

Retirement Weekly

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News in Brief

Requiring state and local governments to put all workers in the Social Security system could reduce the projected Social Security deficit 11%, according to the GAO. (P. 8)

State of Affairs

Employees are nearly unanimous in their support of being automatically enrolled in their companies' 401(k) plans, according to a new study. (P. 9)

HealthWatch

The Kaiser Family Foundation issued a report that details premiums charged by 1,824 stand-alone Medicare drug plans that will be offered in 2008. (P. 10)

Investments

It can happen before you realize. Accrued interest puts you over the \$100,000 FDIC deposit insurance limit at your bank. (P. 11)

Contact us

Please send any and all comments, criticism and compliments to Robert Powell at rpowell@marketwatch.com. Write also if you have questions about money or want a money makeover.

November 9, 2007 (Vol. 5, No. 45)

LTC: Costs, coverage, and claims

Third in a series

by Mark B. Leeds and Bruce W. Fraser

Insurance coverage for autos, homes, and other assets is rarely questioned, but long-term-care (LTC) insurance is an entirely different matter. No doubt, individuals carrying property and casualty insurance policies do not mind if they never had an auto accident or a fire or flood in the home – the peace of mind was worth it. But, an LTC insurance policy obtained by paying costly premiums is another story, because a person may never use or need the coverage.

There are many misconceptions, about choices, comparative costs, coverage, claims and other considerations which influence decisions.

At one extreme, author and expert Phyllis Shelton, president of Long-Term Care Consultants, is a very knowledgeable advocate. She provides a wealth of information for consumers – but Shelton is also in the business of training insurance and other financial professionals — and has ties to insurance organizations.

In contrast, financial columnist Eric Tyson, writing in the Arizona Business Gazette earlier this year questioned the sense of simply paying premiums. He said, you could spend \$100,000 over many years for a policy, but if you stay healthy through your senior years, you realize (after the fact) “you could have by-passed long-term-care insurance.”

Alternatives when care is needed include care by family members, deploying retirement assets, eventually relying on state Medicaid coverage for nursing-home care, and self-funding. One important, and ironic consideration: according to the Kaiser Family Foundation, the average stay (before dying) in a nursing home is just a few years, but, comparatively, home health care and other venues which are less expensive, extend over longer periods. Then again, as Shelton points out, if one does not have family or friends willing and able to provide custodial care, one's options are quite slim. Bottom line: a person never knows about one's future health and capabilities, or life span.

Funding costs

Funding essentially depends on one's resources and the alternatives available, and the type of coverage sought. LTC insurance policies offer cash plans, reimbursement plans, and indemnity plans. Opting for a typical private nursing home care benefit worth \$5,000



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per month for a five-year stay (period) would involve annual premiums for married persons of about \$2,500, starting at around age 50. Excluding premium- and cost-of-care increases, after 25 years the premiums paid would amount to \$62,500; the accumulated benefit available to cover five years of nursing home costs would be \$300,000.

Accordingly, how may \$62,500 be available for \$300,000 worth of coverage, given up to 25 years to fund that sum? Bear in mind that if custodial care is needed well before age 75 in this case, the numbers may change substantially. However, staying with the example:

1. Other retirement cost-of-living and indulgency needs aside, \$62,500 should not be an insurmountable sum to accumulate, given many years.
2. If a person, starting at age 50, put aside \$2,500 a year just for future care and no other purpose, at a simple interest rate of 5% annually, after 25 years the fund would exceed \$62,500; at compound interest rates the differential would be even more favorable.
3. Annuities are another alternative means to fund long-term care. Moreover, according to ElderLawAnswers (<http://www.elderlawanswers.com>), an "immediate annuity" is especially useful as a Medicaid financial planning tool for persons with assets in excess of Medicaid limits. There are certain requirements that must meet the terms of the Deficit Reduction Act of 2005, to avoid asset transfer penalties, and these vary from state to state – so it is advisable to consult a qualified elder law attorney. There also is a specialized impaired-health annuity offered by some insurance carriers that may possibly fit LTC expenses to a tee.
4. Reverse mortgages enable older persons with equity tied to a home to generate income to pay for day-to-day expenses, including long-term care. There are stipulations governing ownership, age and residential requirements.
5. Another alternative makes use of a life settlement, whereupon a qualified policy is sold by a senior or someone in very poor health to a third party provider to generate a lump sum to cover LTC costs and other expenses. (See Part 2 of the series for more information.)
6. Younger individuals can buy whole-life policies starting at an earlier age, to build up cash values or provide collateral for loans to be used for LTC costs.
7. Mortgage refinancing can lower expenses and generate immediate cash. As a general rule, explains NewRetirement.com, if current interest rates are at least 0.5 percentage points lower than the extant mortgage rate, refinancing is a good option.

