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New Rx for Long-Term Care

Insurers Are Trying to Demystify Coverage of Nursing-Home Bills; The Future Holds Tax Breaks

By JEFF D. OPDYKE

Insurers and the government are cranking up their efforts to get peop
term care" insurance—designed to protect against bank-busting bills

It's been a tough sell. Not only are these policies—covering such nee
home care or health-care aides—complex and pricey, they can still le
exposed to big costs. Another problem: Many people assume Medica
Medicaid already cover such long-term care. (They generally don't.)

As a result, insurance companies are making the policies easier to un
trying to cut prices. Last month John Hancock, a unit of Manulife Fi
introduced a policy dubbed Leading Edge that eliminates a baffling a
that buyers previously needed to consider, and includes basic feature
protection, in an effort to trim the cost.

Over the summer, Lincoln National Corp.'s Lincoln Financial Group
simplified version of a combined life-insurance/long-term-care contr
streamlines the application process to a 30-minute phone call instead
mailing papers back and forth. The policy also guarantees that premi
change—a key innovation in an industry where premium escalation l
spot.

At the same time, federal lawmakers are rolling out tax incentives th
take affect in 2010, will let consumers use annuities and insurance po
this kind of insurance tax-free. Other incentives allow buyers to shel
yet still qualify for Medicaid if needed. Both are part of the governm
reduce the federal health-care burden.

Employers are also increasingly offering these so-called LTC policie
nearly two million workers at more than 7,000 companies have long-
coverage, more then double the level of five years ago. John Hancoc
adding 40 to 50 new employers each year. Among the companies off
July, Detroit architectural-design firm Harley Ellis Devereaux began
group discount on coverage as a perk to help retain quality staff. "It's
compete for people in architectural engineering," said Jim Page, a pr

firm.

LTC has been around for decades, but in recent years consumers got some insurers that had underpriced their policies suddenly jacked up 60% or more in some cases. Consumers also complained that, despit premiums for years, the policies often left them at risk of losing all t the cost soared, making it suddenly unaffordable.

The industry has been trying to mend its image. After much consolid weeded out weaker companies, LTC today is sold mainly by large, s including Hancock, Northwestern Mutual Life Insurance Co., MetLi MassMutual Financial Group. What's more, rather than completely a holders who drop their contracts, it has become common to offer son residual benefits.

Experts say consumers who can afford coverage like this should con particularly if they hope to bequeath money to their children. Statisti 25% to 50% of elderly people will require some form of long-term c do will draw on their policies for about four years, on average.

While that means most retirees won't incur substantial long-term car unlucky few will get hit with huge costs. Nursing homes cost about $ while assisted-living centers were about $35,600 annually, accordin MetLife's Mature Market Institute. Home-care costs run about $19 a can pile up.

Long-Term Headache

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Elimination Period

Determines when you stop paying for care and the policy kicks in. It's usually between 30 and 90 days, but can go much longer. The question to ask: How much care can I afford before the policy takes over? Ninety days instead of 30 can cut the premium by 15% to 20%, but you'll be on the hook for two additional months of out-of-pocket expenses.

Daily Benefits

How much the insurer pays. You generally choose a number between $50 and $500 a day. Check out notaburden.com (MassMutual's Web site for financial professionals), which shows typical costs in different geographical regions. Look under the "Cost by State Calculator" under the "For Producers" link, and divide the annual cost by 365.

Inflation Protection

Ratchets up benefits by a certain amo each year to keep pace with rising lon care costs, which have been increasin nearly 6% a year. Many policies come 5% annual compounded inflation prot You can substitute reduced inflation protection, which lowers your premium ultimately shrinks your benefits.

Length of Coverage

How long you want benefits paid. Mos policies cover three, four or five years. offer lifetime coverage, which can incr premiums by 30% to 60% over five-ye coverage. As a point of reference: Mos current policyholders draw on coverag about four years, on average.

Source: WSJ

But LTC policies can be expensive, too—from $1,500 to more than $ when bought between the ages of 60 and 70. For buyers in their 40s, run less than $750 a year, but that means a policyholder could end u thousands of dollars over decades, yet may never need coverage.

Complicating matters: If your health is bad, you won't qualify to buy making it important to make the decision while healthy. "By waiting you're rolling the dice," says Peter Katt, a fee-only insurance consult Mattawan, Mich.

Simply having a policy doesn't mean you're home free. There may st considerable costs if your policy's benefits (typically paid as a daily coverage amount) don't cover your bills.

Dorian Rushing, a 47-year-old interior designer at Harley Ellis Deve signed herself and her husband up. She pays about $90 a month for amount to $100 in daily coverage, a figure that will grow with inflati Rushing recognizes that her policy might not cover all her future cos long-term care in Detroit currently costs roughly $90 to $150 a day. says, "In the end, I just wanted to get some coverage to have some p about our future."

The policies are generally most appropriate for people who have bet and a couple million dollars in net assets, and who want to protect so money for heirs, since an LTC policy will cover costs that otherwise those savings. People with more than about $2 million don't necessa coverage, since they can in effect self-insure. Yet it still can provide preserve as much of an estate as possible. The policies typically prov $50 and $500 a day in coverage.

For all but the very poor, Medicare and Medicaid generally aren't op generally doesn't cover long-term-care needs, such as routine help ea bathing. Access to Medicaid-eligible nursing homes, meanwhile, ger you to be impoverished. In addition, new rules make it tougher for a away assets in order to qualify for Medicaid coverage.

Instead, federal lawmakers are encouraging consumers to buy LTC c the pension-overhaul bill signed in August, Congress included a mea allow consumers beginning in 2010 to pull money out any annuity th own, and use that cash on a tax-free basis to buy a long-term care co (Consumers can generally do this with life insurance already.) Previo transactions typically resulted in taxes due at ordinary income rates c 35%.

Also, the new law allows consumers to completely exchange an annu term-care policy without triggering a taxable event, a potentially goo retirees buying LTC in their 70s, when policies can be exceedingly e

In another move this year, the federal government expanded national program, called the Long-Term Care Partnership, that allows people some of their assets and still qualify for Medicaid, if they have purch policy. Currently, four pilot-program states offer the partnership—C Connecticut, Indiana, New York—though a number of states includi Idaho, Minnesota and Nebraska are implementing the rules necessar in the partnership, too.

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