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Shopping for a Long-Term-Care Policy

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Extended life spans, coupled with rising health-care costs, are prompting more people to consider buying long-term-care insurance. Yes, policies remain confusing and expensive. But such coverage -- which is still looked upon as "nursing-home insurance" by many people -- actually can help people remain in their homes in later life.

The hard part, of course, is finding the right policy. Dozens of insurers offer LTC coverage. The policies themselves typically require decisions about levels of care, the length of coverage, the benefit per day of care, waiting periods (before benefits kick in), and inflation protection.

All this has to be balanced with the ability to pay the premiums, before and after retirement. A person age 55 buying coverage will pay \$1,075 a year, on average, according to the American Association for Long-Term Care Insurance; a person age 65 will pay \$1,923. Couples buying coverage together often can lower those costs (by as much as a third, in some instances). But shoppers also can see premiums double, or even triple, based on what may seem like small differences in benefits.

"These are complicated policies," says Sandy Praeger, president of the National Association of Insurance Commissioners, or NAIC.

START SHOPPING HERE

A good place to start shopping is your office. Policies offered by an employer may come with lower premiums, cover family members or offer features not available in individual policies.

If you live in California, Connecticut, Indiana or New York, your state has a "partnership program" offering LTC insurance in conjunction with Medicaid. These policies don't offer the flexibility available when buying your own policy, but they allow holders to protect their finances and still be eligible for Medicaid.

If striking out on your own, the first step should be to look for an experienced, licensed agent who sells policies from a variety of companies and has a clean track record that can be checked with state insurance regulators. LTC Financial Partners (lctfp.com) and the American Association for Long-Term Care Insurance (aaltci.org) have directories of sellers.

Don't automatically turn to the company that has done a good job insuring your car. "There are some really good insurance companies with strong brands in other areas who, when it comes to long-term-care insurance, are not so good," says Joseph Celano of INTRX HealthCare, an LTC insurance consultant in New Orleans.

CHECK FOR COMPLAINTS

Check with your state insurance regulator for a company's "complaint ratio" on LTC coverage, which tells you the number of reported problems in comparison to the number of policies the company backs. Also, regulators will provide a history of premium increases. (Yes, insurers can increase premiums on "classes" or "groups" of policyholders, if not individual policies.)

An insurer's financial strength is a crucial part of the equation. It's more than a question of whether a company will be around in 20 years. A firm facing money problems may also be more likely to raise premiums or balk at paying disputed bills. As such, stick with companies that carry an "A" rating or better from the major insurance ratings companies, such as A.M. Best, Moody's and Standard & Poor's.

One decision is generally easy: Stick to those policies that are "tax qualified," which allow you to deduct some or all of the premiums, and where the benefits you'll receive won't be treated as income.

Among the most challenging questions is the amount of coverage. Start by identifying costs for home care, assisted living or nursing facilities in the area

where you plan to retire. MetLife's Mature Market Institute publishes reports annually about such costs across the country. At www.metlife.com, first look for the institute under "Employers," and then click on "Studies."

INFLATION PROTECTION

But just knowing how much care costs today won't help if the coverage isn't needed for another 20 years. Policies offer different kinds of inflation protection, such as "compound" in which the coverage goes up by a set percentage every year, or "simple" in which the coverage goes up by a set dollar amount. The problem with the set dollar amount is that, over a period of many years, it may not keep pace with inflation.

"The rule of thumb is that up to age 65, you should have 5% compound protection and around 65 you can be satisfied with 5% simple inflation," says Mr. Celano at INTRX. For those buying a policy in their 70s or older, consider a policy that allows the purchase of additional coverage periodically, such as every few years.

Then there's the question of how long the coverage should last once it kicks in. "A policy that covers you for two years in a nursing home might be enough for most people," says NAIC's Ms. Praeger. "But if there is a family history of Alzheimer's or another chronic condition...you might want a policy that covers you for an unlimited period."

Most people opt for a policy that pays for home care as well as care in a nursing home or assisted-living facility. If your finances won't allow for all of that, don't skimp on the nursing-home coverage. "You want to insure against the catastrophic risk, and that's the cost of going into a facility," says Mr. Celano.

The NAIC offers a free, thorough guide with extensive worksheets for comparing policies. It's available at naic.org/consumer_home.htm.