



# THE NEXT STEP

A **KIPLINGER** Workbook to Help You  
Plan Ahead for Long-Term Care

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*John Hancock*<sup>®</sup>  
the future is yours



## DEAR READER:

Not long ago, John Hancock announced that a survey found that most Americans significantly underestimate the cost of long-term care and overestimate how much help they can expect from Medicare to pay for it.<sup>1</sup> I noted at the time that those troubling results drove home the need to arm consumers with more reliable information on the often bewildering subject of long-term care. That's the aim of our video — *Who Cares? Kiplinger's No-Nonsense Look at Long-Term Care and How to Pay for It* — which was released the same day the survey results were announced.

Sponsored by John Hancock, the video is viewable online at [www.kiplinger.com](http://www.kiplinger.com) or at [www.johnhancockLTC.com](http://www.johnhancockLTC.com). This booklet is designed to take the next step in helping you plan for your potential need for long-term care ... and how to pay for it, if and when the need arises.

Although we didn't know it at the time, our video debuted in 2007 just days after the stock market reached an all-time high and started the precipitous decline that wiped out trillions of dollars of wealth. If your net worth has taken a hit, you may feel that now is the wrong time to take on a new expense. Ironically, though, you may need the protection of long-term care insurance now more than ever ... precisely because of the damage the market has inflicted on your nest egg.

Long-term care insurance is not for everyone. But everyone needs to make a thoughtful decision on this subject of critical importance to you and your family. I hope this booklet helps you do just that.

*Knight Kiplinger*  
Knight/Kiplinger  
Editor in Chief  
Kiplinger Washington Editors



## REFRESHER COURSE

### What is long-term care?

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Many people conjure up an image of a nursing home when they think of long-term care. But long-term care does not always mean institutional care. Instead, it is primarily “custodial” care—personal, hands-on assistance to individuals who need help with the activities of daily living, or ADLs. ADLs are routine things that healthy people don’t give a second thought to: bathing, dressing, eating, using the toilet, getting into and out of bed or a chair. The need for long-term care may be due to physical limitations or disabilities resulting from injury, illness or the normal aging process. It can also be due to a cognitive impairment resulting from a stroke, for example, or Alzheimer’s disease.

And while such care is provided in nursing facilities, assisted-living

Seven in ten people who live to age 65 will need some long-term care services at some point in their lives.<sup>4</sup>

facilities, and adult day care centers, the majority of long-term care takes place in the recipient’s home.<sup>2</sup> Usually, in fact, it is provided by unpaid family members or friends.

If you think long-term care is primarily needed by the elderly, you’re correct. But barely. Nearly 41% of long-term care is provided to people under age 65 who need help taking care of themselves after an accident or stroke or as a result of chronic illness or debilitating diseases.<sup>3</sup>

### What are the chances you’ll need long-term care?

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This is a tough question. It’s clear that the longer you live, the more likely it is that you’ll need help at some point. Overall, at least 70% of people who live to age 65 will require some long-term care services at some point in their lives.<sup>4</sup> That means that only three in ten of us will live out our lives without the need of such assistance.

Will you need care someday? None of us knows for sure, but family history could be a good indicator.

One thing is certain: The potential need for long-term care is a risk that all Americans face—and one that can take a heavy toll on your family and your wallet.

