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Long-term-care insurance changing as costs increase

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IT CAN BE AN EMOTIONAL ISSUE that even the most steeled physicians may be reluctant to address: Some day they, too, may need long-term care.

Knowing that private health insurance and government programs won't likely get them too far with their long-term needs, many of those who have anticipated the possibility of a nursing home stay or home health care in their golden years have protected themselves financially by buying a long-term-care insurance policy.

But as the baby boomer generation ages, and health care costs continue to soar, this type of insurance is evolving. Premiums are rising and the bells and whistles of such plans are changing. Experts say keeping abreast of this transformation could help save money now, and later.

The potential costs associated with long-term care can be shocking. According to a survey the MetLife Mature Market Institute released last year, the average cost of a private room in a nursing home in the United States was \$203 per day, or \$74,095 per year. Those figures represented an increase of nearly 6% from 2004. In some states, the average daily price was as high as \$531 (Alaska).

As these costs have risen, premiums have gone up too. Though exact figures are hard to come by because policies differ widely based on several factors, including the purchaser's age and the type of coverage, anecdotal evidence suggests a significant jump.

"We've seen the prices go way up in the last five years. The actuaries have stopped looking backward and started making prognostications about future projections," said Sheryl Garrett, founder of Garrett Planning Network, a Shawnee Mission, Kan.-based network of fee-only financial advisers.

Some fear that more premium increases could be around the corner as the demand for long-term care increases with the aging population.

"My guess is that there is a pretty good chance that [premiums will increase] as insurance companies start to experience the magnitude of the claims coming at them as the baby boomers come to retirement age," said Peter F. Tedstrom, a certified financial planner with Brown & Tedstrom in Denver.

Determining what you need

FOR PHYSICIANS WHO ARE TRYING to work long-term-care insurance into their retirement plans, the additional costs could be particularly difficult. After all, many physicians have fewer

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earning years to save for retirement than do other professionals, so they may be maxed out on what they can set aside during that period.

Martin Moll, an attorney and director of health care practice at Aldrich Kilbride & Tatone LLC in Portland, Ore., said he tells physician clients that they should try to get a sense of their overall retirement nest egg to help decide whether they can afford such policies.

Still, whether they choose to buy a policy can be a personal decision. "Some really want to preserve a legacy for their children and their grandchildren," Moll said. "But some have the attitude, 'I made it on my own so they can make it on their own.'"

For those fortunate folks who have socked away a large enough pile of money, Moll said the insurance would be obsolete. "If you are blessed with a healthy practice and you've done a spending analysis and any way you slice it, there's no way you can slice down your assets, then it really does not make sense," he said.

How much will it cost?

FOR EVERYONE ELSE, HOW MUCH you need to spend to get a policy depends largely on how old you are when you purchase it and the degree of the benefits within the policy.

"They can spend up to \$10,000 to \$15,000 a year if they are in their late 60s and early 70s and looking for the Cadillac of coverages," said Tedstrom. Someone in their 40s or 50s may be able to spend \$2,000 per year and get "pretty adequate coverage," he said.

Policy costs will vary also based on how much of a daily benefit is offered. Tedstrom said potential buyers can find statistics on the Internet about the average daily cost of nursing home care in their states and use it as a benchmark in determining the appropriate figure.

However, even though a \$170 daily benefit might be adequate in some regions today, that amount would be insufficient if the benefit is not used for another 20 years.

To safeguard against that, it is possible to purchase policies with inflation protection. A typical policy may offer 5% compounded inflation protection, but it could add 15% to the cost of the premium, said Lou Stanasolovich, chief executive and presi-

dent of Legend Financial Advisors Inc., a Pittsburgh-based fee-only financial advisory firm.

The duration of the benefit also affects the premium. Some policies will offer two, three, five or six years of protection. Some are good for the lifetime of the policyholder, though these are more expensive.

Other factors that can increase the price include whether the policy has an unlimited benefit amount; how long the waiting period is before the benefit kicks in; and whether the policy is paid off in a set number of years or paid in perpetuity.

To make the expense more palatable, some self-employed physicians may be able to write off the cost of their premiums as a business expense, said Garrett.

"It's considered an employee benefit, and you don't have to buy it for all the employees. You can just give it to the business owner," she said. "It's an expensive product ... but if you can write off the premiums by say 40%, it doesn't look so bad."

Though it has not always been this way, the AARP said that nowadays nearly 90% of long-term-care policies are considered qualified plans, meaning policyholders can deduct their premiums up to a certain limit. Still, Moll said it is important to double check whether a plan is tax-qualified rather than assuming it is.

Another change in the industry is that most policies now cover home health care at no additional premium, said Tedstrom. However, how much of it is covered can vary. Stanasolovich said some policies will only pay about half as much for home health care as they do for skilled nursing care.

He said policies have also evolved away from the non-indemnity plans that require policyholders to file monthly claims to get benefits, creating a "big paperwork nightmare." And an increasing number of plans now are indemnity policies, which only require policyholders to prove they qualify for benefits at the outset of their claims.

Moll said some of his clients opt against the insurance altogether and instead set aside investment assets to protect against the possibility that they will need long-term care. But he said trying to figure out exactly what amount to set aside may not be worth the hassle. "It's easier for someone else to worry about the actuarial costs." ♦

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