THE SAVAGE TRUTH ON MONEY
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Long Term Care Insurance Is A Good Hedge

THE SAVAGE TRUTH | Don't Put It Off Too Long

It's a good bet that you'll live longer than previous generations in your family. But is it a good bet that you'll be able to afford those extra years?

That depends on how you plan for the future -- both the ordinary costs of living longer and the extraordinary costs if you need care because of a physical or mental incapacity.

Americans are in denial about this oncoming crisis in costs of care. Maybe that's because we figure the government will come to our aid. Think again. Medicare only partially covers up to 100 days of skilled nursing care. State Medicaid programs will pay for your custodial care -- but only in Medicaid-funded nursing homes that are woefully under-funded.

Relying on Medicaid disqualifies the possibility of care at home or in an assisted living facility -- much more appealing choices. And you'd have those choices if you purchased long-term care insurance as you reach age 50, when you are still young and healthy enough to qualify for the best policies at the lowest prices.

There are four chapters in "The Savage Number," my latest book, on the subject of long-term care insurance. Basically, prices are set by your age at time of purchase and by your health situation. Prices should remain level but can be increased if the insurance company petitions the state because of rising future claims.

Here are some basic choices you'll have to consider:

- Coverage: amount of daily benefit. $200 per day is the minimum, or $6,000 per month.
- Benefit period: how long coverage lasts. Lifetime coverage is optimal but very expensive. A minimum of three years coverage is better than none at all.
- Inflation protection: Compound inflation protection is best, but you need at least simple inflation coverage to adjust for the rising cost of care.
- Spousal discounts: Couples, including life partners, may qualify for a spousal discount of as much as 35 percent when both buy policies.

One critically important thing to keep in mind when purchasing long-term care insurance is that before you can access the benefits, a licensed medical professional must "certify" that you need substantial assistance in performing at least two of six basic activities of daily living (such as dressing, bathing, toileting) or be "cognitively impaired" before the coverage will start paying your costs. You can't simply decide that it would be nice to move into an assisted living facility and have your insurance pay the costs!

One place to start shopping is the new AARP alliance with Genworth to offer long-term care insurance polices through Genworth agents. Information is available at www.aarpfinanical.com.

Here's an example of the costs of this Genworth policy: A couple in good health, both age 62, could each get three years of $6,000 per month coverage (about $200 a day), with simple inflation protection for $143.17 each per month -- or $3,436 per year total.

Adding the compound inflation protection for the couple would increase the monthly premium for each to $186.59. And, as a demonstration of how important it is to buy early, if the same couple waited until age 66 to buy that same basic policy, the monthly premium would jump $204.56 per month.

There are other variables in coverage that offer even lower prices for less comprehensive benefits. So it's best to work with an agent who specializes in this type of policy. Many are independent, and can show you policies from all the major insurers, including John Hancock, Genworth and MetLife.

You want to make sure you're dealing with one of the larger, more committed companies that are pricing policies appropriately to try to avoid future price increases, and also will be around if you ever need to use these benefits.

John Hancock is well known for its "shared care" policies, which allow a couple to share the benefits of each policy. It's based not only on the statistical likelihood that only one of the couple is likely to need long-term care but also on the fact that you never know which one will need the coverage.

The first one to need coverage can use the entire benefit and then use the partner's benefit as well. But if the first to need care uses only two years of benefits, the third year is available for the surviving partner, along with her own three years of coverage.

This type of shared-care policy costs a little more but takes care of a situation where one person needs care for the longer term. Of course, the danger is the first to need care uses all the benefit. Then the survivor is out of luck!

One potential drawback of long-term care insurance policies is that they may be limited to the daily or monthly benefit amount you have purchased. But now, many long-term insurers are instead allowing you to pick a total dollar amount of benefits that your policy will offer -- ranging from $200,000 to $1 million. Selling policies this way, instead of offering promises of lifetime benefits, helps insurers predict their potential liability and thus offer lower premium prices.

Other policies combine these concepts. Instead of buying the more expensive lifetime coverage, John Hancock's Leading Edge coverage offers three or five years of daily or monthly benefits and also promises that if you use up that coverage and still need care, you'll get an additional $1 million of coverage. This additional pool of money lets you sleep at night -- but at a steep additional premium cost. It could add substantially to the premiums on a basic policy but still be less expensive than buying lifetime coverage.

Procrastination is absolutely the most costly enemy when it comes to purchasing long-term care insurance. Prices rise sharply as you get older -- and because insurers are demanding higher premiums as they acknowledge the risks that people are living longer. Plus, you may not qualify for coverage if you have a pre-existing condition.

We all hope we'll live comfortably into our 90s, enjoying life with all our faculties until our very last day. Long-term care insurance policies are a way to hedge that bet. And that's The Savage Truth.

Terry Savage is a registered investment adviser and is on the board of the Chicago Mercantile Exchange. She appears weekly on WMAQ-Channel 5's 4:30 p.m. newscast, and can be reached at www.terrysavage.com. Her new book, "The Savage Number: How Much Money Do You Make?" has just been published. To find out more about Terry Savage and read her past columns, visit the Creators Syndicate Web page at www.creators.com.

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