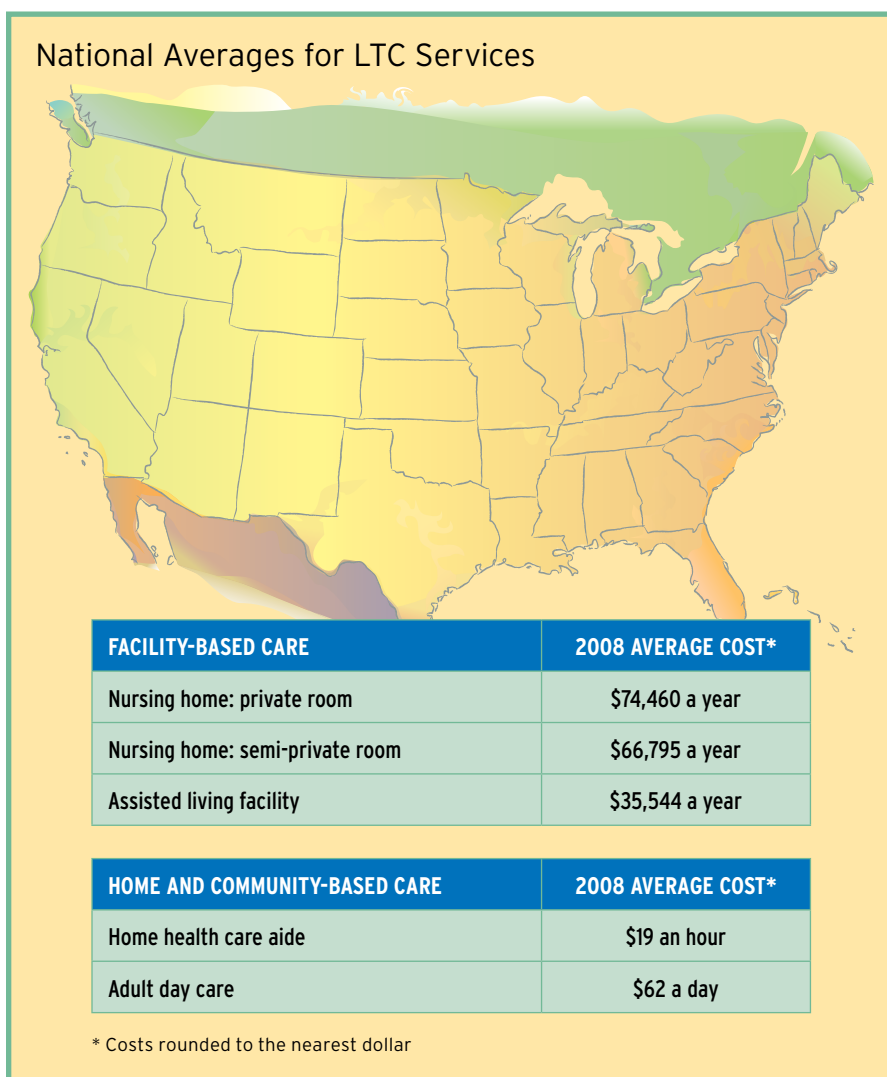
# HOW MUCH DOES LONG-TERM CARE COST?

Paying for long-term care services can be surprisingly expensive. While many people depend on family members and friends to help provide care in the recipient's home, providing such care can exact an enormous physical and psychological toll on the caregiver. (If you're currently managing, or have ever managed, the needs of a loved one, you may consider this an understatement.) Once paid care is required, the cost can be high and over time can threaten a lifetime of savings.

Studies are regularly done to track the cost of care. The most recent survey by John Hancock,<sup>5</sup> for example, found that in 2008 the average cost of a private room in a nursing home in the United States was \$204 a day, or \$74,460 a year. A semi-private room wasn't much cheaper, at an average of \$183 a day, or \$66,795 a year. (The gap is likely skewed somewhat by the fact that some facilities report prices for one-bedroom units as single rooms.) Remember that these are average costs. The cost in your area could be quite different, as you'll see in the table that shows the average cost in one city in each of the 50 states and the District of Columbia. Plus, costs can vary widely among facilities in the same area. That's why we have a worksheet on page 5 to help you pinpoint the cost where you live.

## How long might you need care?

Again, it's impossible to say. The latest statistics show that the average stay in a nursing home for current residents was 876 days, or about 2.4 years.<sup>6</sup> (And keep in mind that doesn't account for how many years of care the person may have received at home prior to entering the nursing home.) Multiplying 876 days by the average daily cost for a private room gives you a staggering tab: \$178,704 in today's dollars. With inflation (averaging



4.1% based on the Consumer Price Index over the 30-year period ending December 31, 2008), that dollar amount could grow to \$400,000 in 20 years and close to \$600,000 in 30 years. Despite the precise-sounding nature of these figures, as with the average cost, the average stay statistic can be misleading because it blends a wide range of lengths of stays. Some residents spend just a few days in a nursing home for rehabilitation after being hospitalized for, say, an operation or a broken limb. Others may be in residence for years suffering from Alzheimer's disease.

Since most long-term care is not delivered in nursing homes, it's important to know the cost of care in alternative settings.

The John Hancock survey found that:

- The national average cost of an assisted-living facility was \$2,962 a month in 2008, or \$35,544 a year.
- The average cost for home health aides was \$19 an hour.
- The average cost for adult day care (centers that offer an opportunity for social interaction and, sometimes, health care on an hourly, half-day or full-day basis) was \$62 a day.

