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Don't Grow Old Without It

By KELLY GREENE

Long-term-care insurance: It can make the difference between living out your life the way you want and becoming a burden to your family or a ward of the state.

But it is becoming significantly more expensive, more complicated and harder to get with each passing year.

Average premiums on new policies—which help pay for nursing-home, assisted-living and home care—have risen some 6% to 17% in the past year alone, according to the American Association for Long-Term Care Insurance, a trade group. Some insurers have even doubled their premiums on existing policies. The increases come as the industry grapples with low interest rates and policyholders who are living a lot longer than the actuaries said they would.

At the same time, big companies like Prudential Financial and MetLife have stopped selling new policies in the individual market, continuing a trend that began several years ago. Ten of the top 20 writers of individual coverage five years ago have announced their exit, according to Limra International, an industry-funded research firm.

Dominic Bugatto

Ken Kacenga, a 65-year-old doctor in Sierra Vista, Ariz., who plans to retire later this year, got hit with a 23% premium increase recently on the long-term-care insurance he and his wife bought several years ago. The couple struggled with whether to drop the coverage, he says, before finally deciding to keep it for another year while shopping around for other options.

"My fear is...it could become unaffordable as I get into the fixed-income stage of my life," Dr. Kacenga says.

Costs vary widely, even for coverage that is basically identical, according to a March study by the long-term-care insurance group. For example, a $150 daily benefit, lasting three years for a married couple aged 65 in "standard" health, ranges in price from $3,815 a year to $7,129.

That means you could pay nearly twice as much for the same benefits as someone insured by a different carrier.

Unfortunately for consumers, shopping around is difficult. Policies from different carriers are packaged with a proliferating number of bells and whistles. Life-insurance policies and annuities that include long-term-care benefits are introducing more options, but also making the selection process that much more involved.

So how can you figure out how to get the best deal on long-term-care insurance, whether you are buying it for the first time or being hammered with rate increases?

Here are the essentials.

Learn the three moving parts.

Long-Term Care Costs in 2012

	NATIONAL MEDIAN RATE	INCREASE OVER 2011	FIVE-YEAR ANNUAL GROWTH
Homemaker services (licensed)	$18 HOURLY RATE	0%	1.15%
Home health aide services (licensed)	$19 HOURLY RATE	0%	1.09%
Adult day health care	$61 HOURLY RATE	1.67%	Not available
Assisted-living facility (one bedroom–single occupancy)	$3,300 MONTHLY RATE	1.19%	5.71%
Nursing home (semi-private room)	$200 DAILY RATE	3.63%	4.5%
Nursing home (private room)	$222 DAILY RATE	4.23%	4.28%

Note: Percentage increase represents the compound annual inflation rate for surveys conducted from 2007 to 2012.

Source: Genworth Financial — The Wall Street Journal

Besides your age and health, three factors have the biggest impact on determining your premium: the daily benefit, the length of coverage and the inflation protection you choose.

To get a sense of your future daily costs where you expect to live in retirement, go to Genworth.com/costofcare. Home care can cost much less than more-intensive institutional care. In Wilmington, N.C., for example, a home-health aide working 44 hours a week costs $40,566 a year, compared with $68,438 for a private nursing-home room with round-the-clock coverage.

You need to decide whether you want a policy to cover the bulk of your exposure, or if you would rather rely on other savings to supplement it, says Natalie Karp, a long-term-care insurance broker in Roslyn, N.Y.

"The new reality is, something is better than nothing," she says. "Get what's affordable and sustainable."

You also will need to select a coverage period, typically ranging from two to six years. If you select $250 a day for three years, for example, you would have a "pool" of $273,750 (multiply 250 by 365 and then by three). If you use less than $250 each day, your benefits would typically stretch longer than three years.

A decade ago, the conventional advice was to spring for unlimited lifetime coverage. That option has become so expensive and so unpredictable for insurers that some have dropped it altogether. Instead, for most people, it is best to choose a "short and fat" policy, with fewer years' coverage and a larger daily benefit. Most people buy three years' coverage, as the average nursing-home stay lasts about that long—though that could follow years of other care.

Many experts consider the level of inflation protection you choose to be the most crucial piece of the policy. Since people typically make their first claims around age 80, those buying policies in their 50s and 60s need to make sure their coverage keeps up with rising medical costs. (Home-health-care expenses remained flat this year, compared with 2011, but skilled nursing-care costs increased 4%, according to Genworth Financial.)

The most expensive—and widely recommended—option is 5% compound inflation protection, meaning your benefits increase in value by 5% each year. For example, your pool of $273,750 would be worth $726,343 in 20 years.

Then there are other inflation hedges meant for older buyers priced out of that option, including 3% or 4% compound, 3% or 5% simple (meaning a $100,000 benefit would simply get $3,000 or $5,000 tacked onto it each year), 5% compounded for 20 years only or one linked to the consumer-price index.

Brace yourself for a rate increase.

Insurers can't raise rates on individuals, but they can do so on a defined group of policyholders if they get state approval. Benny Stansbury, a 70-year-old retired engineer in West Monroe, La., dropped a policy he bought from a smaller carrier after being hit with a 105% rate increase.

