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COROMANDEL WEALTH MANAGEMENT

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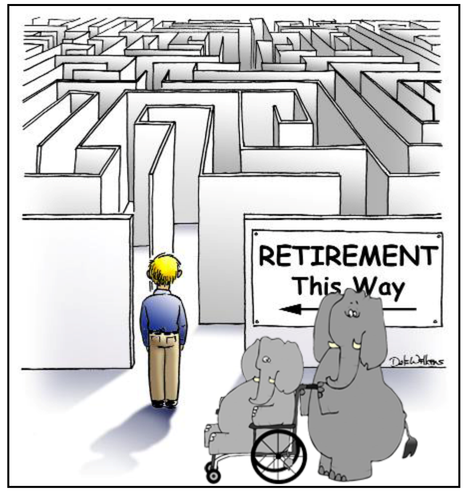
Long Term Care: Paying for "The Elephant"

Navigating the Retirement Maze



In last month's column, I discussed the cost of long term care (LTC) ("the elephant in the room"), and examined traditional long term care insurance (LTCI). This month, we'll look at other options for paying for LTC, the likelihood of needing LTC for extended periods, and how to make long term care more affordable.

Variation on the LTCI Theme

Rapidly rising premiums coupled with the possibility that LTC might never be needed deter many people from purchasing LTCI. To alleviate these concerns, the insurance industry has come up with an alternative product. Known as "hybrid LTCI," it combines a whole life insurance policy with an LTC living benefits rider. A one-time, up-front payment provides the policy holder with a maximum lifetime insurance benefit from which LTC payments can be drawn. If reimbursements are below a certain level, a death benefit is paid to the estate. Policyholders may also have the option of withdrawing funds if at some future date they decide that the coverage won't be needed.

A fixed price combined with a residual payment if the policy is minimally used makes hybrid LTCs an attractive option. However, keep in mind that the insurance industry doesn't give anything away for free. Studies have shown that better returns can typically be achieved by investing what you would pay for a premium in a low-fee balanced mutual fund, and using that as your LTC self-insurance pool. However, that implies having the discipline to set aside the funds early on, not needing LTC at an early age, and tolerating stock market volatility. If that's too much risk for you to handle, then a hybrid LTC policy is a good alternative.

The Numbers Behind the "70%"

While 70% of people above age 65 will likely require some form of LTC during the remainder of their lives, that figure isn't indicative of the likelihood of a long nursing home stay. Here's some actuarial data on LTC for people age 65 and older:

- Only about 10% of men and 25% of women spend over a year in a nursing home.
- One-third of all women and two-thirds of all men will never spend a day in a nursing home.
- More than 85% of long term care is received outside of nursing homes. (Home care and assisted care communities tend to cost less than nursing homes.)

Though the odds of a prolonged stay in a nursing home may be low, that's little consolation to those who end up requiring it. Examine your family's health history as an indication of your future need for LTC.

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Increase Your "Deductible"

The problem with escalating LTCI premiums is that they can eventually make the payments so high that many policyholders drop coverage. However, keep in mind that you should only insure against losses you can't afford to cover yourself. Thus, when considering LTCI, figure what you can afford to pay from your retirement assets, and how much insurance coverage you'll need for expenses beyond that.

There are a number of ways to keep LTCI premiums down. First, shop around for the best policy that meets your needs. It should allow for payments for home care, and not be overly restrictive on payment triggers. Second, based on how much you can afford to pay on your own, increase your insurance "deductibles." Do this by:

- Decreasing the dollars per day covered.
- Shortening the length of the maximum benefit period.
- Increasing the waiting period until LTC kicks in.

Also consider receiving LTC in geographies where the costs are lower. You should get your financial planner or insurance agent to run the numbers on possible scenarios before deciding upon the appropriate level of coverage. Make sure to factor in inflation, as nursing home costs have been increasing 3 to 5 percent annually.

Other Options

Finally, a few more ways to help you finance your LTC needs:

- Set up a deferred annuity that will start payments around age 80.
- Use tax-free withdrawals from a non-IRA annuity to pay premiums.
- Fund a tax-deductible Health Savings Account (HSA) if you qualify for one.
- Set aside some IRA assets for LTC, and exclude them from your "living expenses during retirement" calculations.

Long term care is both a complex and necessary expense to consider. Dealing with the "elephant" now will spare you and your family considerable angst later on.

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