HOW MUCH COVERAGE SHOULD I GET?

The typical policy is written as a formula — X dollars per day of Y-type coverage for Z years — although in practice it

is more flexible. "It's really a pot of dollars," said Mr. Cheung of Prudential. If a policy covers \$200 a day at a nursing home for five years, and the policyholder ends up in a home that costs only \$150, the coverage can continue beyond five years until the policy has paid out \$365,000 (\$200 times 365 times 5).

The advantage of this formula is that it helps people calculate how much coverage to buy by breaking the choice into pieces.

How many years of coverage? For nursing homes, five years is a common amount, but people can buy anywhere from two years to unlimited time. Thomas Stinson, president of the long-term care business at Genworth Financial in Richmond, Va., a large insurance provider, says the average nursing home stay is two and a half years.

And how much money per day? That is fairly easy to calculate, because AARP and many insurance companies track average costs state by state. Consumers can also look up the facilities they are interested in. The catch: "You really need to think about where you're going to be retired, and the average cost of nursing homes there," rather than the cost where you live now, said Robert Schlau, a senior consultant for Towers Perrin, a benefits consulting firm based in Stamford, Conn. The fees can vary dramatically — from \$33.50 a day in Louisiana to \$237 in Alaska, according to AARP.

Genworth's typical customer buys four years of coverage at \$200 per day. At Prudential, the average is five years at \$140 a day.

Since today's average cost is sure to grow by the time most buyers actually use the benefit, it is important to add inflation protection. A policyholder can increase coverage every few years, with a corresponding rise in the premium, but most experts prefer policies that automatically raise the benefit over time, even though they charge a higher premium from the start.

If it is not done automatically, "our concern is that people often pass on taking the option," said Mr. Stinson of Genworth, which sells only the automatic type. There is some dispute as to which approach costs more in the end.

#### WILL I BE ABLE TO GET INSURANCE?

Insurers reject 15 to 20 percent of applicants — mainly those "likely to need long-term care soon," Mr. Cheung said. The most common red flags are obesity, severe diabetes, cancer within the past five years, arthritis, Parkinson's disease and mental cognition problems, along with age limits.

That's another reason to apply at a younger age. "Your insurability is exponentially higher," Mr. Stinson said.

The good news is that a family history of these conditions does not count. "It's hard to reject somebody based on a predisposition to something they don't personally have," said Dennis M. O'Brien, senior vice president for long-term coverage at New York Life.

#### CAN THE COMPANY RAISE MY PREMIUM?

Yes, with regulatory approval. However, rates must be raised for a whole class of policyholders, not on an individual basis, and it is rare. Genworth said it increased premiums only once in 35 years, while New York Life said that it

had never done so.

## SHOULD BOTH PARTNERS GET COVERAGE?

Companies often give a 30 or 40 percent spousal discount on both policies, so it can be cost-effective to buy coverage together. But if a couple can afford only one policy, Mr. Abbott said, "focus on the one who's more likely to have the need."

There is an important difference between long-term care insurance and other types. With auto or fire or major medical coverage, the policyholder hopes never actually to use the benefit. With long-term care, the policyholder hopes to live a long healthy life that may end with a brief nursing home stay or some home care, rather than never living long enough to require the care at all.

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