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Do you need long-term-care insurance?

If you can't take care of yourself when you're old, there are plenty of resources from which to choose: home-health services, adult day-care centers, assisted-living facilities, or nursing homes. Finding the money to pay for such help, however, presents a dilemma.

Right now, the average rate for a private room in a nursing home is $181 a day, or about $66,000 a year, according to a 2003 survey by Metropolitan Life Insurance Co. If the room rates reflect current annual increases in nursing-home costs, then by 2021, when today's 60-year-olds might need such care, the average rate will have risen to about $480 a day, or $175,200 annually.

VERY SLOW PAY

NAME
Kathleen Donley, of Roseville, Calif.
ISSUE
Donley says she had to fight for two months to get Conseco, her dad's insurance company, to start paying his nursing-home bills, though his policy called for the company to pay immediately. She also had to pay his bill each month and wait for Conseco to reimburse her. When she complained, she says, "I could never get past customer service."
Conseco says that it apologizes for "any undue stress that was caused during this very difficult time."


Photo by Robert Houser

Few people are able to amass such sums. And the government is unlikely to pick up the tab. (See What Medicare/Medicaid cover.) The only obvious answer is long-term-care insurance, a disability plan that has been around since the mid-1980s. Its promise: to pay the expenses of people consigned to nursing homes or needing other forms of long-term care.

But will such insurance really work? A CR investigation, for which we reviewed 47 policies, reveals that for most people, long-term-care insurance is too risky and too expensive. As with health insurance, you must keep paying to keep it in force. If premiums rise, you may have to drop the coverage, possibly losing everything that you've paid. The policy's benefits may cover only a portion of the total expense. Many policies are packed with catches that can keep you from collecting. Finally, there's no guarantee that long-term-care insurers, some of which have weak balance sheets, will be around 20, 30, or 40 years from now when you need them to pay.

Long-term-care insurance may be a lousy deal, but right now it's just about the only deal. So in this report, we help you decide whether, despite its deficiencies, a long-term-care policy is right for you. We also establish criteria for choosing a policy. Using data from Weiss Ratings Inc., a Palm Beach Gardens, Fla., company that evaluates the safety of financial institutions, we reviewed plans offered in California, the state with the largest elderly population, to see how many measure up. (Niis/Apex, an actuarial firm based in Princeton, N.J., assisted us in the review.) The answer: a scant 3 out of 47.

THE PROMISE OF THE POLICY

Long-term-care insurance sounds simple. You pay annual premiums now for coverage that you might use years hence should you need custodial care.

Such coverage really shouldn't be considered before age 60 except by those with chronic diseases. Insurance agents, however, wax on about the policies' benefits (See Sales pitches and their catches), often pushing the plans on people in their 40s. And no wonder. Agents can reap hefty commissions--50 percent of your first year's premium and 10 percent of your payment for every succeeding year.

Even without high-pressure salesmanship tactics, long-term-care insurance can stymie the most conscientious consumer because it is so complicated. Indeed, although the policies have become more standardized in recent years, they are fraught with uncertainties that can leave you much less secure than you planned. Among the most important points:

Your insurer may not be around for the long haul. Some long-term-care insurers have shaky finances at best. When we reviewed 47 policies offered by seven companies in California, we found that three of the seven insurers had Weiss financial-safety ratings lower than B+. If a company goes under, you could lose your coverage, and at least some of the money you paid, or face stiff premium increases if the business is bought by another insurer.

The coverage may be insufficient. Long-term-care insurance pays a daily benefit for nursing-home care. (Currently, nursing-home day rates range from $96 in Shreveport, La., to $420 in Alaska.) But drugs, supplies, and special services, which aren't covered, add 20 percent or more to the bill. Then comes inflation. Between 2004 and 2008, nursing-home costs are projected to rise by 5.6 percent a year, and 5.9 percent for four years after that, according to the Centers for Medicare & Medicaid Services. That $181 daily benefit you buy this year will cost $238 in five years and nearly $300 in nine years. A $181 benefit bought now will only pay about half the cost then.

Many Americans hope to receive care in their homes. But policies generally pay only a portion of the daily benefit--older policies paid just 50 percent--for home care. That's not enough if you don't have a spouse or relative to help take care of you. Home-health aides charge $18 an hour, on average. Hiring one for eight hours a day costs $144. A policy with a $181 benefit would only pay a portion of that.

