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## **Insurance to Protect Yourself for the Road Ahead**

Long-term-care insurance companies are offering stripped-down policies with big cost savings.

By Kimberly Lankford  
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Harry Thalhimer, 54, of Richmond had a big surprise when he recently searched for long-term-care insurance. "The policies were 30% to 40% cheaper than they were four years ago," he says.

Well, sort of. Four years ago, most policies on the market were fully loaded -- lifetime coverage, high daily benefits, short deductible periods and 5% compound inflation protection. Annual premiums could run \$5,000 a year for a man of Thalhimer's age.

You can still buy those fancy policies and pay dearly for the privilege. But Harry and his wife, Marcia, also 54, have opted to forgo many of the bells and whistles. They bought a policy that costs each spouse \$2,111 a year. The two share the policy, which offers a total of six years of coverage. The insurance provides \$7,500 in monthly benefits that rise every year with the consumer price index. "It was the right amount of coverage at the right cost," Thalhimer says.

If you haven't shopped for long-term-care insurance for a while, it's time to take another look. The major insurers are now offering slimmed-down versions of their standard policies. They're targeting baby-boomers seeking to protect their retirement savings from potentially huge long-term-care costs -- a private room in a nursing home averages \$77,000 a year -- but who don't want to pay big premiums for expansive coverage they may never use.

"It's better to have something than nothing," says Jesse Slome, executive director of the American Association for Long-Term Care Insurance, which represents insurers and agents.

Rather than pushing lifetime benefits, insurers are touting benefit periods of three years, which is the average length of a nursing-home stay. Shared-care policies, like the one the

Thalhimers have, cost less than buying two separate policies. And annually adjusted inflation protection tied to the CPI is cheaper than the 5% hike because the CPI has only risen 2% to 4% a year for several years. "Companies have been trying to strip things out of their policies to address the sticker-shock issue," says Dennis O'Brien, senior vice-president of New York Life.

Note, there are trade-offs when you go with the leaner models. If your family has a history of Alzheimer's disease, for example, you may need more years of benefits.

### **Innovations in Cutting Costs**

The Thalhimers bought a John Hancock Leading Edge policy, which costs about 30% less than the company's standard policy. All Leading Edge policies have a 100-day waiting period before benefits kick in. And buyers can't buy lifetime benefits. The benefit-period choices are three years, five years, and five years with an additional \$1 million in coverage if you still need benefits after those five years.

John Hancock is also one of several companies that offers a shared-benefit policy, which could provide several years of coverage to each spouse or a lot of care to one. "The odds of both of you needing care are not that great," says Thalhimer.

But John Hancock and other insurers have reaped the biggest cost savings by changing the way they increase the value of the daily benefit to keep up with inflation. Benefits in the stripped-down policies rise with the CPI. Be aware that nursing-home costs usually increase at a faster pace than overall consumer prices. By the time you need care, you could face a shortfall in coverage. However, this protection could be enough if you opt for home care, which has risen about 2% a year.

With John Hancock's Leading Edge, you get the inflation protection upfront and the premiums stay the same. Other insurers allow policyholders to start off with lower premiums, but they have to pay extra every year or so to increase their benefits to keep up with inflation. Although a policyholder does not have to undergo medical underwriting again, in most cases the cost of the extra protection is based on the buyer's age when the new coverage is purchased. That means the premiums are boosted an extra notch for your age as well as by the increase in the CPI.

To reduce a buyer's cost, New York Life offers a policy that lets you buy additional CPI-based protection that is based on your age when you first bought the policy. The premium will rise only by the size of the CPI increases since you bought the policy.

Deciding whether to buy the inflation protection at the start or later on will take some guesswork. New York Life's new policy with the CPI-protection buy-in starts out costing about half as much as its standard policy with a 5% compound inflation hike. If the policyholder buys extra coverage regularly to keep up with inflation, the premium could eventually become higher than that of the standard policy, depending on how much the CPI rises over time.

In a new twist, Genworth recently introduced the Cornerstone policy, which costs up to 50% less than the company's standard policy. Instead of calculating coverage by the daily benefit, you buy a pool of money, from \$100,000 to \$1 million. But the policy requires you to self-insure part of the cost, by paying 20% of the daily cost of care until you exhaust the pool. You need to keep this calculation in mind when deciding how much coverage to get.

