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RETIREMENT

By the numbers

- The median annual rate for nursing home private room is **$91,250**.[1]
- **$250** per day is the median cost for private room nursing home care.[1]
- **70%** of individuals who reach age 65 will require long-term care.[2]

[1] Source: *Genworth 2015 Cost of Care Survey*, pp. 17–18.
[2] Source: LongTermCare.gov, "The Basics."
[3] Source: census.gov, "Older Americans Month: May 2015."

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CHOOSING LONG-TERM CARE INSURANCE

When Alzheimer's disease, an accident, a stroke or aging leaves you incapable of performing activities on your own, long-term care — in a nursing home, your own home or another residential setting — may become an essential part of your daily life.

Seventy percent of individuals who reach age 65 will need long-term care at some time in their lives.[2] But most health insurance programs do not typically cover long-term care expenses. The state-funded Medicaid programs, for example, pay for some long-term care, but only if you have already spent most of your savings or other assets.

There are over 44.7 million Americans age 65 or older according to the most recent census; that number is projected to increase to 98.2 million by 2060.[3] As baby boomers see their parents grow old and begin to understand the costs of taking care of them as they age, they are seeking ways to cover those costs for themselves. For many, purchasing long-term care insurance is the most effective way to do this.

A long-term care insurance policy helps you pay for long-term care services in whole or in part. With such a policy, you pay monthly premiums, and in the event you need long-term care, your costs are covered as specified in your policy. A long-term care policy may also give you choices about what long-term care services you receive and where you receive them.

Protecting your assets, freeing your family from concern and controlling where and how you receive long-term care services are all good reasons to investigate this option.

What does long-term care insurance cover?

While long-term care policies vary greatly with respect to premiums and benefits, most policies cover the cost of

- nursing home care
- in-home assistance with daily activities
- adult daycare and other community-based programs
- assisted-living services, including meals, health monitoring and help with daily activities provided in a setting outside the home
- daily nursing supervision for those with chronic illnesses

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

Key points

- Most health insurance programs do not cover long-term care costs.
- Most of the costs of caring for the elderly occur before they enter a nursing home.
- Buying long-term care insurance may help cover long-term care costs.

Should you buy long-term care insurance?

Whether long-term care insurance fits into your financial planning picture is a question best answered with the help of your investment, tax or legal professional. The decision on whether to buy will depend mostly on your

- age
- health
- retirement goals
- income

How much coverage should you buy?

Long-term care policies come with a variety of features. But three key decisions you make — regarding the daily benefit amount, the benefit period and the waiting or "elimination" period — will greatly affect the cost of your policy.

Reasonable daily benefit Long-term care policies pay a per-day benefit. Nationally, the median cost of private room nursing home care is $250 per day, but costs vary considerably depending on the location and level of care. How much of a daily benefit do you want? While private rooms have the median cost of $250 per day, semiprivate rooms are only $220. The higher your daily amount, the more choices you may have.[4]

Lifetime benefit period When buying insurance, some recommend you estimate how long a potential stay in a nursing home may last and buy accordingly. Nationally, the average stay in a nursing home lasts approximately 2.4 years, but 20% will stay longer than five years.[5] That is why some investment and insurance professionals recommend a policy with a lifetime benefit period. Such policies, though markedly more expensive, eliminate the worry that coverage will run out.

Cost-effective elimination period Policies with short elimination periods — those that begin paying benefits after your thirtieth day in a nursing home, for example — are expensive. If your savings would cover a longer period, you may want to consider a longer elimination period, which will reduce your cost.

Additional features to consider

Inflation rider Almost half of all people who live in nursing homes are 85 years or older.[6] If you buy a policy at age 65, you might not need coverage for almost 20 years. Over that time, the average cost of a nursing home stay might rise considerably due to annual inflation rates. The purpose of an inflation rider is to help ensure that your daily benefit amount keeps pace with the rising cost of long-term care.

Home health care option In-home custodial care accounts for most long-term care expenses. That is why many people choose to purchase a policy that covers home health care. Often divided into custodial care, intermediate care and skilled care, in-home care is not always covered by long-term care insurance. Some people who require long-term care may need help with daily activities before they require nursing home services.

Must-knows about every long-term care policy

Benefit triggers Coverage often begins when a doctor certifies that you need assistance in performing some of the activities of daily living, such as dressing or bathing. A policy with an additional trigger, "medical necessity," may be a good choice because it makes it easier to qualify for benefits. On the other hand, the term "medically necessary" carries a different meaning. If a nursing home stay must be defined as medically necessary to trigger benefits, you may need to prove that a specific medical condition exists before your admission to a nursing home or other facility is covered.