There's never a good time to buy. Premiums escalate as you age. For example, a plan that costs a 50-year-old $1,625 annually will run a 60-year-old $3,100 and a 70-year-old $7,575.

Many insurance agents recommend you buy young to lower your annual premium. Say you buy at age 40 and pay a relatively modest $685 annually. But the average age of people admitted to a nursing home is 83. That means you might pay for nearly 40 years before knowing whether you'll need to use the policy.

Insurers also say that if you buy young, your premium will stay low. But it will rise if the company needs the increase to pay claims that are greater than expected. Such hikes aren't small. "There have been cases of premiums not just doubling but increasing 800 percent," says Phyllis Shelton, president of LTC Consultants, a Nashville, Tenn., company that trains long-term-care insurance agents.

Such shocking rate hikes were more common in the early days of long-term-care policies. Insurers had no experience in underwriting the policies and often priced them low solely to gain market share. But sizeable rate increases are still occurring. CNA Financial, which now devotes itself to marketing group long-term-care policies, recently asked state insurance commissioners for premium increases of up to 50 percent on some older policies. Already, 25 states have approved the request, with 18 giving the company the full 50-point hike.

If premiums rise sharply, you may have to abandon the policy, particularly after you retire or lose a spouse and must live on a diminished income. And when you're older, you may have too many medical problems to qualify for coverage. One out of four 65-year-olds flunk the physical and are rejected for long-term-care insurance; at 75, it's one in three.

You may not qualify for benefits. Insurers will not pay for your care unless you are unable to perform a specified number of what the industry calls "activities of daily living": bathing, dressing, eating, getting from a bed to a chair, remaining continent, using a toilet, and walking. Alzheimer's and other forms of severe cognitive impairment may qualify you for coverage if you meet certain clinical criteria. You may also qualify through "medical necessity" if you have a condition such as congestive heart failure.

Before you can begin receiving benefits, some insurers require that you be screened by their own physician, whose primary charge may be to keep claims under control. Indeed, claims from 2001 data collected by the National Association of Insurance Commissioners show that long-term-care policies paid out a mingy 35 percent of the premiums they took in that year.

The policies have limitations. First there are deductibles, in the form of elimination periods--20, 30, 60, 90, or 100 days during which you must pay for nursing-home care out of your own pocket. As with other insurance, the larger the deductible (or in this case, the longer the elimination period), the lower the premium.

Insurers do offer lifetime coverage, but many people can't afford the premiums. Instead, they purchase a specified benefit period, usually one to six years, and hope they won't need more coverage.

Even doing everything right, however, doesn't mean there will be clear sailing. Kathleen Donley, of Roseville, Calif., says she had to fight her father's insurance company, Conseco, for two months to collect on his long-term-care insurance even though the policy, taken out in 1996, had a zero-day elimination period. She also had to pay the nursing home on the first of each month, then wait until the end of the month before Conseco would consider a claim for reimbursement.

"Explaining what a financial hardship this was to the company was useless because I could never get past customer service," Donley says. "They actually told me the claims department had no phone." A Conseco spokeswoman said that the company offers one number for policyholders to call when they need service. "Representatives are trained to respond to all policyholder requests," she added.

HOW TO CHOOSE

In preparing this report, we established criteria that could make a policy a worthwhile hedge against the costs of long-term care, if you can afford it. If you decide that you want a policy, follow these shopping guidelines.

Consider buying at around age 65. Although salespeople will try to get you to buy a policy as young as age 40, the coverage may be useless 40 years hence when you need it. New systems for care may emerge that will not be covered by a policy purchased today. For example, 15 years ago, long-term-care insurance did not pay for care in assisted-living facilities.

Between the ages of 55 and 60, buy long-term-care insurance only if you have a chronic condition like diabetes that could prove incapacitating over time. Otherwise, begin at about age 60 to assess whether you need long-term-care coverage, and, if so, buy at age 65. If you buy later than age 70, the policy will likely be too expensive or you may not pass the medical tests needed to qualify.

