



# “ On T h e M o n e y R e p o r t ”

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## **Should you buy Long-Term Care Insurance?**

Most people do not perceive the risks of an extended stay in a nursing home to be a real and present threat to their financial security until they are older and the cost of buying this coverage becomes unaffordable.

For example, at age 50, the cost of a typical Long-Term Care (LTC) insurance policy will run about \$900 a year, but this will cost 6.5 times more, or about \$6,000, at age 79.

### ***The chances of ending up in a Nursing Home or needing skilled care.***

Seven million individuals over age 65 will need long-term care. According to the Department of Health and Human Services, people age 65 and over face a 40 percent lifetime chance of entering a nursing home.

**This risk is about 50 percent higher for women than men age 65 or older.**

Question: Can you self-insure against this risk by saving for it?---, in a perfect world, a 50-year-old could set aside the \$900 per year for 29 years, earning five-percent interest, and would have about \$56,000 at age 79.

This would pay for 10 years of LTC insurance premiums beginning at age 79. During this period, if they required long-term care, the costs would be covered by their LTC insurance policy. At the end of the 10 years, coverage would end.

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There are four fatal flaws with this thinking:

1. There will be no pre-existing condition at age 79 that makes them ineligible for LTC insurance.
2. The cost of LTC insurance for an individual who is age 79 in 29 years is the same for an individual who is 79 today.
3. This individual will always save the \$900 per year and earn a "perfect five percent" on their annual savings -- never more or less.
4. You will not live longer than anticipated.

The reality is that for a total cost of about \$56,000 over 29 years (accounting for an annual five percent rise in premiums), an individual can protect their net worth from a potentially large financial risk.

## ***What is the large financial risk?***

The national average cost of skilled care in a nursing home is about \$55,000 per year, with the low being about \$36,000 in Louisiana and the high being \$106,500 in metropolitan New York.

Over the next 25 years, this cost is expected to rise faster than the pace of core inflation as the dwindling supply of nursing-home workers confronts the increasing demand for their services by an older population that will double in that time period.



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## ***Who will pay your LTC costs?***

Medicare, which picks up 11 percent of LTC costs nationally, only partially covers the costs of the first 100 days in a nursing home.

Medicaid, is the medical program for the poor and requires individuals to spend down substantially all assets and direct all their income to pay towards their long-term care costs.

Private LTC insurance currently picks up about 5 percent of LTC costs nationally. The remainder coming from the income and assets of the individuals who require the care.

Clearly Medicaid pays the bulk of LTC costs. The challenges placed on individuals who will rely on Medicaid is that they have to transfer assets out of their name in advance of anticipated long-term care needs doing so in an attempt to defraud the Medicaid system is criminal.

Individuals who rely on Medicaid also lose control over their choices of the services, providers and the care they may desire.

## ***Who Should Consider Buying LTC?***

1. Individuals with more than \$200,000 but less than \$2 million in assets or with incomes they need to preserve for their survivor's financial security should consider this form of protection.
  - a. Individuals with low income or fewer assets will deplete their finances quickly and qualify for Medicaid when confronted with long-term care expenses.



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- b. Individuals with high income and multi-million-dollar portfolios can afford to pay these costs directly -- effectively they are self-insured.
2. Individuals 50 or over should consider this coverage as an option to protect their financial assets from this possible risk. Even if they decide not to buy this insurance, it a good idea to review the issue as LTC insurance and their features are evolving.

**Individuals should not spend more than 1.5 percent of the household gross income annually on long-term care insurance premiums. For a family with gross income of \$75,000, no more than \$1,125 should be allocated to this cost.**

Since the risks of long-term care are greater for women, couples should allocate more available resources towards the cost of the female's policy.

## ***Features and Costs***

Long-term care insurance policies offer a myriad of features and options from which to choose. The trick to keeping cost as low as possible is to choose only the most important options and accept some risk up front. Here are the guidelines:

### Daily Benefit Amount.

1. If the cost of long-term care in your local area is about \$55,000 annually, instead of buying a policy that provides this level of benefit, or \$150 per day, think about reducing this amount by all retirement income sources, such as pension, social security and annuity income, that you are willing to use towards this cost.

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For example; If the total retirement income is \$20,000, you should only buy enough benefits to cover the gap, or \$95 per day, which provides for the \$35,000 gap.

2. Waiting period.

Long-term care policies can pay benefits immediately or pay after the first year of care. If you assume the first year of cost of long-term care and you can reduce the costs of this insurance by 25 percent or more.

3. Benefit period.

A third of all nursing home stays are for two or more years, it's important to choose a benefit period that provides benefits for at least two to five years.

**Note:** Try combining a one-year waiting period with a lifetime benefit period versus a 90-day waiting period with only five years of benefits.

4. Cover most likely risks.

When purchasing this coverage on a couple, consider the full coverage and longer benefit period for the female, who is typically the individual most likely to live the longest. The strategy is to cover the most likely risk and spend the least where this risk is less of a possibility. Couples often mistakenly believe they need to buy the same amount of coverage for each.

5. Married discount.

Actuarial statistics show that the first spouse is typically cared for in home by the second spouse, For this reason, insurance companies offer a 10 to 15 percent discount on premiums for married couples.



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6. Increasing benefits.

It's important to ensure that policy benefits will rise over time because the actual costs of long-term care surely will. Most policies offer the option to purchase a 5 percent benefit increase that is factored into the policy premiums.

7. Services covered.

Ensure that the definition of services covered includes skilled and custodial care, delivered in a skilled care facility or at home.

Also it's important to include home care services, home health aides, respite care which relieves family care givers for periods of time as well as the costs of an assisted living facility.

## ***Where To Shop***

Whether or not you are going to buy LTC insurance, you should know that there are over 22 insurance companies that offer this product, and availability and costs will vary widely.

Here is a short list of companies that are rated A or better by A.M. Best's, Moody's and S&P and have been in this line of business for 15 years or more.

**General Electric Capital Assurance Co.** ([www.gefn.com](http://www.gefn.com))

Years in LTC Business: 28

**GLTC Ins. Administrators Inc/CAN** (800.603.7999)

Years in LTC Business: 29

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**John Hancock Life Ins. Co.** (888.604.7296)

Years in LTC Business: 15

**MetLife Ins. Co.** ([www.metlife.com](http://www.metlife.com))

Years in LTC Business: 16

**Mutual of Omaha Ins. Co.** ([www.mutualofomaha.com](http://www.mutualofomaha.com))

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Premiums based on a three-year nursing home benefit of \$100/day

- 100-day elimination period
- Two-year home health care benefit of \$50/day
- No inflation protection
- Also check out Long Term Care ([www.longtermcare.com](http://www.longtermcare.com)) or Quote Smith ([www.quotesmith.com](http://www.quotesmith.com)) to get information and costs of policies from a number of different companies.

*Steve*

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“The Investor’s Advocate”  
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