Benefit/Payment stoppages Often, your first visit to a nursing home is not your last. Some policies will count your initial stay in a nursing home, even if you do not reach your elimination period, toward that period. Example: You stay for 20 days, but your elimination period is 30 days. Other policies will restart your elimination days at zero when you are admitted a second time.

Under some policies, you may be allowed to stop paying premiums when you receive benefits and then resume paying when you are discharged.

Nonforfeiture rider Most long-term care policies have no value if they are canceled or if premiums are not paid. A nonforfeiture rider will continue coverage (with reduced benefits) even if you discontinue paying premiums.

[4] Source: *Genworth 2015 Cost of Care Survey*, p. 18.

[5] Source: *Genworth 2015 Cost of Care Survey.*

[6] Source: HealthinAging.org.

Limiting premium increases Insurers cannot increase the premium of a specific individual, but they can raise the premiums for a certain class of policy or increase a premium as you age. Be sure that you understand under what circumstances your premiums can and cannot increase.

Guaranteed renewability A guaranteed renewable provision ensures the insurer cannot cancel or refuse to renew your policy as long as you have been paying your premiums.

Deducting premiums

You can deduct payments that you have made for qualified long-term care insurance contracts up to a limit based on the age of the person being insured.

- To qualify, a long-term care insurance contract must provide coverage only for qualified long-term care services, such as services that are both necessary and meet certain other requirements.
- The person receiving the care must also have a long-term treatment plan prescribed by a licensed health care provider.
- The insurance contract must
  - be guaranteed renewable
  - provide that refunds (except refunds due to death or complete cancellation of the policy) and dividends are used only to reduce premiums or increase benefits
  - not provide for a cash surrender value or money that can be borrowed
  - not pay items already reimbursed under Medicare

Deductible amounts for 2016[7]

Age of insured	Deduction
40 or younger	$390
41 to 50	$730
51 to 60	$1,460
61 to 70	$3,900
71 or older	$4,870

[7] Source: aaltci.org, "IRS Increases 2016 Tax Deduction Limits for Long Term Care Insurance," October 21, 2015.

When to buy

The cost of nursing home care and home care increases the longer you wait, and waiting carries an additional risk: If you wait until you reach your 70s or 80s, failing health, policy restrictions or cost could make it more difficult to purchase long-term care insurance.

Buyer beware

Because a long-term care insurance policy is a long-term plan, you will want to shop for a policy as you would for any long-term product.

- Check with several companies before making a decision.
- If you cannot understand what a policy does and does not cover, it may not be the right policy for you.
- If you feel pressured to buy, it may be better to wait.
- Review policies carefully to avoid buying more than one policy that does the same thing — you would not insure your car twice!

Another step

Be sure to check with your state's commissioner of insurance or Better Business Bureau before you buy a policy. They will maintain a list of those firms about which they have received complaints.

Whether to buy a long-term care insurance policy is a decision with long-term consequences. Make sure you read over any literature you receive from a prospective insurer carefully.

As with all financial decisions, you may want to consult with your investment, tax or legal professional before you decide to buy a specific policy.

There is no right time to buy, but there is a cost for waiting

In the hypothetical example illustrated in the table below, Bill was a healthy male when he purchased a long-term care policy at age 55. Dan was a healthy 65-year-old when he purchased a similar policy. Assuming both men entered a nursing home at age 85, Bill's total premium cost would still be lower than Dan's, even though he paid premiums for an additional 10 years. The insurance would still be valuable in both examples because both policies pay $200 per day for four years and include compound inflation protection.

Of course if Dan had invested the $4,890 he saved from starting his policy later, his invested assets might have made up some of the cost of the long-term care.

The cost of waiting

Policy holder	Cost per year	Number of years paid	Total paid
Bill	$1,557	30	$46,710
Dan	$2,580	20	$51,600

Source: completelongtermcare.com.

This hypothetical example is for illustrative purposes only.

Resources

American Association for Long-Term Care Insurance
aaltci.org

AARP
aarp.org

Department of Health and Human Services, Administration on Aging
aoa.gov

Internal Revenue Service
irs.gov

Re: Gender
regender.org

State Health Insurance Assistance Program (SHIP)
shiptalk.org

Contact your financial advisor for more information or visit mfs.com.

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