

Many Retirees Will Outlive Their Income... Will You Be One of Them?

LONG-TERM CARE INSURANCE

To Buy or Not To Buy ... That is the Question



Brought to you by
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COULD THIS HAPPEN TO YOUR FAMILY?

Mary Delani was a vibrant, healthy 79-year old until the day she slipped and fell in her home. On that fateful day, she ruptured a disc in her back. The formerly independent retiree was suddenly in a great deal of pain and unable to complete daily routine tasks. Due to her age and bone loss condition, surgery wasn't an option and she was unable to recover as hoped. With the resulting loss of mobility, her strength spiraled downward. She could no longer clean her own house or prepare meals. Within a year's time, she needed assistance with bathing as well.

At first, Mary daughter's shared the responsibility of helping her mother every day, but it was a huge burden on top of her own family's needs and other responsibilities. When they realized the situation wasn't temporary, they hired a home healthcare nurse to ease some of the burden but it cost them roughly \$700 a week for part-time assistance. They researched assisted living facilities and found that it cost roughly \$3,500 every month. Mary didn't have that kind of money but she also didn't qualify for Medicaid assistance. It was a no-win situation.

A GROWING CONCERN FOR THE BOOMER GENERATION

Unfortunately, many seniors have similar stories. And the problem is growing. The largest group in America is the Baby Boomer generation. Roughly 78 million Americans were born between 1946 and 1964. According to the American Association for Long-Term Care, many boomers will fall so far into poverty (as they try to pay for their long-term care out of pocket) that they will eventually qualify for Medicaid — the medical care program for deeply impoverished people.

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WHAT YOU NEED TO KNOW

WHAT IS LONG-TERM CARE INSURANCE?

LTCI is a type of insurance policy that covers basic daily needs over an extended period of time. While health care insurance or Medicare helps pay for immediate medical expenses (for example, a surgeon's bill), long-term care insurance helps with the cost of chronic illnesses, such as Alzheimer's disease, or various disabilities. The policies pay for assistance with everything from the basics — bathing and dressing — to skilled nursing care and therapy.

DOESN'T MEDICARE COVER IT?

No. Medicare and other health insurance policies do not cover most long-term care services. That's because LTCI is NOT medical insurance. It is insurance that pays for assistance with everyday life functions. Because Medicare and your health insurance likely do not cover long-term care expenses, planning for how you might pay for daily living becomes even more important.



WHAT ARE THE CHANCES YOU'LL NEED LONG-TERM CARE?

Each of us faces a 70 percent chance of needing long-term care services at some point during our lives after turning age 65, according to the National Clearinghouse for Long Term Care Information. Additionally, there is a 40 percent chance that someone who has reached 65 will enter a nursing home. The average stay in a nursing home is two and half years (according to stats compiled by Morningstar).

WHAT HAPPENS IF YOU NEED THE CARE BUT DON'T ALREADY HAVE THE INSURANCE?

If you get sick or injured and need some type of skilled or nursing home care, but you don't have LTCI, the expenses would need to be paid from you or your family's personal assets. Government assistance (Medicaid) would usually NOT kick in until your assets are virtually depleted, along with your spouse's assets.

IS LTCI WORTH BUYING?

Experts say LTCI can be a huge help, but it's far from a perfect solution to all problems. For example, some LTCI policies have a three-year benefit period (meaning they cover three years of care), but many people need care for longer than three years.

Additionally, today's policies have more restrictive policy language to help limit the insurers' risk. When deciding whether to buy or not to buy, make sure to consult a professional advisor, who can help you assess your complete financial picture before making a decision.



IS LONG-TERM CARE INSURANCE A SMART SOLUTION?

Like many products, long-term care insurance (LTCI) policies have pros and cons. On the upside, LTCI policies allow seniors to minimize dependence on family members while at the same time preserving their savings. They allow family members the peace of mind of knowing their elderly loved ones can afford quality care. And, in general, they can help make a very stressful situation a bit easier. The downside? LTCI is expensive. The number one reason people don't buy it is because they can't afford it. In fact, the U.S. Census (July, 2011) counts more than 311-million Americans. Of that enormous number, only about eight million (less than 3 percent) have any long-term-care protection. The low participation rate is largely due to the product's high cost.

