Cutting Through the Confusion

Is shopping for long-term care insurance really all that complicated? Absolutely. Here's what we found, and what you need to know.

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I knew we were in trouble when we started hearing the prices.

In January, my husband and I began shopping for long-term care insurance. The idea was simple enough: Many of the letters we receive at Encore come from readers with questions and concerns about these policies and about living arrangements in later life.

So, we set out in hopes of learning three things: Do we need this product? How complicated is it? And what kind of bang could we get for our buck?

We quickly discovered that readers are confused for good reason. Comparison shopping is all but impossible; policies from different carriers are packaged with different bells and whistles. The four insurance agents we spoke with gave conflicting advice. (One warned us against "underinsuring," another against "overinsuring.") And though my husband and I are in our 30s -- which theoretically gives us an advantage in buying a policy (the younger you are, the lower the cost) -- the annual premiums we were quoted were all over the map. The low was $1,334.33, the high $5,723.55.

It's easy to walk away. That's because the variables -- no matter what your age -- can drive you crazy. Should I plan for six months of care -- or six years? Will home care suffice -- or will I need to move to an assisted-living facility? And how much will long-term care actually cost? Currently, the bill for a year in a nursing home averages $52,000 nationwide, according to the MetLife Mature Market Institute, a research unit of MetLife Inc. But depending on where you live and when you might need care, that figure could vary wildly.

Of course, we also have no idea when or if our home might be hit by lightning and how much those repairs could run -- yet we would never dream of going without a homeowner's policy. There's little question, it seems, that at least considering the need for long-term care and the potential cost should be part of your overall financial thinking.

"People plan for retirement, but they don't ask, 'What happens when I'm no longer able to stay in my house or I need assistance?'" says Charles Mondin, program director for United Seniors Health Council, part of the nonprofit National Council on the Aging in Washington.

If you're ready to start shopping for a policy, don't go into it blind. Here are some things to keep in mind, based on our own experiences in the confusing world of long-term care insurance.

Before you shop for a policy, shop for an agent.

We had no idea where to start, but most books about long-term care insurance advise talking to several agents. So, we called three agents from some of the largest long-term care insurers -- John Hancock Financial Services Inc., Boston; Prudential Financial Inc., Newark, N.J.; and General Electric Capital Assurance Co., a unit of General Electric Co., Fairfield, Conn. We also found an independent agent by filling out an online questionnaire.

If you shop for an agent, expect to spend an hour with each at your initial meeting, maybe more if he or she wants to walk you through many details in the policies.

The downside is you'll probably get conflicting advice, as we did on so-called combination policies. The first agent we talked to said many of his younger clients, rather than sinking their money into long-term care insurance, have bought life-insurance policies with a long-term care rider. That way, you can tap into the policy's cash benefits while you're still alive to pay for long-term care; if you never use the money, it goes to your heirs. Another agent told us that such policies are often overpriced and have less attractive benefits than those you can buy in separate life and long-term care policies.

"People who have seen three or four agents don't know what to do," Mr. Mondin says. "The key advice I would give you is to find someone who specializes in long-term care planning and insurance and work with them."

But how do you find someone you feel comfortable with? The basics: word-of-mouth, recommendations from friends and phone conversations with agents in which you grill them about their education and background. You can get started at www.ahia.net. That's the Web site for the Association of Health Insurance Advisors, a trade group in Falls Church, Va., for agents selling health-oriented insurance products. The site includes an agent directory you can search by ZIP Code.

Comfort aside, it would be nice to think your agent actually understands the intricacies of long-term care insurance. Don't bet on it.

Most agents "don't really know what they're selling," says Phillip Sullivan, who heads an insurance consulting firm in Rabun Gap, Ga., and has been training agents for 15 years. Often, an agent's name will be followed by a series of letters -- designations that signify completion of any of eight nationally recognized training programs (see chart). Trouble is, there's no agreement on which kind of training is most meaningful, says Diane Boyle, managing director of the insurance advisers group in Virginia. "To the consumer, it's so confusing," she says.

Here's an informal way to measure your agent's interest in making sure you know what's what:

The National Association of Insurance Commissioners publishes "A Shopper's Guide to Long-Term Care Insurance," a 45-page booklet with all sorts of handy information. Page two reads: "By state law, insurance companies or agents [anywhere in the U.S.] must give you this guide to help you better understand long-term care insurance and decide which, if any, policy to buy."

Only one of the four agents we met with provided us with the book at our initial meeting.

So, were the others breaking the law? A spokeswoman for the association says no, agents must simply pass it along at some point before you sign a contract. But why wouldn't every agent want you to have that information from the start, when you have the most questions?

Don't play the averages.

Most policies have the same basic features. If you develop a cognitive impairment, including Alzheimer's disease, or no longer can perform two of six "activities of daily living" (see chart), they will pay up to a certain amount for a stay in a nursing home or assisted-living center, or to provide hospice or home care (typically a smaller amount).