# WHAT CARE COSTS IN YOUR STATE

Average Costs in Selected Cities<sup>7</sup>

STATE	CITY	NURSING HOME PRIVATE		NURSING HOME SEMI-PRIVATE		HOME HEALTH CARE	ASSISTED-LIVING FACILITY		ADULT DAY CARE
		DAILY	ANNUAL	DAILY	ANNUAL	HOURLY	MONTHLY	ANNUAL	DAILY
Alabama	Montgomery	\$185	\$67,525	\$174	\$63,510	\$14	\$2,880	\$34,560	\$25
Alaska	Juneau	\$500	\$182,500	\$500	\$182,500	n/a	\$2,240	\$26,880	\$82
Arizona	Phoenix	\$202	\$73,730	\$161	\$58,765	\$20.53	\$2,703	\$32,436	\$78
Arkansas	Little Rock	\$151	\$55,115	\$135	\$49,275	\$17.30	\$2,471	\$29,652	\$42
California	Los Angeles	\$217	\$79,205	\$173	\$63,145	\$18.46	\$3,180	\$38,160	\$79
California	San Francisco	\$275	\$100,375	\$205	\$74,825	\$25.63	\$3,406	\$40,872	\$86
Colorado	Denver	\$223	\$81,395	\$194	\$70,810	\$19.69	\$2,717	\$32,604	\$64
Connecticut	Hartford	\$294	\$107,310	\$276	\$100,740	\$18	\$3,075	\$36,900	\$77
Delaware	Dover	\$221	\$80,665	\$211	\$77,015	\$21	\$3,551	\$42,612	\$50
District of Columbia	Washington	\$277	\$101,105	\$250	\$91,250	\$20.50	\$4,803	\$57,636	\$80
Florida	Miami	\$248	\$90,520	\$200	\$73,000	\$15.60	\$2,108	\$25,269	\$29
Georgia	Atlanta	\$179	\$65,335	\$159	\$58,035	\$17.44	\$3,262	\$39,144	\$40
Hawaii	Honolulu	\$290	\$105,850	\$251	\$91,615	\$21.78	\$3,125	\$37,500	\$58
Idaho	Boise	\$213	\$77,745	\$195	\$71,175	\$18.75	\$3,057	\$36,684	\$108
Illinois	Chicago	\$168	\$61,320	\$148	\$54,020	\$19.65	\$3,039	\$36,468	\$50
Indiana	Indianapolis	\$191	\$69,715	\$162	\$59,130	\$18.22	\$2,696	\$32,352	\$56
Iowa	Des Moines	\$168	\$61,320	\$156	\$56,940	\$18.50	\$2,501	\$30,012	\$46
Kansas	Kansas City	\$163	\$59,495	\$146	\$53,290	\$19	n/a	n/a	\$65
Kentucky	Frankfort	\$193	\$70,445	\$179	\$65,335	\$17.33	\$2,700	\$32,400	\$72
Louisiana	New Orleans	\$137	\$50,005	\$127	\$46,355	\$13	\$3,265	\$39,180	\$55
Maine	Augusta	\$252	\$91,900	\$216	\$78,840	n/a	\$3,975	\$47,700	\$50
Maryland	Baltimore	\$228	\$83,220	\$218	\$79,570	\$20.50	\$2,279	\$27,348	\$75
Massachusetts	Boston	\$312	\$113,880	\$289	\$105,485	\$22	\$4,290	\$51,480	\$56
Michigan	Grand Rapids	\$233	\$85,045	\$205	\$74,825	\$19.30	\$2,698	\$32,376	\$89
Minnesota	Minneapolis	\$166	\$60,590	\$147	\$53,655	\$26.50	\$3,090	\$37,080	\$58