The LTC claims process, which varies from carrier to carrier, is relatively lengthy and complicated process for people accustomed to filing claims for auto or home damages, although there are some parallels.

Double-edged sword

The National Institute on Aging estimates the average American lifespan is nearing 80 years, primarily due to medical advances. On the one hand that suggests there will be additional years to produce income, if coupled with economic growth. On the other, it

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also means that there probably will be a greater need for long-term care, simply because of the increase in years.

Compounding matters, though increasingly familiar with the phrase “long-term-care,” the great majority of Americans, including seniors, do not sufficiently understand what is involved.

Care is needed for the daily activities of life – cooking, dressing, getting about, etc. A sudden injury or chronic illness or a gradual cognitive or physical decline can trigger the need for custodial services, whereby the patient, not the condition, requires assistance. Precluded from service would be a serious disease requiring professional care, such as cancer; included for custodial care would be a person in the latter stages of Alzheimer’s Disease or Amyotrophic Lateral Sclerosis.

Note that Medicare does not cover long-term-care, Medicaid is for low-income, asset-poor individuals, and disability insurance makes up for lost income due to illness, but not for custodial care. Conventional health insurance is for doctor visits, hospital care, laboratory tests, prescriptions and the like – but does not cover daily-living activities. Also of note, for planning purposes, the great majority of custodial care cases are home health care, in assisted living facilities, adult day-care centers, and through health-provider agencies – all of which are considerably less costly than nursing care.

Adult day-care centers are a particularly attractive and growing option. Dr. Sandra Timmermann, Director of the MetLife Mature Market Institute, said that such centers’ daily rates are much lower than home health-care rates, due to favorable hourly differentials.

Care expert, insurance advocate, and syndicated financial columnist Terry Savage, reporting earlier this year in the Chicago Sun-Times, mentioned another, but expensive, alternative that combines life insurance with long-term care insurance, offered by a few carriers. At the other end of the scale, facilities-only policies are comparatively economical. A spokesperson for The Center for Long-Term Care Reform, Inc., referred to that as “the bare bones, best-value policy for the ‘premium-conscious.’” In addition, there continues to be a gradual increase in employer-sponsored group LTC plans, for pre-retirees.

Enter politics

It has not escaped notice that long-term care services have been rising at nearly 6% a

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Retirement Weekly Tip

When cost is not a critical factor, keep in mind that the less expensive care options do not compare quality-wise with private nursing home long-term care.

LTC claims among group policyholders

For long-term care trauma, cancer, stroke and neurological disease are among the top five reasons people below age 65 file group long-term care (LTC) insurance claims, according to an Unum study of LTC claims. Other findings: About 72% of all claimants under age 65 have received or are receiving care at home, while 24% percent have received nursing home care. **RW**

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year. The subject is of growing concern to federal and state governments; additional relief for consumers is probably going to be on the way soon – although funding that through other than higher or more taxes is very unlikely. Lobbyists for the insurance industry at the state level are particularly strong, and thrusts on the federal level continue – chiefly for tax advantages, efforts to stifle the ‘reverse insurance’ life settlement industry, enhancing awareness and promotional concerns. As mentioned in Part 2 of this series there are state partnership programs that lower care costs; tax deductions for qualifying premiums and certain expenses; benefits are not taxable.

A bipartisan bill to establish long-term care trust accounts has been in Senate Committee; its features include tax credits and tax-free interest provisions. A symbolic gesture was made by the House of Representatives, via a resolution supporting ‘Long-Term Care Awareness Week.’ More substantively, Congressman Pomeroy, D-N.D., has introduced a measure to make long-term-care coverage a tax-exempt employee benefit. A few states, reported the National Underwriter, have been probing long-term-care practices.

The carriers themselves have come up with new and modified wrinkles to broaden the appeal of LTC insurance. One example is non-forfeiture provisions that preserve some benefits even when the insured stops paying premiums -- but there are associated additional expenses and policy-in-force minimums. Another is a contingency plan, also more expensive, that when premium increases become unaffordable, the benefits period or fund is shortened, rather than scrapped. Some policies, not all, require the insured to continue to pay premiums even when he/she is receiving service benefits. Even a ‘Death Do Us Not Part’ option exists: Some or most of the premiums paid can be refunded and made part of the deceased insured’s estate, if criteria such as maximum age and minimum policy-in-force years are met, and a claim is made.

