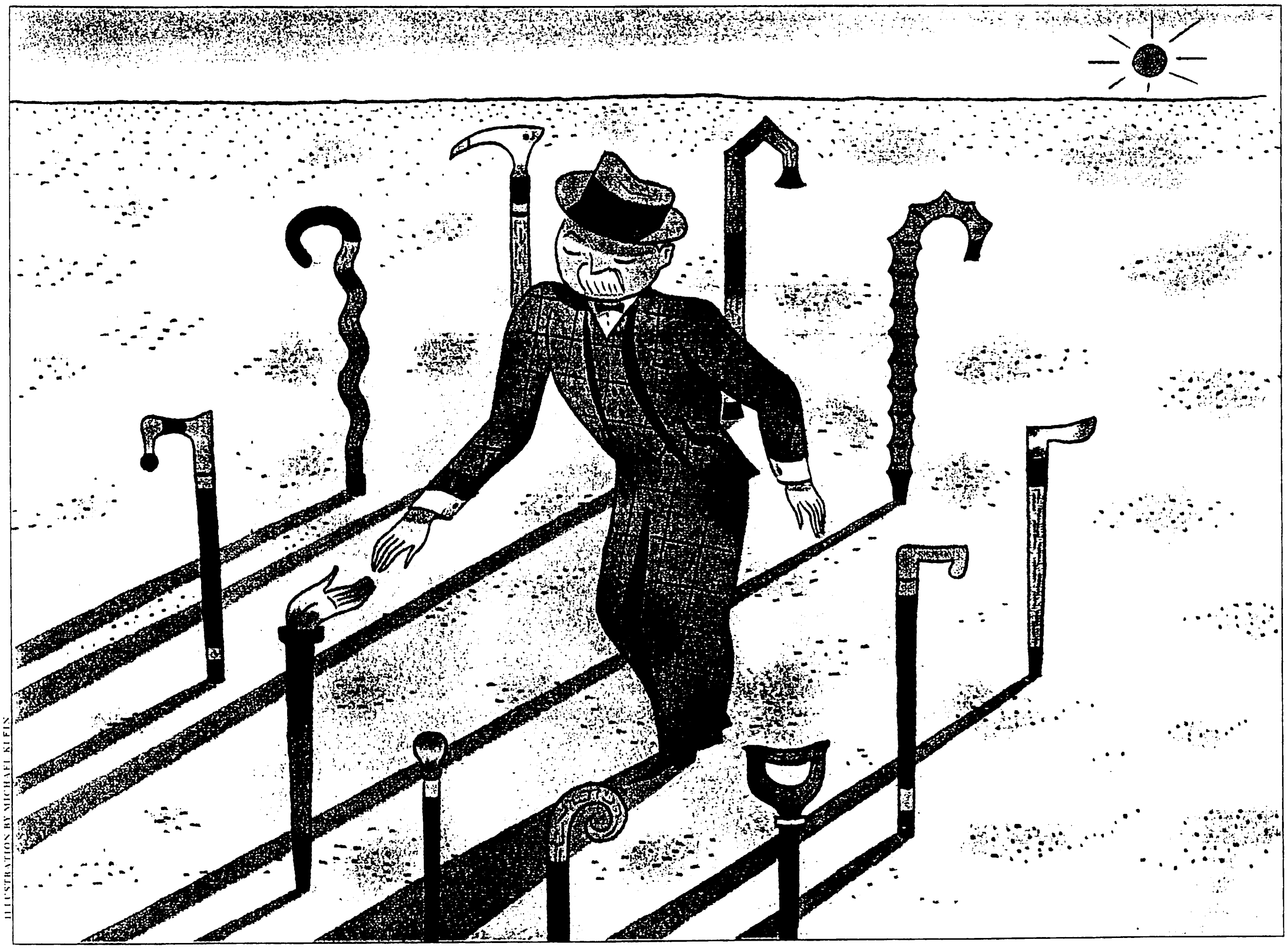

ILLUSTRATION BY MICHAEL KLEIN

ELDER CARE

Beyond Retirement

It's not too soon to start planning for the very last years of life

BY ELLYN E. SPRAGINS

HERE'S AN UNPLEASANT FACT that most financial-planning guides blithely ignore: even if you manage your nest egg scrupulously through decades of retirement, expenses in the last few years of your life could skyrocket, demolishing even the best-laid plans. Do you, a hale 48-year-old still busy building that retirement pot, really care? You should. As the government moves decisively to slice Medicare and Medicaid costs, your retirement picture is losing its luster. Reduced Medicare benefits mean your out-of-pocket health-care expenses will rise substantially in retirement. But believe it or not, slashed Medicaid benefits could hurt you even more. Though it's known mainly as a health-care program for the poor, Medicaid pays 47 percent of all nursing-home bills. Plenty of formerly middle-income Americans who have depleted their savings rely on Medicaid to cover their $38,000-a-year nursing-home tab. But already Medicare's spigot is being shut off—particularly for people who deliberately impoverish themselves to qualify for it. With $68 billion of the $170 billion in contemplated cuts targeted at Medicaid's long-term-care payments, you have two options: save enough to cover your own end-of-life expenses or buy long-term-care insurance, which has turned into truly useful product over the last decade.

