



Long-Term Care Insurance: A Beginner's Guide

The best way to save money on your late-life medical care? Act now.

Have you thought about how you'll pay for your care in your golden years? Nursing home care costs roughly \$8,000 a month currently, and that number is only expected to rise, meaning it is prohibitive to consider as an out-of-pocket cost for all but the wealthiest Americans.

Many people have looked to long-term care insurance (LTCI) to cover these needs, but a series of losses, due in part to assumptions by insurers that turned out to be well off-base, has forced many insurers to exit the marketplace. According to AARP, more than 100 insurers sold traditional LTCI policies in the 1990s, while now fewer than 15 do.

That means the LTCI landscape is changing now, in ways that can benefit many older Americans. The government projects that by the time we reach age 65, roughly 70% of us will experience a long-term care event in our remaining

years. Given that expectation and the size of this expense, long-term care insurance should be a consideration in everyone's retirement planning. Here are some of the key questions you may be asking:

WHAT IS LTC INSURANCE?

Traditional long-term care insurance entailed paying an annual premium in return for financial assistance if you ever needed help with everything from skilled nursing care to everyday activities such as bathing and feeding yourself. Comprehensive LTC policies typically allow you to use your daily benefit not just in a nursing home or assisted living facility but at home as well. According to an AARP report, you can expect a daily benefit of about \$160 for nursing home expenses, and a maximum of three years' worth of coverage for a nursing home stay. ▶

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But due in large part to insurer losses on these policies, the traditional model is changing. What's replacing it? Life insurance and annuity policies that you can draw from for long-term care are gaining in popularity. If you don't end up needing long-term care, the benefits from the insurance end up going to your heirs.

WHO SHOULD CONSIDER IT?

Obviously, there's no way to know who will need long-term care in their golden years and who won't. Given the percentages, though, it makes sense for everyone to consider LTCI as part of their retirement planning, and the sooner the better.

According to the Federal government, the average age of people buying long-term care insurance today is about 60, although age 50 seems to be the ideal point to start shopping. It shouldn't come as any surprise that the older you are, the more expensive your LTCI premiums are likely to be, and every year counts. Initial premiums at age 65, for example, are 8 to 10 percent higher than for those buying LTCI at 64. A medical exam may be required as well, which will only be more difficult to pass as you get older.

WHAT ARE SOME COMMON MISCONCEPTIONS ABOUT LTC INSURANCE?

Medicare will cover me. Medicare pays for skilled care in a nursing home only for short periods (up to 100 days) following a hospital stay for a related condition. Medicare does not cover long-term care, either in a nursing home or at home.

Then maybe Medicaid will cover me. Medicaid does provide LTC coverage, but only once you've depleted all your other assets. It's intended for people who have no other resources. And it offers only three years' worth of coverage.

Then maybe my children will take care of me. According to a survey by Associated Press-NORC Center for Public Affairs Research, two-thirds of older Americans are confident that they can rely on their children for care when they get older. This is a real gamble, though, since you might well require professional medical care or a stay in a nursing home or assisted living facility.

WHAT SHOULD PEOPLE LOOK FOR IN A POLICY?

The average LTC claim is just under four years, so a reasonable plan might cover four to six years. In order to find that sweet spot between affordability and comprehensiveness, Baird's advisors generally recommend a plan that will cover about 60-80% of the cost of a private room in a nursing home, which should keep you from buying more insurance than you need. (You can find an estimate for the cost of care in your area at the website for Genworth, an LTCI provider.)

What type of policy should you buy? Here are some key differences between the traditional LTC and the life insurance variations:

Traditional LTC (Stand-Alone)	Life Insurance with LTC Rider	Hybrid LTC
Least costly solution if care is needed	Accelerated death benefit pays for care	Combine life insurance or annuity with LTC
Most customizable	LTC benefits are fixed (no inflation protection)	Provides benefits even if care is not needed
Annual premium required	May exhaust death benefit paying for care	Single premium or annual premium is guaranteed
Premiums can increase	Premiums are guaranteed	Inflation protection available

Long-term care insurance is a complicated proposition, with many variables involved, so take your time in making a selection. Contact your Baird advisor for help in making a decision that's right for you and your family.

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Please reach out if you or anyone you know would benefit from discussing this topic further.

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