

FIVE KEY COST FACTORS TO CONSIDER WHEN BUYING A LONG-TERM CARE INSURANCE POLICY

Buying a long-term care insurance policy is a complicated process involving many decisions about which features are right for you and what price you can afford. Among the many choices will be five key factors with the largest impact on price: your age, daily benefits, inflation protection, benefit period, and the elimination period.

Your age. The younger you are when you buy it, the less expensive the premiums. You can pay off the premiums over a set period, such as ten years, or pay level premiums for the remainder of your life, assuming you keep the policy in force. (Your state insurance commission can approve rate increases for an entire class of policyholders.) Some professionals recommend buying LTC insurance as early as your 30s or 40s. Most recommend mid to late 50s or early 60s.

Daily benefits. Determining how much daily benefit you need should take into account several factors. First, what does LTC care cost where you expect to receive care? A 2003 MetLife study pegged the average national cost for a private nursing home room at \$181 – but daily costs varied widely depending on the area and the quality of the facility. And at-home care usually costs considerably more than a private nursing home room.

Are you insuring for two people or one? If one moves into a nursing home, remember that you still have expenses associated with the spouse remaining at home. What if both of you end up needing care at the same time? Some companies offer “shared benefits” where two people are covered by a single policy, or discounts may be available if both spouses buy separate policies with the same company at the same time.

What other financial resources, such as retirement income or savings, do you have should you end up needing care? You can reduce premiums by planning to pay a portion of care out of pocket. But will those resources be adequate when you need them? What if they are resources you want to leave to your children or may otherwise need?

Inflation protection. This is a very important feature, especially for younger buyers. Nursing home rates have been going up five percent or more a year, according to the American Council of Life Insurers. That means a nursing home that costs \$180 a day today would cost \$480 a day 20 years from now – a likely scenario for a 60-year old buying a policy but not needing it until he or she turns 80.

Be careful which type of inflation protection you buy. Some policies offer a choice between a compounding inflation rider and a simple inflation rider. The simple version will cost less but results in smaller annual increases in the daily benefit, potentially leaving you short.

Length of benefit period. How long do you want the policy to pay for coverage: two years, three, five, eight, a lifetime? The longer the period, the more expensive the premiums. Average stay in a nursing home is 2.4 years, according to government estimates, but of course, some patients remain much longer.

Some professionals recommend buying lifetime benefits if you can afford them, others feel comfortable with five to eight years. One factor to consider is family health. For example, if your family has a history of Alzheimer's disease, which can result in many years of care, you may want to consider a longer benefit period. (Consider the experiences of President Reagan.)

Elimination period. This is the number of months you choose to wait before benefits begin. Benefits might begin immediately or within 30, 60, or 90 days, or half a year or longer. Unless coverage begins immediately, you'll have to pay out of pocket until coverage begins.

Naturally, the longer the elimination period, the lower the premiums. Usually there is a "sweet" spot where you get the best trade-off between savings and the benefits you give up. With newer policies, you also may not have to pay for all the days in an elimination period because of their generous crediting options.

But run the numbers before choosing the waiting period. Say the period is 90 days. At \$180 a day, you'll pay out of pocket \$16,200. But 20 years from now, at five percent annual inflation, that 90-day period will cost \$43,200! Will you have the funds?