Kiplinger's PERSONAL FINANCE

LONG-TERM CARE YOU CAN AFFORD

By taking more risk, you can snag a lower premium. **BY KIMBERLY LANKFORD**

IF YOU'RE THINKING ABOUT buying long-term-care insurance, here's one more reason to do it: Long-term-care costs continue to escalate. In 2009, the average annual cost of a private nursing-home room rose 3%, to nearly $80,000. Luckily, many employers are now offering long-term-care insurance as an employee benefit, and the deals tend to be better than they were even a few years ago.

Previously, group long-term-care policies asked few, if any, questions about an applicant's health. That made group plans a good choice for people with pre-existing conditions, but not so great for healthy people. Now, group policies look a lot more like individual long-term-care insurance—but at a better price.

Bob Marzolf, 61, a high school agriculture teacher in Forest Lake, Minn., was discouraged when he shopped for a policy three years ago because a previous spinal operation triggered high premiums. When the Forest Lake school system began offering long-term-care coverage last year, he decided to try again. This time, the price was lower—even though Marzolf was two years older. Thanks to a 5% group discount, Marzolf pays about $2,400 a year for a policy that will pay $4,800 a month (about $160 a day) in long-term-care costs for up to three years.

Both inside and outside of group plans, insurers are rolling out policies that hold down premiums by shifting some of the cost of future care to policyholders. "There is tremendous interest in looking at more-economical ways to insure for long-term events," says Beth Ludden, of Genworth. Some companies have introduced new forms of inflation protection that can slash premiums. Others are offering new strategies to hedge your bets when it comes to choosing the appropriate length of coverage.

But there is a downside. Although many of these policies will save you money, they may also squeeze your benefits. You need to know the limitations before you decide whether one of them is right for you.

Cheaper inflation protection. Because you may wait 20 years or more to tap your long-term-care policy, it's essential that the amount of your daily benefit keeps up with rising costs. Insurers have been experimenting with more-affordable ways to provide inflation protection. John Hancock's Leading Edge policy—the type that Marzolf purchased—adjusts the daily benefit each year based on changes in the consumer price index. That's why his policy costs up to 40% less than the company's standard policy, which uses a 5% compound-inflation factor.

A CPI-linked policy can be risky, though. In years of high inflation you may come out ahead. In low-inflation years, however—such as 2009—the cost of care may escalate, but your benefit may not (although it cannot shrink).

Insurers have also been slashing costs by offering *guaranteed purchase option* coverage. These policies do not automatically adjust for inflation, but you may boost your coverage every few years, regardless of your health. You will pay higher premiums for the extra benefits based on how old you are when you buy them.

The cost to purchase such a policy can start out substantially lower. A traditional policy with a 5% annual inflation adjustment may cost more than twice as much in the first year as one with a guaranteed option to bump up inflation protection in the future. But the savings may be a false economy: Purchasing additional coverage with a guaranteed option could end up costing more for less coverage in the long run.

If you can afford it, stick with a policy that offers inflation protection based on a 5% annually compounded rate. But if you are looking to hold down costs—and are willing to shoulder some of the potential future expenses—consider a CPI-adjusted policy. It's cheaper than the compounded version and may be a safer bet than one with a guaranteed purchase option. However, you may want to buy a higher daily benefit initially to stay ahead of future care-giving cost hikes.

Shared benefits. One of the most difficult decisions to make when purchasing a long-term-care policy involves the length of your benefit period. A typical 65-year-old is likely to need some form of long-term care for three years, according to the National Clearinghouse for Long-Term Care Information. A few people, such as those with Alzheimer's disease, may need care for a much longer time. But policies that provide lifetime benefits are expensive, often costing more than $4,000 a year for people in their fifties.

Patrick and Jeanne O'Neill, owners of the Big Sky Bread Co., in Wilmington, Del., discovered an affordable way to hedge their long-term-care bets without spending a lot of dough. After his father died of prostate cancer following three years of care, Patrick didn't want to worry about what would happen if he needed care himself someday. And he was concerned that he or Jeanne would need care for a longer period than the typical three or four years. But the five-year policies they found were unaffordable.

Then their insurance agent, Andre Hoeschel, told them about a shared-benefit policy. The O'Neills bought a three-year shared-benefit policy that gives them a pool of six years of coverage between them. So if Patrick needs care for four years, for example, Jeanne would still have another two years' worth of benefits. "You hate to pay for something and not use it," says Patrick. "But the odds are that one of us will need it."

Buying a shared-benefit policy costs about 15% more than buying two separate policies with three-year benefit periods. But it was less expensive than the policies with a five-year benefit period the O'Neills were considering.

More cost sharing. Another money-saving strategy is to insure against only a portion of potential long-term-care costs. "A lot of customers are saying that instead of getting a policy that covers the full risk, let's look at something that will cover most of the costs," says Hoeschel. "They are willing to cover 10% to 40% of the costs themselves."

Some people choose a smaller daily benefit, with the idea of paying for additional expenses on their own. Another option is to buy Genworth's new Cornerstone policy. Policyholders agree to share 20% of the costs when benefits are paid; the policy can reduce premiums by about 40% compared with traditional policies.

Note that this type of scaled-back coverage could boost your out-of-pocket costs significantly depending on the type of care you receive. Unlike most long-term-care policies, this cheaper version doesn't cover the room-and-board portion of an assisted-living facility's cost.

Essential planning. When it comes to buying long-term-care insurance, 50 is the new 60. Consumers are buying coverage at younger ages to take advantage of lower premiums (although they are paying those premiums longer). "It is part of protecting your assets and your whole retirement-planning process," says Kathleen Bucchianeri.

Bucchianeri, 56, and her husband, Richard, 63, who live in Westford, Mass., bought traditional Genworth long-term-care policies last year. They provide immediate coverage for home care and permit reimbursement for nonprofessional home-care providers, such as neighbors or church members. When Richard's dad needed assistance years ago, his policy required that the Bucchianeris hire people through an agency even though Richard's mother found capable independent caregivers.

Long-term-care policies have so many moving parts that it helps to have an expert agent, preferably one who deals with several insurance companies, lead you through the maze. To find one in your area, go to the American Association for Long-Term Care Insurance, at www.aaltci.org. ■

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HOW TO TRIM YOUR PREMIUMS

If you're having trouble paying your long-term-care premiums, either because your insurer raised your rates (as happened to thousands of federal workers and retirees this year) or because your income has decreased, consider these three strategies for lowering your costs:

REDUCE THE BENEFIT PERIOD. Shrinking the benefit period from lifetime to three years, for example, still covers average long-term-care needs and may cut your premiums in half.

LOWER THE DAILY BENEFIT. Your premiums will generally drop by the size of the benefit reduction—for example, a 15% benefit reduction would reduce your rate by 15%. But you may have to tap your savings to make up for any future shortfall in coverage.

EXTEND THE WAITING PERIOD. But don't go overboard. Increasing your waiting period beyond 90 days could be counterproductive, exposing you to more out-of-pocket costs than you might be able to afford.