Making claims

The LTC claims process, which varies from carrier to carrier, is relatively lengthy and complicated process for people accustomed to filing claims for auto or home damages, although there are some parallels. Insurers are more demanding and deliberate. They must be satisfied there is a severe cognitive impairment, or that the chronic illness requiring custodial care will require at least 90 days – and they do not simply take the

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Worth reading

- **Are Americans Talking with Their Parents About Independent Living: A 2007 Study Among Boomer Women:** Most boomer women have had conversations with their parents about their ability to live independently as they get older, but less than half have actually begun planning for care their parents might need. Findings from this survey of women age 45+ suggest that significant opportunities exist for educating the public in this area. Learn more at http://www.aarp.org/research/housing-mobility/indliving/boomer_women.html.
- **The Future of Long Term Care in America:** Published by Genworth Financial, this book was written by about a dozen experts in the field. It covers America’s current LTC system and the issues the system will face as the 78 million baby boomers age. Learn more at <http://www.genworth.com>.

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word of a physician that such is the case.

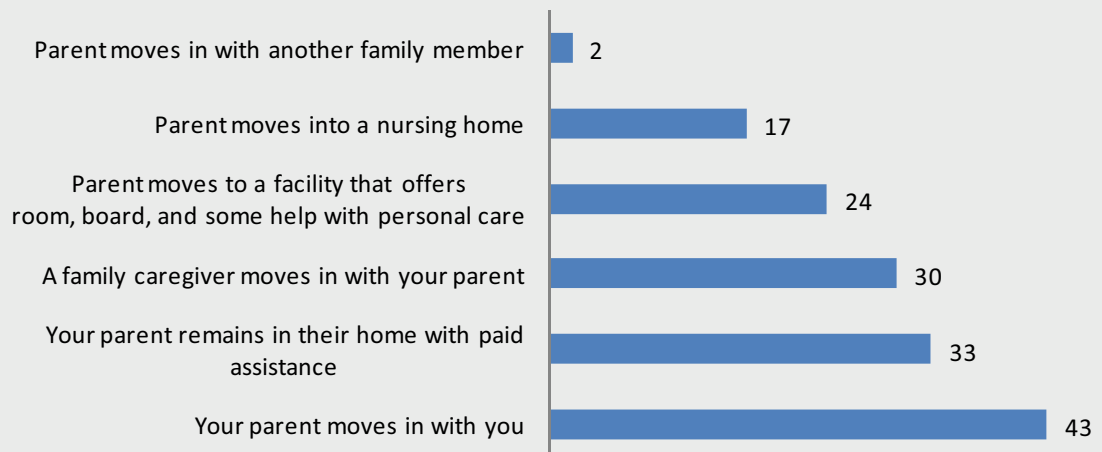
In broad terms, the insurance company's designated care coordinator must be contacted, by the insured or his/her caregiver, to identify the custodial care needs, provide specific information about current and projected health status, fill out necessary forms. Arrangements are made for a nurse affiliated with the insurer to visit and verify matters, particularly impediments to daily living requirements. A formal report is sent to an analyst for review and determination, who in turn is likely to take days and possibly weeks to make a decision. If the insured has memory lapses or the inability to fully articulate the situational problems, and fill out the required forms, the assistance of a third person – family member or close friend or associate – may be advisable. Aaron Skloff, CEO of the Skloff Financial Group, has a helpful Web site devoted to the process of filing a claim. Jonathan Schwartz, an LTC Specialist with the National Financial Network, an agency for the Guardian Life Insurance Co. of America, says a responsible carrier, through its care coordinator, will educate a client about the ins and outs of filing a claim, and walk him or her through the procedure.

The subject of claims and LTC insurance policies is not without controversy and even conspiracy theories. As advocate Phyllis Shelton pointed out in a detailed analysis that refuted the allegations, a good deal of bad press centered on failed attempts to collect benefits. A March 26th edition of The New York Times asserted that one in four LTC insurance claims in California were denied, and suggested other industry abuses. That triggered investigations and studies in Iowa, California, and other states by industry

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Boomer women who have considered the possibility of the following living arrangements

Source: AARP
(in percent)



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and consumer groups, the National Conference of Insurance Legislators and the General Accountability Office. As could well be expected, calls for investigations by Democrat presidential candidates that see a political issue here.

