A Look at Long-Term Care Costs

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Seventy percent of Americans haven't planned for their long-term care needs in **retirement**, according to Employee Benefit News. What's more, 70% of people over age 65 will require that care, whose cost is high and rising.

Indeed, the average annual cost of a private nursing-home room in 2008 hit $76,285, according to the Department of Health and Human Services. Accounting for 3% annual inflation, that year of nursing home care will cost nearly $150,000 by 2030. With the average stay reaching almost 2.5 years, you're looking at a total price tag of about $400,000.

Given those numbers, it's no wonder that many people are pondering buying long-term care **insurance**, or LTCI. LTCI policies can cover the cost of extensive care, leaving your savings largely untouched. But they can be a waste of money for those who don't need care, can't keep up with premiums or don't get an appropriate policy.

Here's a primer on LTCI, along with information to help you determine if it's right for you.

What is LTCI?

LTCI covers nursing homes, assisted-living facilities, adult day-care centers, hospice and at-home care once you can no longer perform some of what **insurance** companies call "activities of daily living," or ADLs such as dressing, bathing and eating, due to physical or mental impairments.

Typically, benefits cover a daily maximum (usually $50-$500) for a set period of time (usually six months to life). Most policies are sold by large insurers such as John Hancock, Northwestern Mutual Life **Insurance**, MetLife and Prudential.

The cost of an LTCI policy varies widely, from about $750 per year to $6,000, based on benefit amount and length, the waiting period before it kicks in, whether you buy inflation protection and the policy buyer's age.

Why you might want it

Studies say 44% of Americans believe Medicare or health **insurance** will cover long-term care costs, but that's typically not true. Medicaid does cover long-term care, but only if the patient is poor or has exhausted his assets.

LTCI is most appropriate for healthy people -- passing a health-screening process is required -- with net assets of $500,000 to $2 million. Below that level, premiums are likely to be unaffordable. What's more, Medicaid would likely kick in after a short period. With assets above that amount, you likely could self-insure.

LTCI also may make sense for people with a family history of health issues that lead to long-term care needs, such as dementia, Alzheimer's or diabetes, or people with long life spans in their genes.

Here's one example of how LTCI might benefit you. A 55-year-old with an inflation-adjusting $192 daily benefit would pay $2,642 per year for coverage, according to Littleton, Colo.-based < a href="http://www.ltcia.com">LTCI Decision Systems. With a one-year LTC stay at age 80, she would pay $133,000 in premiums over her lifetime and receive $258,000 in benefits. For a five-year LTC stay, she would pay $137,000 in premiums and receive $1.2 million in benefits.

Why you might not

The first thing to consider is cost. In 2005, LTCI policies averaged $1,973 per year, according to federal estimates. You'll potentially pay premiums for decades, and they tend to rise, sometimes dramatically. If you're unable to continue paying the premium at some point, you may lose much or all of your investment. (Some policies allow the insured to recoup premiums if they become unaffordable, but that option itself comes at a significant premium.)

Second, the money you'd spend on premiums may be better utilized in your **retirement** portfolio.

Finally, benefits kick in when the insured cannot perform multiple ADLs, as determined by the insurer. In other words, you may need care that is not covered by an LTCI policy.

If you buy

As with almost any **insurance**, better coverage costs more. Reducing premiums means lowering daily benefits, cutting the benefit period and paying for more costs before benefits kick in. (Most LTCI policies include an "elimination period" that's essentially a deductible.)

When to buy is also an issue. Younger people are more likely to qualify and pay lower premiums. Federal data show that policies bought by individuals 75 and older typically cost 40% more than those bought by the 55-64 set.

Younger people, however, may pay premiums for decades, which increases the lifetime cost of coverage. What's more, policies can become obsolete over time. An LTCI policy bought 30 years ago might not cover home care or assisted-living, since those options were less popular when the policy was issued.

Many planners say it's best to buy an LTCI policy in your 60s. Premiums will typically be manageable, and if you itemize medical care, you can deduct more LTCI costs as you age.

If you're thinking about buying LTCI now, consider waiting until 2010, when consumers will be able to pull money from an annuity to buy LTCI tax-free.

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