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# COMPARING POLICIES

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INSURANCE, they say, is one product you can’t buy when you need it most. When it comes to coverage for long-term care, however, a myriad of choices makes even timely buying a daunting process.
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Although industry statistics indicate that more than two of three people turning 65 will eventually need such care — which may be provided in a nursing home, assisted-living facility or at home — even deciding whether you should buy long-term care insurance is a challenge.

Then there’s the design of the actual policies, which may be customized for each buyer’s pocketbook and unknowable health future.

“There’s a million different variations and permutations,” said Steve Killiany, a planner and long-term care specialist at the West Financial Group in Bethesda, Md. “There’s the benefit period, the amount of daily benefit, inflation protection, the waiting period” and other considerations like the financial strength of the insurance company.

The popularity of these policies is arising from several factors, including the climbing cost of health care, longer life expectancies, and a desire to avoid relying on family members who may live far away for care. If you’re wealthy enough, of course, there may be little need for this coverage. If you’re poor enough, Medicaid will pick up the bill. Not only is there a huge middle ground between rich and poor, but people differ in their desire to draw down assets instead of passing them along to the next generation.

A couple with $1 million, for example, may want to be sure that they leave a legacy big enough to put a grandchild through college, rather than risk draining all their funds if they need care for a long time. Mr. Killiany generally considers those with assets of $200,000 to $4 million as candidates for long-term care insurance, but other experts shun any upper limit.

“Money is a very touchy subject,” said Jesse R. Slome, executive director of the American Association for Long-Term Care Insurance, an agent trade group based in Westlake Village, Calif. “Some people are unwilling to spend what they’ve accumulated and sometimes kids don’t want them to.”

If you decide to join the eight million Americans who now have long-term care policies, either individually or through employers, an even tougher question may be when to buy.

There is no simple answer, but Mr. Killiany suggests doing so around the age of 50, when you’re relatively young and probably healthy enough to qualify for a modest premium.

You’ll be wise to compare terms of two or three different companies and, if you have the opportunity, a group plan. In general, healthy people do better with individual policies; those in poor health or with a family history of disease, may do better in a group. Industry leaders are companies like John Hancock, MetLife, MassMutual, Prudential and Genworth.

A typical company policy for a 65-year-old buyer might pay benefits of $150 a day for three years — a total of about $164,000 — with payments starting 90 days after a claim is made. With automatic inflation protection to raise the daily benefit 5 percent each year, the annual premium with Hancock for people with a standard health rating would be $1,650 if you buy at age 50, $1,840 if you buy at 55, $2,233 at 60, $2,845 at 65, $4,225 at 70 and $6,560 at 75.

Once you have been assigned the appropriate risk category, your annual premium will not rise, regardless of your claims or deteriorating health, unless your company wins regulatory approval to raise premiums for all its policy holders in your state.

(If you move, the rules in the state where you bought the policy apply.)

In buying a policy, you can choose almost any number of years — or a lifetime — of benefits and raise or lower the daily dollar amount or the waiting period before benefits begin. Inflation protection against rising costs of care can be on either a simple or a compound basis — or you can choose to do without it.

Premiums, which generally rise 8 or 9 percent for each year you wait to apply, also depend on which of three main health-related risk categories — preferred, standard or substandard — you are assigned. The preferred, or good-health, designation typically saves 10 to 20 percent.

The average age of individual buyers is the early 60s; for applicants in their 70s, only one in five qualify for good-health discounts and two-fifths of this age group are denied coverage at any price, according to the American Association for Long-Term Care Insurance.

Premiums are also governed by other considerations, like whether you are married and, if you are, whether your spouse is also applying for a policy.

Married people — and in some cases committed partners or even siblings — are entitled to discounts of 15 to 40 percent because they have a presumed care provider living with them, thereby reducing the cost or likelihood of claims. There is also, in effect, a volume discount for the second policy.

If a couple can afford only one policy, said Dee Balliett, a partner at Balliett Financial Services in Winter Park, Fla., it may be a good idea to buy coverage on the healthier, younger person. If a husband is older than his wife and he has the only policy, for example, his wife may be left with no one to care for her after his death — and without insurance.

Long-term care policies also take time to buy — usually several weeks, while the company evaluates statements you have made about your health, perhaps checking them with your doctor. You may also be subject to an interview, probably by telephone, in which the company gauges your mental acuity.

The questioner may ask you to name as many fruits or vegetables as you can, for example, or to perform simple arithmetic calculations. Insurers pay particular attention to signs of memory loss, which can hint at many years of claims by people in good physical health.

"It's the cognitive claim that terrifies" the companies, Mr. Slome said. "Insurers are less concerned about disease and conditions that will kill somebody than those that will allow them to live for many years."

Healthy buyers should welcome such checking, even if it involves answering questions that a 4-year-old could handle, because it suggests that their premiums won't be subsidizing poor risks, a situation that makes experts wary of some group plans.

You can generally reduce coverage, and premiums, at any time — but you cannot raise coverage without making a fresh application.

Although each policy contains a customized mix of options, the industry has standardized much of the contract language, helping to make policy premiums eligible for tax breaks. For example, for you to collect benefits, you must be unable under federal law to perform two or three of six "activities of daily living" without substantial assistance. These "triggers" involve bathing, dressing, eating, going to the toilet, continence and basic mobility.

Specialists recommend that the policy specify that this determination be made not by the company, but by your own licensed health care practitioner (not necessarily a doctor).

Last year, 36.5 percent of claims paid by eight top long-term insurers were for nursing home care, 33.9 percent for care in the home and 29.6 percent for assisted-living costs.

While women use long-term care for an average 3.7 years, compared with 2.2 years for men — and are also more likely to be without a spouse — Mr. Slome considers a policy that pays for three years a good, middle-of-the-road choice for most people. Only 8 percent of claimants exhaust benefits in that time, the association has found. (You may stop and restart claims as your health permits.)

BENEFITS can be paid under three methods. The main one these days is called reimbursement, with the company paying either you or your provider only when you receive services it deems eligible. The other methods are indemnity, under which the insurer pays a set amount directly to you so long as you obtain some care, and disability, under which you get a full benefit if you are eligible, whether or not you choose to use any services.

Insurance specialists warn that one of the most costly mistakes made by buyers, particularly those under 70, is shunning inflation protection in order to minimize their premiums.

Another major error, Mr. Killiany said, is trying to save money by not taking a full benefit for home care on the assumption that such care will always cost less than care in an institution. But dealing with progressive illness at home, with individualized nursing care, can be far more expensive than it is in a nursing home.

While long-term care insurance can be expensive, careful choices of coverage and deductibles, along with the possible tax breaks, can make it more accessible. You can deduct premiums from federal income taxes to the extent that they and other medically related expenses exceed 71/2 percent of adjusted gross income. And 37 states now offer deductions or credits for long-term care insurance premiums. (New York and New Jersey are among them; Virginia's deduction begins for 2007.) And premiums can be up to 100 percent deductible for businesses.

Moreover, you can save as much as 8 percent or so by paying premiums annually instead of monthly or quarterly.

Nonetheless, this coverage is not for everyone, experts caution — and certainly not for those who can ill afford the premiums.

"I don't put long-term care at the top of the list" for sound old-age financial planning unless you have significant assets and want to leave an inheritance, said Ms. Balliett in Florida. "But if that's your choice, then you better get it."