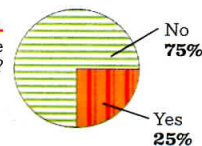


Do you have long-term-care insurance?

LHI POLL



What You Need To Know About Long-Term-Care Insurance

Yes, insurance is a yawn and no one wants to think about nursing homes and assisted-living facilities. But sticking your head in the sand is *not* a financial plan.

BY MARILYN CAPELLI DIMITROFF

Millions of Americans—including more than 70 million baby boomers as well as the Gen Xers who are fast approaching middle age—are stuck between a classic rock and a hard place. They know that eventually they'll probably need long-term care. They also know that such care is exorbitantly expensive and could eat up every last dime they've managed to save.

But when they look into long-term-care insurance, sticker shock sets in. Premiums are so high that many people opt to skip the insurance altogether, believing that if they invest the cost of the premiums they'll save enough to pay for the care themselves—and free up the cash for other uses if they're lucky enough not to need that care.

But that's magical thinking for all but the very wealthy. (See the chart at right.) The bottom line is that you do need long-term-care insurance. And buying it sooner is better than later.

Let's parse the numbers. The long-term care that insurance typically covers includes home care, assisted living, adult day care, hospice, respite care (temporary help to relieve family caretakers), nursing-home stays and Alzheimer's care. You generally become eligible if you're unable to perform two basic activities of daily living, such as eating, dressing and bathing, or if you have severe cognitive problems. The most expensive care is a live-in facility (nursing-home care in 2012 averaged about \$86,000 per year, according to a MetLife survey).

To accumulate enough to pay these costs for both you and your spouse (figure on around \$400,000 in today's dollars for the average 28 months of care for each of you plus potentially huge inflationary increases), you'd need to set aside approximately \$1,600

a month for 30 years at a 6 percent annual return on your investment. A policy covering a similar maximum payout for both of you will cost around \$450 a month (with periodic increases). If you can save nearly four times that amount for 30 years, go for it. For the rest of us, long-term-care insurance is the best bet.

Of course, if you never need coverage you lose all the money you've paid in premiums. Then again, that risk is inherent in *all* insurance: You're paying for protection against a costly catastrophe—theft, flood—that you hope never happens. Insurance agents are often baffled by clients who think nothing of buying a comprehensive homeowner's policy or adding collision to their car insurance but who balk at

long-term-care coverage. There's a 67 percent chance you'll need long-term care, which far exceeds the odds of your having a car accident or a fire in your house (about 25 percent over a lifetime for either one).

The fact that two-thirds of Americans will need some form of long-term care is the single best argument for buying coverage. Another argument? You're covered from the day your policy goes into effect, whereas building up enough savings to pay for a problem would take years. If you become sick or disabled in your 50s or 60s, you could fall far short.

What if you need long-term care but don't have insurance or a big nest egg? The Medicaid program can step in, but only after all of your assets are gone and you've met your state's requirements.

CAN YOU JUST INVEST THE PREMIUM—AND PAY FOR YOUR OWN LONG-TERM CARE?

A healthy 52-year-old will pay around \$2,760 a year in premiums. If you invest that money instead, you almost certainly won't have enough to pay for your future care. This chart shows the outlook in 10 years, 20 years and 30 years.



*Estimates assume 5% rate of inflation and a 5% inflation rider on long-term-care insurance benefit. The cost of care in 2012 was \$192,500 for an average stay of 2.3 years.

DATA PROVIDED BY PETER R. FLOREK, LONG TERM CARE PLANNING SPECIALIST, MAGA LTD., RIVERWOODS, ILLINOIS.