Insurance isn't necessarily the best answer. It's very expensive. And despite the alarming statistics that are bandied about, a little more than half of all 65-year-olds will never set foot in—or be wheeled into—a nursing home. Only 21 percent will stay in a nursing home for more than a year, according to the Brookings Institution. Why insure against something that may never happen? Baby boomers face a special quandary. If they buy now, at a relatively young age, long-term-care insurance is cheap. But it's a good bet that by the time baby boomers need help dressing or moving around, a not-yet-invented form of care will exist. Will 25-year-old policies cover such new species of nursing homes?

Still, there are three compelling reasons to consider this insurance. The first is to protect your assets. The tab for a three-year stay in a nursing home in New York state, for example, can easily top $200,000. Most folks would rather give that kind of money to their children. The second is that in addition to nursing homes, policies now cover home health care and assisted-living facilities. "Nobody in their right mind wants to go into an institution, but most of us will need some form of daily assistance," says Deena Katz, president of Evensky Brown & Katz, a financial-planning firm.

Then there's the fear factor. Some experts believe we're going to have to compete fiercely to get good care in our old age. "If you take a look at how fast the population is aging and the supply of nursing homes, you can see that a lot of people will have no access" to care, says Ed Graves, an insurance professor at the American College in Bryn Mawr, Pa. Here are the questions to ask before buying long-term- care insurance:

Do I need it? You can't predict the future, but you can make some educated guesses. Married couples are far less likely to use a nursing home than are singles, but may need support at home. Because they outlive men, women are better candidates for insurance—75 percent of the nursing-home population is female. Ask yourself if you're willing to be helped by—or even move in with—your kids. Does your family history include Alzheimer's disease—or five generations who chopped wood into their 90s? Don't make the mistake of thinking that Medicare will pay. Medicare does shell out for up to 100 days in a nursing home, but only if you've been released from a hospital and require hard-core medical care. The program pays for home health care over longer periods, but again, only if you need skilled nursing care or physical, occupational or speech therapy.

NICK CARDILLICCHIO

A pricey pad: *Three years at the Jewish Home for the Aged in New York could cost residents like Sybil Silverman more than $300,000*

Even if you conclude that you'll need substantial assistance in the future, long-term-care insurance may not be the answer. A 65-year-old with assets over $2 million will be able to pay her own way, as long as she doesn't mind forking over the money to caretakers instead of leaving it to her children. At the other end of the spectrum, anyone with less than $75,000 in assets ($150,000 for couples), or retirement income of less than $30,000, should not buy. It's too expensive for your budget. Instead, consider alternative sources of funding, such as part-time work now or a reverse mortgage later.

When should I buy? Timing is critical. Signing up early not only makes the coverage cheaper; it makes it possible. Once you've developed early symptoms of a disabling disease, you may not be able to buy a policy at any price. Purchase it between the ages of 50 and 60, when you're young enough to be healthy, but old enough to begin contemplating your retirement. Will you live in your house as long as possible? Or will you opt for a continuing-care retirement community, where an entry fee may cover nursing-home services? Buying while young also affects your policy's future cost. Most companies offer "level" premiums. This does not mean your premiums are frozen; they could go up. But it does mean that if you bought coverage at 50, the insurer can never charge you a higher premium than it later assesses 50-year-olds who buy a similar policy.

Which company? Be tough in analyzing an insurer's financial soundness. Settle only for a company with an A+ rating from A.M. Best and an AA rating by two others such as Moody's or Standard & Poors. Also look for a company with enough experience and policies in force to suggest that it's committed to staying in this business. Between 1987 and 1992 the number of insurers selling long-term-care insurance jumped from 75 to 143 and then dropped down to 135. Companies with good reputations in the field include CNA, Travelers and John Hancock. Be encouraged by a company that requires a medical history as well as access to your doctor's records. It'll be in a strong position to honor your claims. Insurers who offer open-door group policies to every member of an organization may not. For an overview of contracts look at the December issue of Life Insurance Selling. (Send a $3 check to 330 North Fourth Street, St. Louis, Mo. 63102.) Read and compare three policies before you buy.

What should be covered? Look for great flexibility here. In addition to nursing-home costs, get a contract that covers home health care, personal care, assisted-living facilities and adult day care. These are the features that will allow you to stay independent and out of an institution. You want a policy that will pay not only for skilled and intermediate care, but also custodial care, which includes homemaker services and assistance with the "activities of daily living." These last, called ADLs, are eating, bathing, dressing, going to the toilet and moving from one place to another.