Look for a strong insurer. Since you are buying a policy for use 20 to 30 years in the future, hunt for a company that receives high financial-safety marks from insurance-ratings companies. We selected only the policies that were rated B+ or higher for financial strength in the Weiss Ratings database. For $45, you can order "Shopper's Guide to Long-Term Care Insurance" from Weiss, which provides prices and safety ratings for some but not all insurers offering policies in your state. You can also check online ratings from A.M. Best, Moody's, Standard & Poor's, or Weiss (at *www.ambest.com*; *www.moodys.com*; *www.standardandpoors.com*; and *www.weissratings.com*). The first three services are free; Weiss charges $7.95 for each company rating online and $15 by phone. Buy only from insurers that are rated in the top two financial-strength categories by at least two of the ratings services.

Buy a flexible policy. Look for a policy requiring that a person be unable to perform no more than two activities of daily living. One should be bathing. According to the U.S. Department of Health and Human Services 1999 National Nursing Home Survey, 94 percent of nursing-home residents receive help with bathing.

A good policy will cover care not only in nursing homes but also in assisted- living facilities. (Not every facility qualifies. Some policies specify that a staff member must be on the premises 24 hours a day, a doctor must be on call, or the facility must be able to supervise medications.) A home-care benefit should include adult day care, hospice services, and respite care (temporary overnight care).

Cover future costs. Call several nursing homes in the area where you are likely to be living and make sure that the benefit amount will cover their charges.

Because you won't be tapping your policy for decades, it is vital that the daily benefit increase along with the price of care. The best available option pays you 5 percent a year compounded, just enough to pace the anticipated 5.6 percent annual increase in nursing-home charges. Adding this benefit to your policy, however, may quadruple your premium.

In another twist, some policies, known as indemnity or per diem plans, pay the full daily nursing-home benefit you select regardless of the actual charges. You get to keep any surplus, but the policy will pay only up to a specified amount. So you could run out of money. Most newer policies, called reimbursement plans, pay only the charges you incur up to the selected daily benefit. Indemnity plans may add about 10 percent to the premium.

A four-year benefit plan should be sufficient. Nearly 90 percent of all people over age 65 who enter a nursing home stay fewer than five years. The average length of time for current residents is 2 1/2 years. If you're willing to play the odds, a four-year benefit may be a reasonable gamble. If you do require nursing-home care for a longer period, four years will give you and your family time to prepare for the financial demands of a longer stay.

Pick a 30-day elimination period. A policy with a 90-day period might cost 15 percent less a year than one with a 30-day period. But with inflation, a nursing home that costs $181 a day now will cost $538 in 20 years, bringing the total for those 60 additional days to $32,280.

ADDITIONAL OPTIONS

You can pay to get some money back. If you have to cancel your plan, you can recoup money you invested by adding a nonforfeiture clause to your policy. That allows you to collect a daily benefit when you need long-term care based on the amount you paid in. But you can claim only as much as you paid in, and inflation won't be covered even if you opted for inflation protection. The nonforfeiture provision will likely add 30 percent to your premiums.

Your premiums may be partially deductible. So-called tax-qualified plans, which meet federal standards, allow you to deduct your annual premium up to a limit based on your age. But along with other medical expenses, the amount is deductible only to the extent that it exceeds the federal government's 7.5 percent threshold of adjusted gross income. You may be able to deduct only a small portion of the expense.

Hold any group plans to high standards. More than 5,000 employers, including the federal government, offer group long-term-care plans that may give employees a discount and allow them to pay premiums with pretax dollars, further lowering their cost. If your workplace plan doesn't offer the features we recommend, however, you would be better off buying on your own.

Check out partnership plans. In four states--California, Connecticut, Indiana, and New York--you can buy a "partnership" plan that protects some or all of your assets from being depleted. In California, Connecticut, and Indiana, you can get coverage equal to the amount of assets you want to shelter. If you want to protect $100,000, you buy a policy that comes close to paying out $100,000. If you become eligible for Medicaid, you can keep $100,000 of your assets above Medicaid's limit. In New York, you can buy a policy with three years of nursing-home coverage and six years of home-health care; you become eligible for Medicaid after exhausting your benefits, but without spending any more of your assets. Such policies protect assets, but you may not exceed Medicaid income limits. If you move out of state, you may keep the plan, but you lose the asset protection. On the plus side, most such plans cover assisted-living care.