n/a not available

STATE	CITY	NURSING HOME PRIVATE		NURSING HOME SEMI-PRIVATE		HOME HEALTH CARE	ASSISTED-LIVING FACILITY		ADULT DAY CARE
		DAILY	ANNUAL	DAILY	ANNUAL	HOURLY	MONTHLY	ANNUAL	DAILY
Mississippi	Jackson	\$170	\$62,050	\$164	\$59,860	\$17.13	n/a	n/a	\$63
Missouri	St. Louis	\$161	\$58,765	\$141	\$51,465	\$18.91	\$2,776	\$33,312	\$59
Montana	Helena	\$160	\$58,400	\$153	\$55,845	n/a	\$2,592	\$31,104	\$81
Nebraska	Lincoln	\$185	\$67,525	\$162	\$59,130	\$20.25	\$3,218	\$38,160	\$35
Nevada	Las Vegas	\$203	\$74,095	\$184	\$67,160	\$20.84	\$2,502	\$30,024	\$78
New Hampshire	Concord	\$259	\$94,535	\$239	\$87,235	n/a	\$3,381	\$40,572	\$65
New Jersey	Trenton	\$280	\$102,200	\$263	\$95,995	\$19	\$4,950	\$59,400	\$108
New Mexico	Albuquerque	\$183	\$66,795	\$164	\$59,860	\$19.40	\$3,062	\$36,744	\$57
New York	Brooklyn	\$337	\$123,005	\$335	\$122,275	\$14.89	\$3,298	\$39,576	n/a
New York	Buffalo	\$258	\$94,170	\$246	\$89,790	\$21.12	\$2,610	\$31,320	\$49
North Carolina	Charlotte	\$199	\$72,635	\$182	\$66,430	\$17.58	\$3,488	\$41,856	\$49
North Dakota	Bismarck	\$151	\$55,115	\$137	\$50,005	\$13.95	\$1,835	\$22,020	\$49
Ohio	Columbus	\$212	\$77,380	\$187	\$68,225	\$17.22	\$3,868	\$46,416	\$50
Oklahoma	Oklahoma City	\$169	\$61,685	\$129	\$47,085	\$17.73	\$2,490	\$29,880	\$47
Oregon	Salem	\$205	\$74,825	\$196	\$71,540	\$21.30	\$2,720	\$32,640	n/a
Pennsylvania	Pittsburgh	\$255	\$93,075	\$242	\$88,330	\$19.31	\$2,817	\$33,804	\$49
Rhode Island	Providence	\$251	\$91,615	\$232	\$84,680	\$21	\$4,516	\$54,192	\$68
South Carolina	Columbia	\$183	\$66,795	\$163	\$59,495	\$15.49	\$2,844	\$34,128	\$48
South Dakota	Pierre	\$208	\$75,920	\$195	\$71,175	\$20.25	\$2,025	\$24,300	n/a
Tennessee	Nashville	\$184	\$67,160	\$161	\$58,765	\$17.42	\$3,388	\$40,656	\$67
Texas	Dallas/Ft. Worth	\$170	\$62,050	\$125	\$45,625	\$17.78	\$3,457	\$41,484	\$39
Utah	Salt Lake City	\$178	\$64,970	\$158	\$57,670	\$19.86	\$2,578	\$30,936	\$44
Vermont	Burlington	\$266	\$97,090	\$250	\$91,250	\$23	\$3,165	\$37,980	n/a
Virginia	Richmond	\$214	\$78,110	\$179	\$65,335	\$17.29	\$3,100	\$37,200	\$54
Washington	Seattle	\$252	\$91,980	\$221	\$80,665	\$24.28	\$3,676	\$44,112	n/a
West Virginia	Charleston	\$200	\$73,000	\$189	\$68,985	\$15.50	\$3,391	\$40,692	\$60
Wisconsin	Milwaukee	\$234	\$85,410	\$214	\$78,110	\$19	\$2,928	\$35,136	\$51
Wyoming	Cheyenne	\$213	\$77,745	\$181	\$66,065	\$20	\$2,855	\$34,260	n/a

n/a not available

# NOW, BRING THE COST OF CARE HOME

Now that you know the average cost, it's time to get down to the nitty-gritty and find out what care actually costs where you live or where you plan to retire. That may sound like a demanding task, but there are lots of local resources to help.

Start by asking friends, work colleagues and religious associates about long-term care resources in your community: nursing homes, assisted-living facilities, adult day care centers, home health aides, etc.

There are plenty of other resources you can tap, too. Start by contacting the Eldercare Locator toll-free at 800-677-1116 or visit the Web site at [www.eldercarelocator.gov](http://www.eldercarelocator.gov). The Eldercare Locator is a public service of the U.S. Administration on Aging. It can help you find local agencies in every community that assist older persons and their families to access home and community-based services such as transportation, meals, home care and caregiver support services.

Local Area Agencies on Aging oversee and coordinate family caregiving services to help seniors and can refer you to community services and give you cost estimates.

You can also try your county health department or social services department to learn about specific programs offered to local residents. Some county social service departments provide in-home caregivers and homemaker aides. Others provide family counseling and support groups, training, and respite care to give family caregivers a break.

In some areas, the government-subsidized Family Caregiver Support Program provides compensation to family caregivers to care for loved ones in their own homes.

Use this worksheet to record the findings of your investigation.

## Nursing Homes

NAME OF NURSING HOME	DAILY COST OF CARE PRIVATE ROOM		ANNUAL COST
		x 365	
		x 365	
		x 365	
		x 365	

## Assisted-Living Facilities

NAME OF ASSISTED-LIVING FACILITY	MONTHLY FEE		ANNUAL COST
		x 12	
		x 12	
		x 12	
		x 12	

## Home Health Care

NAME OF PROVIDER	HOURLY RATE

## Adult Day Care

NAME OF CENTER	HOURLY OR DAILY RATE



## IS LONG-TERM CARE A WOMAN'S ISSUE?

The Women's Institute for a Secure Retirement notes that women have a special stake in protecting themselves from the cost of long-term care. There are several reasons for this reality.

