

## THE SAVAGE TRUTH



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# Plan while you can for long-term care

**T**he cost of long-term care could overwhelm your retirement savings. The average cost of one year in a nursing home is now \$70,000, according to a just-released MetLife study, and full-time, home health-care can be even more expensive. Once you reach age 50, it's time to insure against long-term care costs that could devastate your retirement plans.

Here's how to find and evaluate a long-term care insurance policy.

Almost every policy sold today covers "custodial" care either in your home, in an assisted living facility, or in a nursing home. Some even cover adult day-care facilities.

A long-term care insurance policy gives you choice. Keep in mind that "custodial care" covers the basic activities of daily living such as

transferring from bed to chair, bathing, toileting, dressing, feeding yourself, or cognitive impairment, and these are *not* covered by Medicare, or any Medicare supplement. If you have an LTCI policy, a physician will have to certify that you need this type of assistance to trigger or start the policy payments.

### How much coverage to buy

There are two ways to measure coverage: the dollar amount per day, and the number of years of coverage. Ideally, you'd like to have \$200 per day (\$6,000/month) in coverage, although you can reduce the annual premium by purchasing \$150 a day in coverage.

Similarly, "lifetime coverage" would give you complete peace of mind, but most stays in a nursing facility last less than three years, so you could buy only three years of coverage.

Inflation riders add to the cost, but simple inflation coverage is worth the price. You can lower the annual premium by taking a higher deductible. That is, you can agree to pay for the first 90 or 100 days of care before the insurance coverage steps in.

The cost of long-term care insurance is based on your age, your health at the time of application and where you live. Obviously, care is more expensive in big cities. Here's an example.

A 55-year-old woman, in good health, in Chicago, chooses a policy that pays \$200 a day for 3 years' coverage, simple inflation rider, and a 100-day deductible. The cost is about \$1,500 a year.

But for that same policy, a 65-year-old woman, pays around \$2,800. And waiting to buy it at 75 increases the annual cost to about \$7,500.

The insurance company can increase premiums only by requesting permission from state regulators to raise prices on all policyholders in that category. In the past, many companies under-priced their policies to make the premiums attractive; now they're forced to raise prices. That's one good reason to deal with only the top-tier companies.

There are a few ways to reduce your out-of-pocket cost. First, buy your policy in your early 50s, when prices are lowest. Also there are substantial discounts when spouses or significant others buy policies together. And the third strategy, while expensive, is to purchase a 10-pay contract — a policy that will be fully paid up in 10 years so you don't have to worry about rising premiums later in life. Only one company, Transamerica, has a 10-pay policy that guarantees those 10 payments cannot rise, but Transamerica will cease selling that policy at year-end. The benefits, however, are guaranteed.

Individuals pay premiums with after-tax dollars, although seniors can qualify for some tax breaks. Hopefully, Congress will make LTCI premiums tax deductible.

You absolutely *must* deal with one of the larger, more stable insurance companies, one that has made a commitment to this marketplace. Among those companies are MetLife, GENworth Financial (formerly GE) and John Hancock. As noted above, Transamerica will leave the market at year-end, but is still selling a unique 10-pay guaranteed product that will always be backed by this strong company. Information is available at their Web sites.

### How to buy

The insurance companies set the prices, but policies must be purchased from authorized independent agents who can help you make comparisons between them and choose the appropriate coverage.

Here are some agencies in the Chicago area that represent companies named above. Although the list is by no means complete, it consists of independent agents I know and trust: MAGA Ltd. (847) 940-8866; Burling Insurance (312) 951-6040, and Amsterdam Financial (312) 440-0600.

I leave you with this thought: It pays to plan while you can. And that's The Savage Truth.

*Terry Savage is a registered investment adviser, and appears weekly on WMAQ-Channel 5's 4:30 p.m. newscast. Distributed by Creators Syndicate.*