In July, the results of a study by American Health Insurance Plans (AHIP), Washington, D.C., found that nationally only 3% to 4% of LTC claims were denied, and, that just one of every 160,000 LTC policies were rescinded by carriers in 2005. The study, reported in National Underwriter, inferred the results were also representative of California's experience. The survey involved 39 carriers, over 500,000 claims received, based on nearly 6 million policies in force.

There were qualifications in the results. Once an individual submits a claim, later claims by him/her are not counted as new claims. Claims not paid due to pre-existing conditions or waiting or elimination periods are not counted as unpaid. Other claims are turned down because policy terms have not been met, requested services were not covered in a policy, a provider was unlicensed or otherwise not qualified, and, benefit triggers had not been met. AHIP also stated that "80% of policies have never had a rate increase."

The GAO studies, which focused on asset transferring to access Medicaid LTC benefits as an alternative to insurance, and on LTC State Partnerships saving money, were also questioned, Shelton doubted the results of and the basis for the studies: "How many people will volunteer that they transferred assets to become eligible for Medicaid? "How is it that only 200 people accessed Medicaid among the four Partnership states over a 15-year period?"

Questionable press coverage of a report by Millman Consultants and Actuaries about matching claims to protections, indicated that only 7% of all women and 2% of all men who are healthy enough to qualify for LTC insurance policies will need care for more than two years. But, doubts persisted because the media researcher used a single age case's statistics to represent the entire population groups. Persons of other ages and health will likely need longer periods of care.

The insurance industry was cheered by the results of a survey made by The Mellman Group and Public Opinion Strategies (POS) which alleged that 80% of American voters wanted to see long-term health care included in healthcare proposals offered by the presidential candidates, and that 60% are willing to support new taxes or payroll deduction subsidies. The survey did not indicate how many people were canvassed, their backgrounds, or other pertinent details. The Mellman Group itself is a highly-partisan polling and consulting organization with many ties to the Democrat Party; POS is its counterpart with Republicans. The survey was funded by Genworth Financial Inc., a major LTC insurance firm.

In conclusion, LTC is likely to remain an important subject of financial planning, for seniors and younger pre-retirees. Lower premium rates are thought to promote

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Age	Average premium paid for policies in the market in 2005 (\$)
All ages	1,973
55-64	1,877
65-69	2,003
70-74	2,341
75 plus	2,604

Source: Own Your Own Future—http://www.longtermcare.gov/LTC/Main_Site/Planning_LTC/Campaign/Kit/Documents/toolkit.pdf

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increased consumer interest, as would moderation of the cost of care itself. Reflecting these, MetLife has started to offer an LTC product aimed at individual baby boomers and to groups; its features include initial low levels of coverage and eased proof of insurability requirements. That and other new and emerging LTC insurance products may convince more individuals to strongly consider LTC insurance coverage, and would boost a market that has not enjoyed vigorous growth rates.

For these various reasons, it is apparent that a multi-faceted campaign to promote long-term care insurance has been underway of late. A recent article in Registered Representative, (<http://www.registeredrep.com>) described efforts by government officials, the life insurance industry, and financial advisers and other experts. Bluntly, there is political hay and a great deal of money to be made. The themes include planning for post-retirement asset protection, and, that premium costs have relatively little impact on portfolios. Jesse Slome, Executive Director of the American Association for Long-Term Care Insurance, says that only 8 million Americans currently have LTC protection. Many agree that individuals, especially with tens of millions of baby boomers now entering the retirement universe, are aware of it, but so far they haven't done all that much to purchase LTC insurance.

As for the alternative of passing on the purchase of policies, as one observer put it: "You don't need long-term care insurance; just don't get sick or poor." **RW**

About the authors: Mark Leeds, MBA, MBD and former editor of a planning newsletter, writes about financial, investment, political, and environmental topics; he appears as a panelist on the Families in Transition cable television program, in New York. Bruce Fraser, a financial writer in New York, has contributed to many publications and was a commissioning editor for "Sixty Things to do When You Turn Sixty." He is writing a book about millionaires.

Web sites of the Week

AARP has expanded the Guide to Caregiving section of its Web site. That section now features information about planning ahead, providing care at home, and information resources for caregivers. Learn more at <http://www.aarp.org/families/caregiving/>.

Also, check out the National Clearinghouse for Long Term Care Information, an arm of the U.S. Department of Health and Human Ser-



vices. That site has a discussion about LTC Awareness Week, which began this week. In addition, the site features a Long-Term Planning Kit. That booklet outlines planning options, a basic description of long-term care insurance, and resources for more information. It addition, the bookley contains a comprehensive worksheet that readers can use to compare long-term care insurance policies. Learn more at <http://www.longtermcare.gov>. **RW**

