

A HITCHHIKER'S GUIDE TO LONG-TERM CARE INSURANCE

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The History of every major Galactic Civilization tends to pass through three distinct and recognizable phases, those of Survival, Inquiry and Sophistication, otherwise known as the How, Why and Where phases.

For instance, the first phase is characterized by the question, "How can we eat?", the second by the question, "Why do we eat?" and the third by the question, "Where shall we have lunch?"

—The Restaurant at the End of the Universe (the second book in "The Hitchhiker's Guide to the Galaxy" series), Douglas Adams

Wouldn't it be wonderful if one of the biggest challenges we faced were deciding on a restaurant? Most of us understand that life is not that simple. As a matter of fact, things have a tendency to get more complicated as time goes by. Granted, we do grow wiser as we get older, but a little planning and foresight can help take away some of life's uncertainties.

Investors can use long-term care insurance to protect their life savings. It is also a way to increase the probability of leaving your loved ones an inheritance. Even if that isn't your primary concern, long-term care insurance can allow you to budget for your future.

The costs of extended care can be astronomical. According to a 2009 MetLife Mature Market Institute survey, the cost of staying in a private room at a nursing home was \$219 a day (about \$80,000 annually) in 2009. How likely is it that you or a loved one will spend time in a nursing home? A 2007 National Bureau of Economic Research study estimated that nearly 50 percent of 65-year-old women will spend time in a nursing home at some point during their lives.¹ The same study indicated that the likelihood for men is one in four.

IS LONG-TERM CARE INSURANCE FOR YOU?

Long-term care insurance is not for everyone. If you expect to rely on Social Security payments for your retirement income, you should probably avoid taking the risk of prematurely dropping long-term care insurance coverage under financial pressure. Retirees who plan to meet most of their retirement health care costs through Medicaid should be particularly wary: Medicaid payments will be reduced by the amount of claims paid by a long-term care policy. Likelier customers for this product are those who

- can afford the premiums without hardship,
- have assets worth protecting,
- cannot afford to pay for several years of long-term care on their own, or
- have no relevant pre-existing conditions (these may impose an additional waiting period that detracts substantially from the benefit of insurance).

WHAT DOES LONG-TERM CARE INSURANCE COVER?

Long-term care insurance pays a daily benefit amount designed to offset all or some of the cost of long-term care. Coverage typically applies after a physician has determined that the insured person needs professional long-term care. Many policies determine that the insured is eligible for coverage if they are unable to perform any two of the basic "activities of daily living," which relate to getting out of bed, getting dressed, using the bathroom, and performing other basic activities.

Once you have an eligible claim, the insurance company pays a daily benefit amount based on the terms of the policy. There is generally a 30-, 60-, 90-, or 100-day waiting period—often referred to in the contract as an elimination period—before payments start. Payments continue until either the insured no longer needs care or the benefit period (which varies) ends.

WHAT DOES LONG-TERM CARE INSURANCE COST?

Long-term care insurance can provide a wide range of coverage, depending on the needs of the insured. In general, the cost will vary with the comprehensiveness of benefits and the age of the insured, but the following variables have very large impacts on the costs of a long-term care insurance policy:

- **Benefit Amount:** The value (in dollars) of the maximum payment that the insurer will make to cover insurance costs per day.
- **Periodic Inflation Protection:** Most insurers offer their customers a rider that will adjust the benefit amount upward to account for inflation. Insurers may increase the benefit either in line with the U.S. Consumer Price Index or at a fixed annual percentage, depending on your contract.
- **Deductible Period:** The period between when the insured is declared to be in need of long-term care and the beginning of insurance payments.
- **Types of Care Offered:** Carefully review these options. Some plans cover only skilled care or care received in a skilled facility, such as a nursing home.
- **Benefit Period:** Determines the maximum period during which the insurance company will make payments to cover long-term care expenses.

PROFESSIONAL INSIGHT

Robert Ansehl, an attorney specializing in insurance law, notes that "insurers can reserve the right to increase a policy's premium by implementing what is known as a 'cost of insurance' (COI) adjustment. Insurance companies must disclose whether they have reserved that right, so it is important to carefully review that provision of the policy."

"That said, rates, including a potential COI adjustment, should not be the sole driver for someone considering a long-term care insurer. Buyers need to consider whether the insurer will be around when benefits are needed. A number of carriers have recently vacated the market, leaving policyholders empty-handed. If the insurer has left the market or is not around because of financial trouble, there may not be sufficient assets to cover your claims. And even with consumers' best interests at heart, insurance company liquidators can only work with what they have. Thus, they may not be able to extend full benefits to everyone."

—Mr. Ansehl is a partner in the Insurance Industry practice group at Clyde & Co US LLP.

Long-term care insurance premiums are quoted in either monthly or annual premiums and are likely to remain constant for the life of the policy. To get a sense of what the cost might be, in May 2010 CFA Institute compared quotes from several major long term care insurance providers for a policy that covers both in-home and nursing home care with a \$200 daily benefit amount, an elimination period of 85–100 days, and a 5 percent compound annual inflation protection benefit. The price was based on New York residency; pricing will vary in other regions.

The table below shows the range of annual premium quotes depending on the age of the applicant. Generally speaking, the younger you are when you purchase a long-term care policy, the lower the premium will be. You should note that insurers who charge very low premiums are likely to be more discriminating in choosing whom to insure.

Age at Purchase	Low Annual Premium	High Annual Premium
35	\$1,962.59	\$5,065.98
45	\$2,679.80	\$5,752.35
55	\$3,069.20	\$7,003.49
65	\$5,039.20	\$8,491.85
75	\$11,024.60	\$17,927.00

WHAT HELP CAN RETIREES EXPECT FROM THE GOVERNMENT?

Under current law (i.e., as of August 2010), Medicare will pay some of the cost in cases where you require access to skilled care, of the type found in hospitals. Unskilled care not related directly to emergencies is generally not covered under current Medicare law. For more information, consult www.medicare.gov.

If your assets fall below a state-defined minimum, you might be eligible for Medicaid-sponsored long-term care insurance. Medicaid coverage varies by state, and the facility of your choice may or may not participate. For more information, consult www.cms.gov.

As part of the 2010 health care legislation, Americans will have the option to add the protections of a new federal long-term care insurance provision. The Community Living Assistance Services and Supports Act will provide support for anyone who becomes disabled after paying premiums for five years. Expected benefits from this new plan have not yet been defined, and the program is not expected to begin receiving payments until 2011 or pay claims until 2016.

The Program of All-Inclusive Care for the Elderly (PACE) is an optional benefit under both Medicare and Medicaid, available only in states that have chosen to offer it. If you qualify, the program provides comprehensive medical and social services at home and inpatient facilities. To check whether your state offers it, or to find a PACE provider, consult www.cms.gov/PACE/.

NEED MORE INFORMATION?

For matters this important, it pays to do your research. Check with the National Association of Insurance Commissioners (www.naic.org) on the reputation of companies that offer insurance products in your area. The NAIC's Consumer Information Source features information on consumer complaints, licensing status, and company finances. For credit-rating information, consult the websites of A.M. Best, Fitch, Moody's, and Standard & Poor's (registration required for each website).

Any decision to purchase long-term care insurance should be evaluated in the context of a broader investment plan. For assistance finding a financial adviser, visit www.cfainstitute.org/about/investor/.

Frances Melville and William Ortel contributed to this article.

For more information, please consult <http://www.cfainstitute.org/investor/>

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