How much does LTCI cost?

The American Association for Long-Term Care Insurance says people should expect to pay an average of \$3,335 per year to cover a healthy 60-year-old couple on a plan that pays out a \$150 daily benefit for up to three years. But prices vary dramatically, depending upon factors such as your age, the level of inflation-adjustment protection and whether the daily benefit will be \$100, or some larger amount, such as \$150 or \$200.

Why is the coverage so expensive?

The premiums are high (and rising) because insurance companies in this niche have had difficulty projecting how many people would need care, how long they would require care, and how much the care would cost. As such, some LTCI companies have not been profitable and many have even decided to cease offering new policies. So, we're in a situation of decreasing supply and increasing demand.

COST COMPARISON

The table below compares the costs and coverage offered in a sampling of long-term-care insurance policies.

Age	Yearly Cost*	Immediate Value [◇]	Value at age 80 [†]	Value at age 85 [△]
55 (single) preferred health	Ave. \$1,720 \$1,428 - \$2,552	\$170,000	\$354,000	\$418,000
55 (couple) preferred health (with shared care option)	Ave. \$2,700 \$2,027 - \$3,574	\$340,000	\$708,000	\$836,000
60 (couple) preferred health (with shared care option)	Ave. \$3,335 \$2,700 - \$4,204	\$340,000	\$611,000	\$708,000
65 (couple) preferred health (with shared care option)	Ave. \$4,433 \$3,815 - \$7,129	\$340,000	\$533,000	\$611,000

* Calculations based on: \$150 daily benefit selected at inception of plan, 3-year benefit period, 90-day elimination period, 100 percent home care benefit and 3 percent inflation compounded annually. Includes spousal discount (where applicable) and preferred health discount (when indicated).

◇ Equals available cash value of benefits that would be paid for claim starting at present age (an almost immediate claim). Policies ranged from \$162,000 to \$200,000 in initial benefits.

† Equals available cash value of benefits that would be paid based on 3 percent annual compound growth of policy benefits.

△ Shared care options vary from company to company. For illustration purposes, this example assumes access to a combined, total pool of funds

Source: 2012 Long-Term Care Insurance Price Index, American Association for Long-Term Care Insurance

TO BUY OR NOT TO BUY

This guide is intended to present both sides of the long-term care conundrum, but whether or not you should buy LTCI is a question that on you and a professional advisor can answer. Below are a few additional considerations.

1. If you lack the resources to pay for long-term care out-of-pocket, your alternative for paying for long-term care is NOT Medicare. It's Medicaid. Remember, to be eligible for Medicaid, you must spend down most of your assets, and being on Medicaid limits your choices for care. Many facilities do not accept Medicaid as a payment option.
2. As you age and develop serious health issues, you might not be able to get coverage. Insurers are leaving the industry and the underwriting requirements are becoming increasingly stringent.
3. If you do decide to buy LTC coverage, you might be able to save money if you:
 - *Carefully consider the benefit period that you will need. Money Magazine says that a three-year period is enough for 92 percent of people.*
 - *Think about your daily benefit amount. If you choose a lower benefit amount (i.e. \$100 per day), you may need to subsidize the cost of care with personal funds, but on the flip side, you could afford to purchase a policy with a longer benefit period. Weigh the pros and cons. Many people can afford to pay for part of their long-term care costs.*
 - *Get a hybrid product such as a life insurance policy with a long-term care rider.*
 - *Buy as early as possible. The earlier you buy LTCI, the less it costs. The average age when people purchase is 57.*



Is LTCI a good solution for you? Hopefully this report provided you with objective information to help you decide. If you need assistance with the LTCI decision, we're here to help. Contact our office to schedule a complimentary financial assessment.

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