The lesson: It pays to look for insurers that have strong financial statements and conduct significant business in your state.

The majority of rate increases should be over, now that insurers have factored in the impact of low interest rates on their ability to generate income to pay claims and lengthening life expectancies, says Dawn Helwig, a principal with actuarial firm Milliman in Chicago.

But many insurance brokers tell their clients to expect at least one increase in the 20% range at some point. If that happens, most insurers will allow you to reduce the increases in exchange for trims in benefits.

Insurance agent Nancy Courser helped Rob Deane, a 75-year-old retired Navy surgeon in Grand Rapids, Mich., lower the 77% rate increase on his 70-year-old wife's John Hancock policy to 46% this month by reducing her 10 years of coverage to six years. Rather than seeing premiums rise from $3,619 a year to $6,406, they will go up to $5,269.

Insurers are getting pickier.

Medical underwriting is getting "more conservative," says Buck Stinson, Genworth's president of U.S. insurance products, and rejection levels are growing.

Eleven percent of applicants under age 50 were denied in 2010, up from 7% in 2007; 17% of applicants in their 50s were denied, up from 14%; and 24% of those in their 60s were denied, up from 23%, according to the American Association for Long-Term Care Insurance.

Evidence of chronic conditions often knocks out applicants. People with diagnosed memory loss or arthritis are almost always denied, and insurers are getting tougher on osteoporosis and diabetes, experts say. Ms. Karp has even had clients rejected for being too thin.

Surprisingly, insurers approve survivors of some conditions, if they can show resolution and stability, including cancer, bypass surgery, Crohn's disease, congestive heart failure and forms of hepatitis, Ms. Karp says.

Insurers scrutinize two to three years' worth of medical records, including those kept by specialists, test results and prescription-drug databases. They also may require phone interviews and face-to-face meetings.

Rest up beforehand: Much of what your interviewer asks is designed to screen for cognitive problems. "They ask you to count down from 100 backwards, or you have to name as many fruits as you can," says David Hays, president of Comprehensive Financial Consultants in Bloomington, Ind.

Go for cash and flexibility.

A few insurers offer cash benefits of up to half your monthly allowance and require no receipts. You still have to meet the threshold for needing care that most insurers require: Documentation from your doctor that you require help with at least two "activities of daily living," which include bathing, dressing, eating, getting in and out of bed and to the bathroom, continence, and walking, or that you need care due to cognitive impairment.

With the cash option, the insurer cuts you a check with no other questions asked, which you can use to buy care however you wish, from hiring a family member to moving to a resort. This also can be useful if you plan to retire overseas, says Rona Loshak, Ms. Karp's business partner, though some policies limit how much cash can be used for international expenses.

Make sure your policy includes an "alternate care benefit," which generally features language recognizing that new trends in long-term care are emerging, and coverage could be provided in the future for those not specifically spelled out now. Today's more popular options—home care and assisted living—weren't even covered under many insurance policies issued two decades ago.

Also consider a "shared care" rider that gives you and your spouse access to each other's benefits if you use up your own.

Make the government your partner.

The Long-Term Care Partnership, a federal and state program now available in about 40 states through 30 insurers, lets people preserve some of their assets and still qualify for Medicaid if they have purchased a long-term-care insurance policy.

In most states, it works like this: You buy, say, $250,000 in coverage. If you use it up, you can qualify for Medicaid while protecting up to $250,000 in assets.

The catch: States generally require that you buy an inflation-protection rider and a specific amount of coverage. Depending on your age and health, that may not be affordable. If you were going to buy the coverage level that the state requires anyway, "there's no additional cost to buying a Partnership plan versus one that's not, so why not buy it?" says Mr. Hays.

Exploit tax breaks.

Depending on where you live, tax breaks could ease your payments significantly. New York, for example, offers a 20% income-tax credit for annual premiums. And if your spouse has medical bills steep enough to itemize on your federal tax return, you might reach the threshold to deduct premiums as a medical expense.

If you are a business owner or partner, the firm can deduct specified premium payments for you and your spouse, depending on your age, from your federal taxes owed. And if your business is a "C" corporation, it can deduct the entire bill. In that case, you may want to consider a policy with higher premiums that are due for only 10 years, or until you turn 65.

Consider a hybrid.

The biggest stumbling block for buyers of long-term-care policies: Writing a big check for a product you hope you never have to use. Increasingly, retirees are turning to permanent life-insurance policies and deferred fixed annuities packaged with long-term-care benefits to cover the risk of spending much of their savings on nursing care.

The appeal: You or your heirs get a payout even if you don't use long-term care, though it often is more costly to buy combined coverage than to buy separate policies, experts say.

In most cases, people buy these products with a single lump-sum payment, effectively removing the risk that they could get hit with future premium increases.

There are other tax perks as well: Payouts used for long-term care generally aren't taxable, and funds can be transferred directly from an annuity or life-insurance policy to buy such a "hybrid" without being taxed, either.

But there also is a big unknown: Most hybrid products have been around for only a few years, so very few people selling them have any clients who have tried to collect the benefits yet.

"We have no way of knowing if these policies will self-destruct in the future or not," says Mary Ahearn, a financial planner in Cochise, Ariz. "But they are offering to lock in our risk."

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