Kiplinger's PERSONAL FINANCE

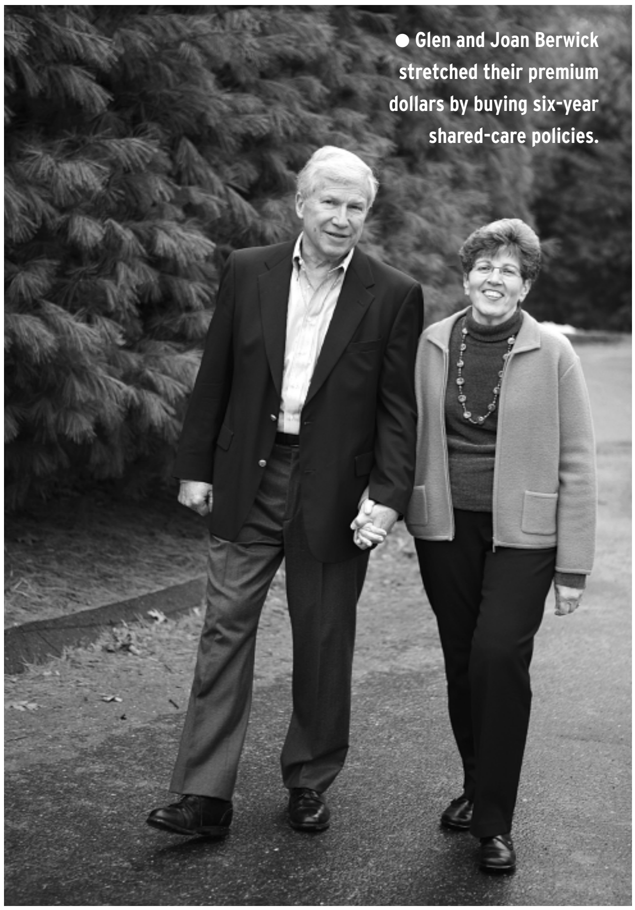
INSURANCE | Yes, you can afford coverage that pays nursing-home costs. *By Kimberly Lankford*

A fresh look at **LONG TERM** care

COULD YOU afford to withdraw $250,000 from your retirement savings to pay for one year in a nursing home? Based on current charges, that's the projected cost in 25 years, when today's 55-year-old is likely to need care. And with nursing-home stays averaging about 2.5 years, your total bill could top $600,000—which could quickly drain your retirement accounts, leaving you and your spouse with little savings and your heirs without an inheritance.

Buying long-term-care insurance is the best way to protect your retirement savings from astronomical bills. And a new law, which makes it more difficult to qualify for medicaid coverage of nursing-home costs, gives long-term-care policies a boost.

Long-term-care coverage doesn't come cheap. Prices for new policies have jumped by 20% to 40% over the past few years. It can now cost a 55-year-old nearly $5,000 per year for a lifetime policy with a $200 daily benefit (the average nursing-home cost nationwide), 5% compound inflation protection and a 60-day waiting period before benefits begin. That's nearly $7,000 for a married couple, even with a spousal discount. But with some smart planning, you can buy all the coverage you need for a fraction of that amount.



● Glen and Joan Berwick stretched their premium dollars by buying six-year shared-care policies.

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A shorter benefit period. For starters, you probably don't need a policy that pays lifetime benefits. Milliman, an actuarial consulting firm, recently studied more than 1.6 million long-term-care policies and found that only about 8% of 70-year-old claimants are likely to need care for longer than five years—leaving 92% with claims of five years or fewer. Dawn Helwig, the study's co-author, points out that the average claim period is even shorter, because most people don't activate their policies until they are in their eighties.

Shortening the benefit period can cut your premiums significantly. A John Hancock policy with a $200 daily benefit and a five-year benefit period would cost a 55-year-old $2,900 per year—about $2,000 less than lifetime coverage, or $3,000 less per couple annually. For example, Glen and Joan Berwick of South Glastonbury, Conn., each bought a six-year policy with a $150 daily benefit from John Hancock four years ago, when Glen was 63 and Joan was 59, saving them thousands of dollars.

One caveat: Of the 8% of nursing-home residents likely to need extended care, many will have chronic conditions, such as Alzheimer's. If you have a family history of a chronic disease, you're better off with a policy with a ten-year benefit period, which would still cost a 55-year-old $1,000 less a year than a lifetime-benefits policy.

Shared care. The best deal of all may be a shared-care policy, which gives you and your spouse a pool of benefits. If you each buy, say, a five-year shared-care policy, you actually get ten years to split between you. Most long-term-care insurers offer such policies, which generally cost about 10% more than separate policies with the same benefit period.

The Berwicks decided shared care worked for them. Each of their families has a history of longevity, but the couple figured the chances were slim that they'd both need benefits. "As long as both spouses are alive, one of them can handle a reasonable amount of custodial care," says Glen. "The real need for long-term care arises after the death of the first spouse."

With their six-year shared-care policies, says Glen, "if one of us doesn't need the coverage, then the other has 12 years." They pay a total of $3,300 per year for the two policies.

The Berwicks purchased their policies four years ago. Today, a 55-year-old couple buying a six-year shared-care policy from John Hancock with a $200 daily benefit and a 90-day waiting period would pay nearly $4,400 for the combined coverage, including a spousal discount.

Glen, a CPA, checked prices for good long-term-care facilities in his area and calculated how much he and Joan could expect to draw from investment income. They included inflation protection, which automatically increases the daily benefit by 5% a year. They chose a 90-day waiting period, which helped keep premiums low without exposing them to unmanageable out-of-pocket costs (an estimated $27,000 in 15 years, compared with $54,000 for a 180-day waiting period). Plus, the policy qualifies for Connecticut's long-term-care partnership program, which helps them protect their other assets.

Even if your employer offers group long-term-care coverage, you are likely to do better buying on your own. But it helps to work with an experienced independent broker who does business with the major players. Genworth (888-436-9678; www.genworth.com), John Hancock (800-377-7311; www.johnhancock.com) and MetLife (800-638-5433; www.metlife.com) have held the line on rates for current policyholders.