Women tend to live longer than men<sup>8</sup> (a 65-year-old man will live, on average, to 82, a 65-year-old woman to 85) and are more likely to live alone later in life (often after their husbands have died). As the primary caregivers in our society, it's likely that wives will care for their husbands (or daughters for their fathers) when they need assistance and that the husbands will no longer be alive when their wives need help. No wonder women face a greater likelihood than men of entering a nursing home after age 65 ... and why 70% of nursing-home residents are women.<sup>9</sup>

As the primary caregivers in our society, it's likely that women will care for their husbands when they need assistance and that the husbands will no longer be alive when their wives need help.

But it would be shortsighted to think of caregiving and long-term care planning as primarily women's issues. Whether you are worried about the physical and emotional impact that needing long-term care can have on your loved ones or are seeking to protect assets from the high cost of care, planning for long-term care is a family issue.



# WHO PAYS THE BILLS?

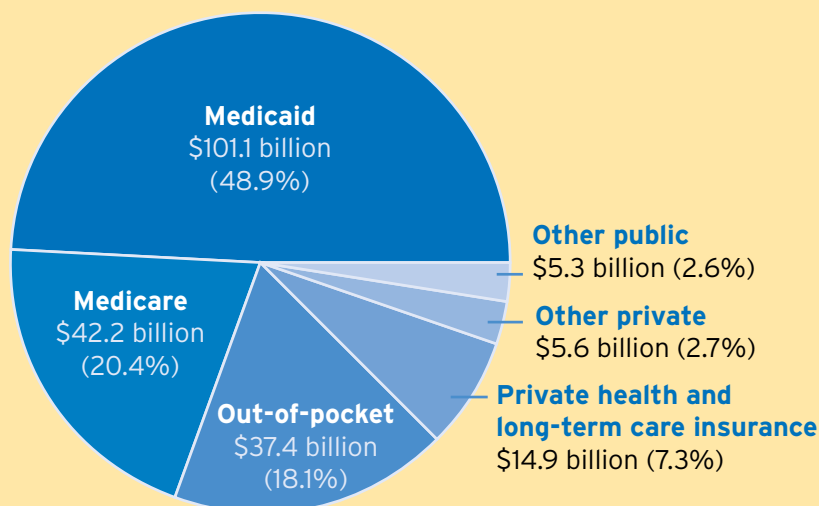
While a great deal of long-term care is provided by unpaid family members and friends, the Health Policy Institute at Georgetown University reported in 2007 that the latest statistics show that more than \$200 billion is spent each year on long-term care in the U.S.

Where did the money come from?

Social Security statements that says, "Medicare does not pay for long-term care, so you may want to consider options for private insurance."<sup>11</sup>

Medicaid is intended for the poor, and generally covers those with very little income and assets. While income and asset levels vary by state, most

Who Pays the Bills? Spending for Long-Term Care<sup>10</sup>



As the pie chart shows, the largest share—48.9%—was paid by Medicaid. Another 20.4% was paid by Medicare. Most of the rest was paid out-of-pocket by the care recipient and his or her family or by private insurance.

Those statistics might lead you to think that, if you need long-term care, the government will pick up the tab.

Think again.

Medicare generally kicks in for those age 65 and older and pays only for short-term care that is medically necessary, such as a temporary stay (no longer than 100 days) in a skilled-nursing facility for rehabilitation following surgery. Neither Medicare itself nor Medicare-supplement (medigap) insurance policies cover custodial care. In fact, the government now includes a note in your annual

states require people to spend down assets to as little as \$2,000 before they can qualify for Medicaid assistance. (Married couples have higher asset allowances, as long as one spouse is healthy enough to remain at home.) Coverage is mainly for care received in Medicaid-approved nursing homes. In the few states where Medicaid does cover home-based long-term care expenses, it is on a limited basis. In recent years, tough new rules have gone into effect to prevent people from transferring assets in order to qualify for Medicaid and shift long-term care costs to the state.

Therefore, the high cost of long-term care is likely to fall on you, either by relying on your savings, tapping benefits of a long-term care insurance policy, or both.