Promises of such coverage aren't enough. Examine a contract's triggers—conditions you have to meet to collect the benefits. Beware of contracts with open-ended language or undefined triggers. When a policy specifies that it won't pay until the insured needs help with two out of five ADLs, ask the insurer to clarify—in writing if necessary—how it defines "needs help." Also avoid policies that require prior hospitalization or a doctor's statement of medical necessity before the insurer begins to pay. The best policies will be activated upon proof of disability, either physical or cognitive. Cognitive impairment should not be based on ADLs. The best definition: deterioration in intellectual capacity requiring supervision.

How much and for how long? Here is where most buyers stumble. On average, purchasers choose coverage lasting 5.6 years, according to a 1992 study by the Health Insurance Association of America. Yet only 12 percent of 65-year-olds stay in a nursing home for more than three years. A three- or four-year policy makes more sense, unless you have a family history of degenerative disease. To pick the best daily benefit amount, find out how much nursing homes in your region cost. The national average is $38,000 per year, or $105 a day. But in New York state they run $75,000 to $80,000 a year. Pick a daily benefit that's at least equal to the average cost in your area. And definitely buy a policy with an inflation-protection option. A compounded inflation rate will give you far more protection than a simple rate.

How long until I can collect benefits? The longer you choose to foot your long-term-care bills yourself before the insurance company takes over, the less expensive your policy will be. This waiting time, called the "elimination period," ranges from 20 to 150 days. Because Medicare, at least for now, will help pay for most short nursing-home stays, it makes sense to elect a 100-day elimination period. You may have higher out-of-pocket expenses, but your premiums will be lower and you'll be covered for the worst-case scenario: a lengthy disability. Study the way an elimination period is calculated. Does every episode of impairment count against the elimination period—the best choice—or does the clock reset at zero each time? Do home-care days count toward the nursing-home elimination period and vice versa?

One of the most important things anyone planning ahead can do is heed the message coming out of Washington. You may not be able to craft the perfect old-age-care strategy until you know how much of a safety net is left intact. But you should prepare to embrace the hard truth of our era in personal finance: you're on your own. ■

NICK CARDILLICCHIO

Therapy time: *Some experts believe baby boomers will have to compete fiercely for good care*

Proceed With Caution

Ask the right people all the right questions

DON'T EVEN ENTERTAIN an agent's pitch for long-term-care insurance until you research three key issues: How much help might you get from Medicare and Medicaid? What kind of elder care is available in your community and state? What kind of long-term policies are available?

It's been getting tougher to qualify for Medicaid, especially for people who choose to impoverish themselves in order to become eligible. While the gate is likely to be shut even tighter in the future, it's crucial to understand if you're entitled to these benefits before you decide to buy a policy. The Eldercare Locator (800-677-1116) can put you in touch with state or local agencies on aging, where you can get an explanation of your state's Medicare and Medicaid rules. You can pay an attorney or financial planner who specializes in the concerns of the elderly to help you tailor insurance coverage around any benefits you qualify for. Call the National Academy of Elder Law Attorneys (602-881-4005) or the International Association for Financial Planning (800-945-4237).

For information on local resources, including home and adult day care, turn to your state agency on aging, the National Association for Home Care (202-547-7424) or the National Council on Aging (202-479-1200). You can hire a care manager to help you assemble the array of services that fit your needs. To find one, call the National Association of Professional Geriatric Care Managers (602-881-8008). Residents of New York, Indiana, Connecticut and California should investigate their state's special arrangements for purchasers of long-term-care insurance. To encourage people to bear some of the cost of their own care, these states allow buyers to qualify for Medicaid without dumping all of their assets.

The two best sources of information on selecting a long-term-care policy are United Seniors Health Cooperative (202-393-6222) in Washington, D.C., and the National Association of Insurance Commissioners (120 West 12th Street, Kansas City, Mo. 64105). United Seniors has a selection of excellent booklets. "Long-Term Care" is $11.50, and the extremely comprehensive professional guide "Long Term Care Insurance" is $41. Write to the NAIC for a free copy of "Shopper's Guide to Long Term Care Insurance." Every state has an insurance-counseling program to help you evaluate your options. Ask your state insurance department or its department on aging how to reach it.

A final bit of advice: find an insurance agent who's independent and specializes in selling long-term-care insurance—not a family agent. "I have a license in life and health insurance, and when I took the exam there was not one question on long-term care," says Priscilla Itscoitz, manager of United Seniors' counseling program. Agents tied to a particular insurer can often sell policies from two or three other companies, but they get a higher commission from their key company. Ask state insurance counselors, an elder-law attorney or a consumer group for the names of independent agents.

Security, at a Price

Premiums for long-term-care insurance can be exorbitant if you sign up too late. For a $100-a-day benefit and a five-year policy, rates in most states are as follows:

COMPANY	COVERAGE STARTS AT: AGE 50	AGE 60	AGE 70
John Hancock	**$829**	**$1,310**	**$2,507**
Travelers	**810**	**1,374**	**2,753**
CNA	**722**	**1,091**	**2,173**

RATES CITED ARE FOR A NONSMOKER WITH NO MAJOR HEALTH PROBLEMS. NOTE: THESE POLICIES AREN'T EXACT PARALLELS; RULES AND BENEFITS MAY VARY.