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INSURANCE
Six Steps to Buying a Long-Term Care Policy
by Kimberly Lankford

A private room in the average nursing home now costs $192 per day.

That's up more than 6% -- or nearly three times the rate of inflation -- from $181 per day last year, according to a study just released by the MetLife Mature Market Institute.

At those prices, even a brief nursing home stay could take a big bite out of your retirement savings, or destroy it entirely if you need care for several years.

Receiving 24-hour care at home can cost even more -- $432 per day or an average $18 per hour for a home health aide.

One way to protect your savings against these giant expenses is to buy long-term care insurance. But the long-term care business has gone through a tumultuous few years.

Several big companies, such as Ageon and CNA, stopped selling new policies or surprised policyholders with double-digit rate increases.

Despite this turmoil, buying a long-term care policy with a strong company is still the best way to protect yourself against potentially devastating nursing home costs.

For many people in their 50s and 60s, buying a policy becomes a key part of their retirement planning strategy -- especially if they've seen relatives' nest eggs depleted by nursing home bills or their care choices limited by lack of money. Some baby boomers are even buying coverage for their parents if they're still healthy enough to get an affordable policy.

Here's what to look for in a long-term care policy:

Start with quality companies. No company guarantees that its rates will remain the same forever, but a few big companies -- such as John Hancock, MetLife and Genworth (formerly GE Financial) -- have been in the business for years and haven't increased premiums for their current customers so far.

These firms often charge a bit more than some competitors, but financial advisors tend to recommend them for their stability.

Compare companies' policies. Each company offers different discounts and a few variations in coverage (some offer a zero-day waiting period for home care, for example, regardless of the waiting period you choose for the rest of the coverage).

If you're offered a long-term care policy through work, compare the rates and coverage to the policies available in the marketplace. If you're healthy, you may get a better deal on your own -- and could lower your rate even further if you qualify for a spousal discount.

Find out how much coverage you'll need. Nursing home costs can vary a lot from city to city -- from $331 in Stamford, Conn., to $99 in Shreveport, La. Find out how much local nursing homes charge and check out the cost of in-home care, too.

Add inflation protection. This is especially important if you're buying the policy in your 50s or 60s. "Most people do not collect on their policies until they are in their 80s," says Marilee Driscoll, author of *The Complete Idiot's Guide to Long-Term Care Planning* (Alpha Books, $13.97). If nursing home costs increase by about 5% per year, one day in a nursing home could cost more than $500 in 20 years - leaving a $192 daily benefit (this year's average) to cover less than half of the cost.

Minimize the waiting period. You can usually choose from a wide range of waiting periods before benefits kick in -- often ranging from immediate payments to 360 days. The longer the waiting period, the lower your premiums, but a long waiting period (also called the "elimination period") also means you'll have to pay a lot of money out-of-pocket before the benefits start. If you pay $500 per day for a nursing home stay in 20 years, for example, a 180-day waiting period would cost you $90,000 before getting an insurance payout. It's generally more cost-effective to pick a lower waiting period, such as 60 or 90 days.

Pick the best benefit period. You're also given a wide range of choices for the benefit period, which is the amount of time the policy pays out. Benefit periods often range from two years to your lifetime.

Increasing your benefit period from three years to lifetime could double your annual premium, so you should weigh the odds that you'll need long-lasting care versus the extra price you'll pay for coverage. The average nursing home stay is less than three years, but those averages include people who are in a nursing home for just a few weeks after a hospital stay and others who are in the nursing home for a decade or more, says Driscoll.

"And these statistics do not include the home health care, assisted-living facility care and informal (unpaid) care received elsewhere," she says.

Most people opt for a three-year or five-year benefit period, but it may be worthwhile to pay extra for a longer benefit period if you have a family history of Alzheimer's or some other chronic disease.

If you're trying to save money, Driscoll recommends shortening the benefit period rather than extending the waiting period.