Cornerstone won't pay room and board for assisted living but will cover only custodial services. "As you see the development of assisted-living facilities, some of them are becoming more resortlike," says Buck Stinson, president of Genworth Financial LTC. This is not a good option if you might want to choose assisted living. But if all you'll want is care in your home or a nursing home, this could be a good deal.

Meanwhile, MetLife's LTC LifeStage Advantage lets younger buyers start with a small benefit and then gives them up to age 65 to double their coverage without a medical exam. "It gives people a comfort level," says Jodi Anatole, vice-president of MetLife Long-Term Care. "They don't have to think about buying all their coverage at once." The cost of the extra coverage is based on your older age, so it's cheaper to buy more coverage when you're younger.

### **Employers and States Help Out**

You might also cut costs by buying coverage at work. Nearly 10,000 employer groups now offer a long-term-care benefit, according to the American Association for Long-Term Care Insurance. The policies tend to have simplified underwriting -- asking a handful of medical questions -- and a group discount of 5% to 10%, says Mike Ashley, a broker with Senior Benefits Consultants, in Prairie Village, Kan. You can keep the coverage when you leave the job.

Ronald Shink, co-owner of a technology sales and consulting business in Yarmouth, Maine, recently chose to offer Genworth's Cornerstone policy to his employees. "It was sort of a no-brainer to make this available and extend our employee benefits," he says. The company isn't paying the premiums, but employees can get a 5% discount.

Shink and his wife, Kathy, both 53, were the first to sign up. They don't mind self-insuring part of the potential long-term-care expenses. "We're willing to take a certain amount of risk and hedge our bets," he says. "We look at it as wealth preservation -- the cost of preserving what you have."

New state "partnership" programs may also provide new incentives for people to buy coverage. In all states, Medicaid will pay the nursing-home tab once an individual depletes significant assets. In states with partnership programs, individuals can buy policies from selected insurers and protect additional assets if the cost of care exceeds the policy's total payout. Say you buy a partnership policy that provides \$200,000 of coverage. If you exhaust your policy benefits but need more care, you can protect \$200,000 of assets and still qualify for Medicaid.

For years, California, Connecticut, Indiana and New York were the only partnership states. In 2005, Congress passed a law to prod more states to introduce similar programs. About 25 states are expected to offer these programs by the end of the year. If you live in a partnership state, find out whether the policy you're considering is partnership-approved. [Note: Mississippi does not yet have a partnership program.]

If you buy one of the new stripped-down policies, should you expect premium increases in the future? Although some smaller players have imposed double-digit rate hikes on policyholders, most major companies -- MetLife, New York Life and Northwestern Mutual -- haven't increased premiums for policies they've sold in the past.

So it was a big deal when industry leaders Genworth and John Hancock announced that they would raise rates this year. Genworth, the largest long-term-care insurer, is raising rates by 8% to 12% for about 440,000 policyholders. Some of these policies are from the 1970s, and policyholders are paying much less than current buyers.

A few months later, John Hancock announced that it is seeking state approval to raise rates for 275,000 people who bought long-term care policies in the 1990s (and some New York Partnership policies that were issued since then), which is about a quarter of the company's policyholders. Those who have policies that were originally issued by John Hancock should expect a 13% rate increase in premiums at their next policy renewal; those who hold policies that John Hancock acquired from Fortis in 2000 will see an 18% increase.

The premiums are increasing at both Genworth and John Hancock because the companies expected more people to drop their policies before collecting benefits. Instead, consumers held on tightly to their policies and didn't want to drop coverage after paying premiums for years, which was a smart move. But it left some of the older long-term-care insurance policies underpriced. "If we would have experienced a 5% lapse rate, we would have been fine," says Genworth's Stinson. "The reality is that it was closer to 1%."

People who buy policies today are much less likely to face rate hikes. Most states have passed laws that make it harder for insurers to raise rates in the future. To find an agent, check out Long Term Care Financial Partners ([www.ltcfp.com](http://www.ltcfp.com); 866-471-4072), which includes brokers throughout the U.S. Also contact the American Association for Long-Term Care Insurance ([www.aaltci.org](http://www.aaltci.org); 818-597-3227).