GETTING GOING
By JONATHAN CLEMENTS

How to Protect Against The High Cost of Nursing Homes

February 22, 2006; Page D1

Getting old is fraught with scary numbers.

You might have heard that more than half of all seniors will need long-term care, that the average nursing-home stay is 2½ years, and that nursing-home costs run an average $74,000 a year. Moreover, thanks to a new law, it's now harder to get Medicaid to pay these costs.

Frightened? The reality is, most retirees won't incur substantial long-term-care expenses -- but an unlucky few will get walloped with truly horrendous costs. Here's a closer look at those numbers, and what they mean for your finances.

• **Taking care.** Under a law signed by President Bush earlier this month, it has become more difficult to give away assets and thereby qualify for Medicaid-paid nursing-home care.

Now, your eligibility could be hurt by gifts made over the prior five years, up from three years under the old rules. In addition, under the new law, you may not qualify for Medicaid if you have home equity of more than $500,000.

All this should be a wake-up call for baby boomers. To understand what's at stake, consider a new study by Pennsylvania State University professor Peter Kemper, Georgetown University professor Harriet Komisar and Lewin Group consultant Lisa Alecxih that will appear in the next issue of Inquiry, a quarterly health-care journal.

Using a complex model, the three authors calculate that 69% of today's 65-year-olds will eventually need long-term care. But for many seniors, this may simply mean help bathing, dressing or using the toilet. "Needing help with just one activity is not such a serious need for care," Prof. Kemper says. "That might be relatively easily provided by family."

Instead, it's those in nursing homes who are hit with the really hefty costs. Prof. Kemper and his co-authors project that 37% of all 65-year-olds will need long-term care in a nursing home or assisted-living facility.

Most of these folks will stay less than two years. The authors, however, calculate that 8% of all 65-year-olds will spend more than five years in a nursing facility -- and that will mean huge costs.

Indeed, while the vast majority of seniors will incur little or no long-term-care expenses, 11% will rack up costs between $100,000 and $250,000 and an additional 5% will get hit with expenses of over $250,000. Part of these costs, which represent the sum needed at age 65 to cover projected expenses, will likely be paid by Medicaid and Medicare.

Still, if you are among the unlucky few, you could see your life's savings wiped out. A typical scenario: A woman cares for her increasingly frail husband, eventually outliving him. She then needs care herself, but there's nobody to help and she ends up in a nursing home.

"Long-term care is a women's issue," says Marc Cohen, president of LifePlans in Waltham, Mass., which conducts research into long-term care. The people who spend years in a nursing home "tend to be single, female, over age 80 and suffering from dementia. Their husbands have died and they don't have family support, so they're unable to live independently."

• **Buying protection.** Faced with the possibility of expensive nursing-home costs, you should consider insurance, especially if you hope to bequeath money to your kids.

Problem is, long-term-care policies aren't cheap, with premiums often running $2,000 a year or more. To cut costs, many folks buy policies that pay benefits for just three years, rather than for life, thus trimming the premium by maybe 40%.

Such policies strike me as an unhappy compromise. What if you end up spending a decade or more in a nursing home? A three-year policy may merely postpone when you are impoverished.

A possible solution: Buying longevity insurance instead of long-term-care insurance, or in conjunction with it. Never heard of longevity insurance? Insurers are only now rolling out these policies.

For instance, last year, MetLife introduced "retirement income insurance," which allows folks age 55 or older to invest a lump sum, thereby purchasing income that will start at age 85. Suppose you are age 60 and you bought this no-frills product, which doesn't pay a death benefit, through an insurance agent. If you are a woman and you invested $25,000, you would guarantee yourself $17,000 a year for life starting at age 85, while a man could guarantee himself $23,300 a year.

Hartford Financial will launch a similar product in April, and New York Life should have its version out later this year.

What's so great about longevity insurance? It gives you the freedom to spend down your nest egg, knowing you have locked up an income stream for later in retirement.

Maybe you will need that income for nursing-home costs. But unlike with long-term-care insurance, you don't have to be sick to get the money, so longevity insurance would also help if you remain healthy. And because your longevity insurance will pay income for life, there's no risk you will outlive the benefit, which could happen with many long-term-care policies.

There is, however, a drawback. "Your income stream from longevity insurance might start at age 84," notes Ted Mathas, an executive vice president with New York Life. "But what if you get sick at 78?"

The implication: Before you buy longevity insurance as a substitute for long-term-care insurance, make sure you have enough savings to pay for any long-term-care expenses during the intervening years.

ABOUT THE AUTHOR

Jonathan Clements has written The Wall Street Journal's Getting Going personal-finance column since October 1994. Born in London, Jonathan is a graduate of Emmanuel College, Cambridge University, where he edited the student newspaper. He was a writer and researcher for Euromoney magazine in London before moving to the New York area in 1986. Prior to joining the Journal in January 1990, he covered mutual funds for Forbes magazine. Jonathan is the author of "You've Lost It, Now What? How to Beat the Bear Market and Still Retire on Time," published in 2003. His earlier books include "25 Myths You've Got to Avoid -- If You Want to Manage Your Money Right" and "Funding Your Future: The Only Guide to Mutual Funds You'll Ever Need." He has two children and lives in Metuchen, N.J.