## HELP FROM THE STATE

Normally, you have to spend practically all of your savings before Medicaid will cover the cost of long-term care. But about half the states have — or are in the process of creating — what are called Partnership Programs. By purchasing a "Partnership-approved" long-term care insurance policy, you can protect some retirement savings and still qualify for Medicaid — provided you meet any additional state-specific eligibility requirements.\* Most new policies, and many old ones, qualify, as long as you elect the right inflation coverage on your policy.

Say you buy a qualifying policy with \$200,000 of coverage (calculate the total benefit by multiplying the daily benefit by the number of days in the benefit period). For every dollar in benefits that you use from your policy, you can shield an equal amount of your assets (not income) — for your spouse, or to pass on to your heirs, perhaps — from the state Medicaid spend-down requirement and still be eligible for Medicaid to pay your remaining nursing bills.

States hope these programs will encourage people to buy long-term care insurance, thus delaying Medicaid payouts. Check with your state insurance commissioner to see if your state has an LTC insurance Partnership Program or will be instituting one soon. Visit [http://naic.org/state\\_web\\_map.htm](http://naic.org/state_web_map.htm) for contact information for your state.

\*Owning a "Partnership-approved" LTC insurance policy does not automatically qualify you for Medicaid benefits.

# THE ROLE OF LONG-TERM CARE INSURANCE

Long-term care insurance, like all insurance, is designed to provide you with a sense of security about your future. A policy promises you a financial resource if you find yourself confronted with the need for extended care. Think of it as nest-egg insurance because it can help protect your retirement savings from being depleted by a significant, unexpected cost.

Frankly, in the past, the price of long-term care insurance often scared off potential buyers. But that is starting to change. Several insurers have introduced long-term care insurance policies that are less expensive and correspond better with new forms of care. Instead of paying, say, \$4,000 per year, people in their fifties can now get ample coverage for just \$1,000 to \$2,000 per year.<sup>12</sup>

The new trend in the business is simplicity and affordability, making it a good time to shop for long-term care coverage.

That said, a healthy 55-year-old who buys a fully loaded policy with lifetime benefits, 5% compound inflation protection and a 60-day waiting period could still pay more than \$4,000 per year.<sup>13</sup> But people are realizing that they don't need that much coverage, and they're making strategic decisions on how to design their policies, which can cut their costs in half— or even more.

## Building a policy that meets your needs

You'll have a few key decisions to make once you decide to purchase a long-term care insurance policy.

### Know what care is covered.

Understand exactly what services are covered by the policy you are considering. The best policies cover care in a variety of settings, including nursing homes, assisted-living facilities,



adult day care and your home. This enables you to receive care where you prefer it. For many people, it's their home. Also, look closely at all the other built-in and optional benefits the policy offers when comparing policies.

**Pick the daily or monthly benefit amount.** The first decision you need to make is how big a daily (or monthly) benefit you need. To estimate how much coverage you need, check out prices for various types of care in the area you plan to retire. Then figure

out how much of the daily or monthly expense you are willing to shoulder yourself.

The American Association for Long-Term Care *2009 Sourcebook for Long-Term Care Insurance Information* reports that of new policies sold in 2008:

- 32% have benefits of between \$100 and \$149 a day
- 35% between \$150 and \$199 a day
- 27% have \$200 or more per day in benefits
- The rest cover less than \$100 a day

**Set the benefit period.** This is your second policy-design decision. Consider at least a three-year benefit period, for example, which would cover the average nursing-home stay. According to the *2009 LTCi Sourcebook*, the following benefit periods were selected for policies purchased in 2008:

- 7% of buyers chose two years
- 30% chose three years
- 15% chose four years
- 24% chose five years
- 11% chose six to ten years
- 13% chose lifetime coverage, the most expensive option

Multiplying your daily benefit by your benefit period in days (or monthly benefit by your benefit period in months) will give you your total benefit—the pool of money that you will have to pay your long-term care expenses over time. For example, a policy with a \$150 daily benefit and a five-year (1,825 days) benefit period gives you a total benefit of \$273,750.

**Tip:** Keep in mind that any unused portion of your daily or monthly benefit remains in your policy for future use, essentially extending the life of your policy past its original benefit period. So it's better to consider combining a high daily benefit with a short benefit period (e.g., \$250 per day for three years), versus a low daily benefit with a long benefit

Selecting a daily benefit that is too low can significantly increase the money you'll pay out-of-pocket for care on a daily or monthly basis.

period (e.g., \$100 per day for seven years). Selecting a daily or monthly benefit that is too low can significantly increase the money you'll pay for care on a daily or monthly basis to cover the shortfall in the benefit amount.

