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YOUR MONEY

When a Safety Net Is Yanked Away

By RON LIEBER

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Bob Goldman, a financial planner, with his mother, Sylvia, 94, whose care has been expensive.

November 12, 2010 READERS' COMMENTS

Based on a \$200 daily rate, a four-year stay in an assisted living facility would cost \$292,000 per person. In 20 years, that same four-year stay would cost almost \$775,000 per person if assisted living facility rates continue rising at 5% per year. For a couple presented with the circumstances described above, their costs double to over \$1.5 million. The expenses would be significantly greater if care were needed in a nursing facility instead of an assisted living facility.

Unfortunately, most people will not have almost \$775,000 in assets (\$1.5 million for couples) dedicated to that specific expense. Many people who thought they would simply sell their home to pay for their long term care expenses were sorely disappointed by their sales prices when the real estate market collapsed over the past five years.

Long term care insurance, like automobile or homeowners insurance, shifts the risk for a large expense from you to the insurance company. **While you have a 1 in 340 chance of a major auto accident and a 1 in 1,200 chance of a total loss from a fire, you have a 7 in 10 chance of needing long term care (if you are 65 years of age or older).**

Fortunately, long term insurance gives your powerful leverage: a 50 year-old healthy husband and wife could each spend \$1,000 per year on long term care insurance premiums and each gain almost \$400,000 worth of coverage – that's 400 to 1 leverage. Even if your long term care insurance rates were to double, you premiums would still provide you 200 to 1 leverage on your premiums (\$2,000 per year for \$400,000 worth of coverage). Virtually no investor can generate 400 to 1 leverage. But an insurance company can because they can spread their risks over thousands or people.

Most states provide a tremendous incentive to purchase long term care insurance through their Long Term Care Insurance Partnership Programs. **These programs allow you to purchase Partnership Program certified policies that protect your assets away from Medicaid. Some states allow you to protect an unlimited amount of assets.** Furthermore, the federal government provides tax deductions and most states provide tax deductions or tax credits as incentives to purchase long term care insurance. For example, New York State provides a 20% tax credit.

Long term care insurance can address your concerns about long term care expenses. Accelerated payment methods of your long term care insurance premiums can address your concerns about potential rate increases (which must be approved or denied by your state's insurance commissioner). Many insurance companies offer a "Pay-to-65" option that allows you to pay the premiums until you reach age 65, at which time the policy is paid in full. Many insurance companies offer a "10-Pay" that allows you to pay the premiums over a period of 10 years, at which time the policy is paid in full. Some insurance companies offer a "Lump Sum" option that allows you to pay the premium as one up-front payment, at which time the policy is paid in full.

Purchasing long term care insurance with any of the payments options discussed above allows you to address two concerns simultaneously: the costs associated with the actual long term care expenses and the risks associated with potential long term care insurance rate increases (which must be approved or denied by your state's insurance commissioner).

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