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Preparing Now for the Long Term

Irving and Myrna Richman bought long-term care insurance policies in the 1980s.

Although they expected to retire with a few million in assets, they wanted to make sure their estate was secure for their daughter. Myrna paid premiums on her policy for nearly 30 years, before dying at 77 in 2007, without ever needing long-term care.

Irving, now 89, began to show signs of dementia this year. His daughter, Beth Edelman, helped him move from Florida to Coburg Village, an independent living community near her home in Rexford. The family expects to need full-time nursing care soon, and Edelman is comforted by the knowledge that her dad has top-of-the-line protection.

"Long-term care can eat up those millions in a nanosecond," Edelman said. "For people who can barely afford the premiums, it's a big choice. My parents' long-term care premiums didn't take anything away from their lifestyle. It didn't interfere with me going to college or their going on vacation. For them, this was just being safe."

Most of the 8 million people who have long-term care insurance started their policies between the ages of 55 and 64, according to the industry group American Association for Long-Term Care Insurance. Premiums for that age range run from $1,257 to $3,075 annually, increasing to an average of $3,250 over the age of 65.

But the policies are being marketed to a younger audience than in the 1980s, when they first came on the market, according to Mary Beth Hofmeister, a certified financial planner and vice president of Albany-based Shipp Financial Services, a wholesale firm that sells products from several carriers to financial planners.

"I can't tell you how many times I have a client in their 40s who may develop a condition -- multiple sclerosis comes to mind -- that means they can't get coverage in 10 years when they need it," Hofmeister said. "If they can get in at a younger age when they are healthy, the rates will be lower. Think of it as a 40-year mortgage. You're paying for the same benefit, but you're doing it at a lower monthly rate over a longer time."

Although carriers can't change premium rates without regulatory approval, the costs of long-term care insurance can increase dramatically over the life of a policy. John Hancock, one of the largest insurers in the market, got approval to raise its long-term care rates an average of 40 percent in September. Hofmeister suggests that younger people with the liquidity to do so can lock in their favorable rates by prepaying for 10 or 20 years of premiums, with the added benefit of not carrying a monthly premium expense into their retirement.

"I am a big proponent of long-term care insurance, and I don't think 45 is too young to start," said a Tully Rinckey PLLC Estate Planning attorney. "I got a call this morning from the brother of a client who is 53 years old and just had a stroke. This is a total disaster for this guy. He could lose everything if he has to go into a nursing home. Since the first of the year, I have had five clients in their 50s who have had strokes."

All insurance is a gamble -- if you are lucky, you will not need to reap the benefits of your investment. According to a 2005 academic study funded by the Robert Wood Johnson Foundation, 42 percent of people in the U.S. can expect never to have out-of-pocket costs for long-term care in their lifetime.

"We are accustomed to paying for insurance for our homes and our cars, and we don't complain if our houses don't burn down," Hofmeister, the financial planner, said. "But somehow, if they pay for long-term care insurance and don't need long-term care, they get really upset." Long-term care insurance is obviously not for people who can't afford it. There's no point in starting a policy that you will lose because you can't maintain the premiums. The poor can turn to friends and family or Medicaid, the federal insurance program for the poor. The program covers care at selected nursing homes after the patient has spent down most of his assets, but it doesn't offer true flexibility.

"This is going to be a huge problem," said Rowland, the estate-planning attorney. "Medicaid is bankrupting the feds and the state. Most assisted-living facilities, which are less expensive and better suited to some people's needs, don't take Medicaid. If you need 24-hour care, you are probably not going to be able to stay at home if it's cheaper to go into an institution. In my experience, it's difficult to get into the nursing home of your choice if you're solely on Medicaid." The accepted wisdom is that people with substantial assets -- at least $1 million for an individual and $2 million per couple -- don't need long-term care insurance, unless they are trying to make sure that everything gets passed along to heirs.

"I think what 2008 and 2009 taught us is that $3 million can become $1.6 million pretty quickly. You have to ask yourself, if you have a correction in your assets, can you still afford to self insure?" Hofmeister said.

Middle- and upper-income people with assets to protect are most likely to benefit from long-term care insurance -- especially if they have a family history of geriatric illness, an unhealthy lifestyle or are living far from family who can care for them in their declining years. Women tend to outlive their husbands, and more often end up with no one to take care of them.

A long-term care policy offers the security of knowing you won't have to rely on family and friends, a federal program or your own savings if you need full-time care at the end of your life. Some of the premium payments are qualified medical expenses that can be deducted from pretax income.

But there are downsides to consider.

Policies are complicated and require you and a financial planner licensed in insurance to predict the future and determine the best riders to make sure your needs will actually be covered.

Policies are underwritten, which means that people of a certain age or with health conditions may be rejected or have to pay more. If you never need long-term care, you may never make anything back on your premium investment. If you can't continue to make the premiums, you could lose the policy before you need it. And if your assets are low at the time you need care, you may qualify for Medicaid whether or not you have long-term care insurance.

Ask your financial adviser to help you weigh alternative products, such as life insurance that allows early payment in the case of terminal illness or nursing home confinement; pre-death life insurance settlements; and retirement annuities with long-term care riders (rarely available in New York).

What to ask about policies

Does the policy cover both assisted living at home and in a facility?

Does the policy offer a partial return of premiums if care is not required?

How good is the company's credit rating?

How frequently has the insurer increased premiums historically? The insurer or the state insurance department can provide information about increases over the last 10 years. Is the insurer financially stable and diversified into other products, such as annuities and life insurance? You want them to still be in business when you need them.

What happens if you miss a premium?

Is the policy limited in where the services may be delivered?

Does the policy offer inflation protection on payouts?

Does the policy have an "elimination period" during which expenses are not covered? A 90-day waiting period before coverage kicks in can decrease the premiums. If you have family or friends who can help during the waiting period, the savings may be worth the risk. Medicare will also cover the first 20 days of care necessitated by a broken hip, stroke or similar illness.

What are the "triggers" before coverage sets in?

Will an optional time limit on coverage (such as three years) decrease the premiums enough to justify the risk that more coverage will be needed?

To schedule a meeting with one of Tully Rinckey PLLC’s estate planning attorneys call 1-888-LAW-4-LIFE.