**Choose an elimination period.** This is basically your deductible. Just as a \$1,000 collision deductible on an auto policy means you'll pay the first \$1,000 of any damage, a 90-day elimination period means you'll pay the full cost of the first 90 days of care you need, and only after that will the policy kick in. Most people consider a 90-day waiting period—a good strategy for keeping premiums manageable while limiting out-of-pocket costs. The shorter your elimination period, the higher your annual premiums will be, but the lower your out-of-pocket costs before benefits begin.

Be aware that the elimination period may be calculated in different

ways. Some policies use a calendar-day waiting period, which means that you'll start to receive benefits 60 or 90 days after the first day you qualify for benefits and receive care. Other policies count only the days you actually need care, which means it could take months to satisfy the waiting period and qualify for coverage.

Of policies sold in 2008, the *2009 LTCi Sourcebook* reports the following elimination periods being selected:

- 7% of buyers chose 20-30 days
- 7% chose 31-89 days
- 83% chose 90-100 days
- 4% chose over 100 days

**Tip:** Family members should contact the insurer at the first sign that a person needs care, so that you get a clear understanding of when policy benefits will begin.

**Build in inflation protection.** Most policies offer inflation protection, which ensures that the daily or monthly benefit and total pool of money you buy today keeps pace with the rising cost of care. There are usually several inflation protection options, which may include:

- **Automatic annual increases based on a fixed rate.** Options often range between 3% and 5%, with increases compounding annually or on a "simple" basis. While an inflation option such as 5% compound can be pricey—accounting for as much as half your total cost—your premiums remain level while your benefits increase each year.
- **Automatic annual increases based on a variable rate.** Options typically link your annual benefit increases to some type of inflation index, such as the Consumer Price Index (CPI). Such protection can still be relatively expensive, but often less than a 5% compound option. And your premiums remain level

## HELP FROM YOUR EMPLOYER

An increasing number of employers—including the federal government, the U.S. Postal Service and Kiplinger—now offer group long-term care insurance to their employees.

Although employers who offer group plans typically do not subsidize premiums (as they do with medical insurance, for example), employees can get a 5% to 10% discount compared with buying insurance on their own. And, yes, you can keep the coverage if you change jobs or when you retire.

Another advantage is that many group policies require little or no health screening. If your employer offers a plan, be sure to seriously consider whether signing up makes sense for you.



while your benefits increase each year.

- **Future purchase option.** This option is typically offered to those who do not select one of the automatic annual increase options mentioned above. It allows you to gradually increase your coverage over time without additional medical screening. While your policy can start out costing half as much as a policy with automatic annual inflation protection, your premium will increase each time you purchase additional benefits that are offered.

**Sharing a policy with a spouse or partner.** Some insurers offer a shared-policy option that enables two people

to link policy benefits. In the event that one person needs care and exhausts his or her benefits, the other person's policy can be tapped to pay for care. If one person dies, the survivor's total pool of benefits will increase by whatever benefits remained in the other's policy. This approach uses a pool of benefits that either spouse or partner can rely on.

**Watch for exclusions.** Long-term care insurance policies can carry exclusions for pre-existing conditions, which usually won't be covered for six months or a year after a policy is in force. Be sure you understand exactly what's excluded and for how long.

**Stick with major insurance companies with high ratings.** It may be years, or even decades, before you need to file a long-term care insurance claim. So, you want to do business with a solid, long-established company that's likely to be around. Also, check on the company's history for raising premiums. Although an insurer can't single you out for a premium hike—due to a change in your health status or your claims history, for example—companies are allowed to raise premiums for a broad class of policyholders. You need to know how frequently a company you're considering has raised rates for existing policyholders.

# WHAT LONG-TERM CARE INSURANCE COSTS

What you'll pay for long-term care insurance depends on many factors, including:

- your age and health when you buy
- whether you and your spouse both buy a policy
- exactly what the policy covers
- the daily/monthly benefit amount
- the length of the elimination period and
- the length of your benefit period

This table from the American Association for Long-Term Care Insurance<sup>14</sup> shows the average prices for 2008. In each case, the policy offers comprehensive coverage with a 90-day elimination period (the care period prior to the beginning of benefits) and 5% compound inflation protection.

