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## New Jersey long-term care costs are high, so plan

### IT'S YOUR BUSINESS

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**Q: Having lived and worked in New Jersey for over 30 years, my husband and I have built a healthy retirement nest egg. Our concern is one or both of us will ultimately need long-term care that could wipe out our savings. What are the issues regarding long-term care in New Jersey?**

The problem: the cost of long-term health care. About half the people reaching the age of 65 are expected to enter a nursing home at least once in their lifetime. A 55-year-old New Jersey resident today is expected to pay over \$300,000 for one year of nursing home care when he or she is likely to need it 25 years from now at the age of 80. Based on the average nursing home stay, total costs are expected to reach \$1.3 million per person — easily wiping out a lifetime of savings for many families. New Jersey's long-term care costs are among the highest in the country.

The solution: long-term care insurance. Just a quick background on long-term care (LTC) and long-term care insurance. Let's start with what conditions would fall into the category of LTC: a prolonged physical illness, a disability, or a cognitive impairment, such as Alzheimer's disease. The need for LTC is generally driven by the inability to perform one or more of the six activities of daily living: bathing, continence, dressing, eating, going to the toilet and transferring (getting out of bed). LTC insurance is designed to cover the expenses of long-term care.

Before we dig into LTC insurance policies, let's dispel two common myths about publicly provided LTC.

Myth No. 1: Medicare covers LTC costs. Unfortunately, Medicare covers very limited circumstances in facilities of Medicare's choice for a mere 100 days and may require the patient to pay a significant amount of coinsurance.

Myth No. 2: Medicaid covers LTC costs. Unfortunately, Medicaid covers long-term care in locations of Medicaid's choice for those who meet Medicaid's stringent financial requirements. Eligibility for Medicaid in New Jersey requires proof that the patient receives a very modest income and has insignificant assets beyond a limited amount of equity in the home. To avoid abuse, Medicaid eligibility includes a detailed review of a couple's combined assets and a five-year "lookback period" for spending down assets. Medicaid is designed to cover impoverished people.

LTC insurance provides financial protection from the exorbitant cost of long-term care. Most policies cover the cost of care in a nursing home, adult day care center, assisted living facility or your own home. Most policies will cover the cost of care from a licensed agency, independent licensed professional or an unlicensed caregiver. While many people would choose to receive care in their home, they shiver at the thought of receiving assistance in bathing or going to the toilet from a son, daughter or even a spouse. During this challenging period in someone's life, LTC insurance gives the patient control of where they will receive care and by whom.

Long-term care insurance policies should be examined based on four key criteria:

1. The elimination period. This defines how long you will pay for your own care before the policy begins paying. The longer the elimination period, the lower the cost of the policy. A 90-day elimination period, which is common, could cut the policy price by 20 percent.
2. Daily benefits. This defines how large a benefit will be paid. For example, a \$300 daily benefit policy will pay approximately \$110,000 per year.
3. Inflation protection. This is a critical part of any policy. In order to keep up with the rising costs of LTC, most policies provide for 5 percent compounding of benefits. Without this compounding, your \$300 daily benefit would not provide a great deal of coverage when you need it in the future.
4. Length of coverage. Coverage lengths range from one year to an entire lifetime. A four-year length of coverage, which is common, could cut the policy price by 40 percent versus the cost of lifetime coverage.

There are advantages provided to couples that purchase LTC insurance from the same company. Many insurers provide shared-care policies, providing a shared pool of benefits. Instead of having two policies that cover a five-year period, you wind up with 10 years of coverage that can be utilized by one or both of you. Lastly, many adult children have purchased LTC insurance for their parents and loved ones once they realize all the benefits it provides.

Action step — establish long-term care insurance. Establishing LTC insurance immediately reduces the financial and psychological burdens that will ultimately plague most families when the need for long-term care arrives. Like most insurance, the earlier you start your policy the lower your cost of the policy.

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