

Are Long Term Care Policies a Good Deal? The Money Marathon: June 2012

The cost of long term care is a definite risk. The median nationwide annual cost of a nursing home is currently \$81,030 with a private room and \$73,000 with a semi-private room. The cost for assisted living averages \$39,600 annually. Several of my friends own a long term care policy and believe strongly in them. I have chosen not to own a long term care policy and believe there are valid reasons for me and others not to own this type of policy. Here are the pros and cons of long term care policies.

Generally long term care is covered for people with little or no financial assets by Medicaid (a person can have no more than \$2000 in savings). Wealthy individuals may be able and willing to pay for their care out of their savings without running out of money. Long term care is really for consumers with mid-level savings - basically most people. Two experts gave the pro and cons in a recent (*Wall Street Journal* Article "Should You Purchase Long-Term-Care Insurance?" May 14, 2012). Following are some of their arguments for and against.

Pro Long Term Care Policies:

Some statistics show that 70% of people 65 and older will need long term care. Many of this user group will use it for 90 days or less and the typical policy has a 90 day deductible. According to Mark Meiners quoting the American Association of Long Term Care Insurance, a typical couple buying a shared policy, providing immediate benefits worth \$328,500 at age 55, pays an annual premium averaging \$2700. By age 80 those joint benefits with inflation have grown to \$708,000. In theory a person could invest \$3500 per year (average annual premium) and might have enough to cover their needs. But if the need comes sooner rather than later, like after owning the policy for only a year, the benefit would clearly greatly exceed the paid in amount. It should be noted that there are newer types of partnership policies that allow people to qualify for Medicaid without depleting all their assets. As an example, a person could protect \$100,000 or more with a plan that allowed a person to deplete their savings only down to that predetermined level by paying an amount of benefits equal to that protected saving level before Medicaid began paying.

Con Long Term Care Policies:

Prescott Cole - writing the argument against long term policies says that when a person adds up the cost, benefits and risks, that long term care policies are not advantageous. According to his statistics, nearly 70% of people who go to nursing homes will be discharged within 90 days and that after two years only 6% of those admitted will still be there. Out of 40 million seniors in America today only 3.7% are in nursing homes. Cole's comparison regarding the high cost of long term care is that a long term care

policy with \$500,000 benefits may cost \$3500 per year. The annual insurance premium to cover a \$500,000 house is only about \$800. According to him, this shows that long term care cost/ benefit is out of whack, so to speak. Cole says the poor don't need the coverage, nor do the rich. For mid wealth individuals, the decision is less clear. If a person pays \$3500 for average coverage, the typical policy only pays \$150 per day even though the cost per day is \$250 so there is still a pull on savings, just not as much. Alternately, if a person saved \$3500 per year, they could have accumulated \$70,000 (not counting interest) and probably \$115,000 with interest after 20 years which would pay for an extended stay in a nursing home. If a person has an extended stay of more than several years, they, of course, are better off with a policy. But because of the high cost and low probability of needing the benefits that would pay more than the cost, for most consumers, Cole believes a long term care policy is a losing bet.

There have also been articles that I have seen that have indicated that some policy premiums have increased dramatically after a person has purchased the policy, meaning a person may not know what their ultimate cost of a policy will be.

Conclusion:

This is a personal choice based on circumstances described above and risk tolerance. Nursing Home costs are very real risks and even though the probability of an extended stay is small, most people either need to buy the coverage or start saving early themselves for this contingency. I personally have chosen the later.

Remember every investor's situation is unique and it is important to review your specific situation with a financial professional.

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