AGE 55		ANNUAL COST
<b>Option 1</b> • \$100 maximum daily benefit • Three-year benefit period • Total benefit pool: \$109,500	Married with preferred-health and spousal discounts	\$709
	Single with preferred-health discount	\$1,095
<b>Option 2</b> • \$150 maximum daily benefit • Three-year benefit period • Total benefit pool: \$164,250	Married with preferred-health and spousal discounts	\$1,064
	Single with preferred-health discount	\$1,578

AGE 65		ANNUAL COST
<b>Option 1</b> • \$100 maximum daily benefit • Three-year benefit period • Total benefit pool: \$109,500	Married with spousal discount, standard health	\$1,342
	Single with standard health	\$1,999
<b>Option 2</b> • \$150 maximum daily benefit • Three-year benefit period • Total benefit pool: \$164,250	Married with spousal discount, standard health	\$2,013
	Single with standard health	\$2,998
<b>Option 3</b> • \$240 maximum daily benefit • Three-year benefit period • Total benefit pool: \$262,800	Married with spousal discount, standard health	\$3,221
	Single with standard health	\$4,729

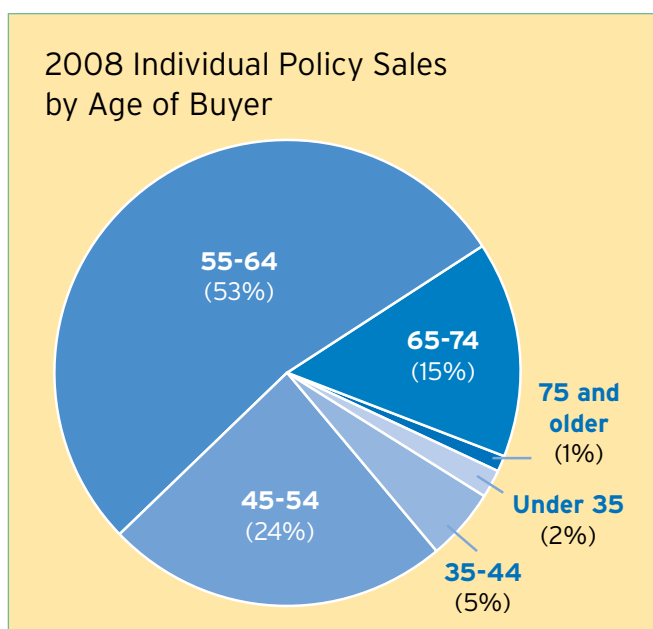
The best time to consider buying is in your fifties because the price is lower.

## WHEN TO BUY

Many insurance experts say that if you're going to buy long-term care insurance, the best time to buy is in your fifties because the price is lower than if you wait until after you retire. Of course, one reason the price is lower is because you're more likely to be paying premiums longer before you need benefits.

Another reason to buy in your fifties is that it's more likely that your application will be accepted. Nearly 23% of applicants between the ages of 60 and 69 are turned down because of pre-existing conditions, for example. Among applicants in their fifties, the denial rate is less than 14%.<sup>15</sup>

Americans seem to be listening to the experts on this one. The American Association for Long-Term Care Insurance 2009 LTCi Sourcebook reports that in 2008, 84% of new individual policies were purchased by people age 64 or younger, while only 16% were purchased by people 65 and older. The pie chart shows the breakdown by age.



# COMPARING POLICIES

Use this worksheet to compare the cost and benefits of long-term care policies you are considering. We've provided space for two policies so that you can compare how changing the terms of the policy—the length of the elimination period, the daily benefit amount, the benefit period—will affect your cost. To compare additional policies or plans from different insurers, simply photocopy the worksheet. (This worksheet is based on one developed by the state of Kansas insurance department.)

Company: \_\_\_\_\_

POLICY FEATURES	POLICY A	POLICY B
<b>Elimination period</b> How is it measured?		
<b>Daily/monthly benefit limits</b> Dollar caps for nursing-home care, adult day care, home care		
<b>Benefit period</b>		
<b>Total benefit pool</b> (daily benefit x benefit period in days)		
<b>Inflation protection</b> 5% compound option CPI compound option Future purchase option		
<b>Care settings covered</b> Nursing homes Assisted-living facilities Adult day care Home health care		
<b>What triggers benefits?</b> Inability to perform ADLs, evidence of cognitive impairment, hospital stay, etc.		
<b>Discounts</b> Good health (underwriting class) Spousal discount		
<b>Company's history of rate increases</b>		
<b>Financial strength ratings</b> AM Best, S&P, other		
<b>Price</b> Annual premium		



## CONCLUSION

We hope the information in this publication gives you a better understanding of the issues you need to consider as you plan for how to deal with the need for long-term care and how to pay for it—if and when the need arises for yourself or a loved one. If you decide to buy long-term care insurance, we suggest that you check with your financial advisor or your insurance agent for advice, and shop carefully for a policy that provides the protection you need at a price you can afford ... both now and in the future.

## NOTES

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