Beyond those essentials, the devil is in the details -- the fine print that accompanies each policy.

Here's one decision on which everyone we talked to agrees: The most important thing you're purchasing is the dollars-per-day that will go toward your eventual care. The problem is, nobody knows when you'll actually need care, or how much it will cost at that point.

So, every agent we talked to advised using the "average" $140 cost of care per day in Atlanta, where we live, as our goal. "But how do we know whether 'average' would be enough?" my husband asked after our first meeting with an agent. Thinking back to my visits to some local nursing homes, I had to agree.

In fact, a worksheet in the booklet written by state insurance commissioners recommends that you do your own research, calling two home-health agencies, two nursing homes and two other facilities in your area to find out what they charge. It turns out that the nonprofit, church-affiliated nursing home close to my house costs $155 a day. An additional $15 may not sound like much of a stretch -- except that the agents we talked to already had suggested that we pay part of the $140-a-day cost out of pocket to keep premiums down.

Two nearby assisted-living facilities, one run by Sunrise Assisted Living Inc., a for-profit operator of assisted-living facilities, and the other by Emory University's health-care arm, cost about $130 a day -- not including any extra services, which many residents need. Home-health visits were a bit cheaper, provided you used them just a few days a week. Visiting Nurse Health System, a local nonprofit provider, charges $142 a visit for skilled nursing care. But that doesn't include the additional housekeeping help we might need to keep our home in working order.

Our conclusion: We would need to insure ourselves for at least $140 a day, if not more. It seems the decision you make depends on whether you feel comfortable with "average" care, and with knowing you still might need to dip into your own piggy bank to make up for any shortfall.

A few days later, another variable hit us: What if we retire somewhere else? Since we grew up in North Carolina and have family there, I called a nursing home where my mother makes visits to see how much it costs: a whopping $170 a day. Suddenly, Atlanta looked more attractive. And we subsequently found out that the city is one of the cheaper metro markets in the country when it comes to long-term care.

Remember the twilight zone.

Deciding how many years of care to insure is a tough call, too. Your choices usually range from two years to a lifetime, and agents generally recommend going for the most time you can afford.

You'll hear this statistic at some point during your shopping expedition: The average nursing-home stay is 2 1/2 years, and the average payout is about $130,000, according to the Health Insurance Association of America. But that doesn't take into account the years of home care often tapped before people turn to a nursing home, notes Matthew Perry, an independent agent in Alpharetta, Ga.

He recommends purchasing lifetime coverage if you can swing it, particularly if you haven't hit your mid-50s. That's because long-term care insurance isn't just for the elderly; an auto accident at age 40 could lay you up for months, too. Indeed, 40% of the people receiving long-term care today are younger than 65.

Still, because of its high cost, lifetime coverage could cancel out any saving you achieve by buying a policy at a younger age. David Glass, an Atlanta agent who sells Hancock policies, says many of his clients split the difference, going for coverage of six or 10 years.

Some agents told us about another tool that couples can use to extend their coverage: You can buy a "shared-care" benefit that would let you share care with your spouse, or sometimes even pool benefits among family members. There are three versions: You and your spouse could share a benefit period; you could have separate benefit periods and be able to tap into your spouse's benefit if he or she hasn't used it and you need it; or you each could have your own benefit period, plus a third period that either of you can tap into if you use up your own benefit period.

As you can tell, it's worth getting your agent to open a spreadsheet and calculate how an extra year or two of coverage, for instance, might affect your premium. If you're in your 50s, you might be able to swing lifetime coverage. In your 70s, however, you might be better off going for a shorter plan and larger benefit.

Keep up with the times.

We were easily persuaded that one choice, though costly, is a must-have: automatic inflation protection, generally compounded at 5% a year. The only situation in which you might not buy it is if you're over 75 years old. In that case, you should either pad your daily benefit or buy simple inflation protection, which increases your benefit by 5% of the original benefit level every year (in contrast to compound inflation protection, which increases your benefit by 5% of your new benefit level each year), says Mr. Perry, the independent agent. Take a look at the math: With the compound option, a $140 daily benefit would be worth $371.46 a day in 20 years. With the simple inflation option, it would be worth only $280.

Inflation protection is the hottest topic of conversation on the telephone hot line for Long Term Care Partners, the Portsmouth, N.H., partnership selling long-term care insurance to federal workers, says Christopher Place, customer-service manager. The venture is a partnership between the life-insurance units of John Hancock and MetLife.

"There's an upfront cost to the automatic compound increase," says Mr. Place. "But once you've made that decision, you can rest assured that your benefit is going to be going up steadily each year." With simple inflation protection your benefit rises, too, of course, just not as rapidly. Keep this in mind, since that $52,000 a year for a nursing home is expected to rise to $190,600 by 2030, the American Council of Life Insurers says.

Stretching out the wait could lower the bill (for now).

If you really need some wiggle room, a better place to look is the elimination, or waiting, period, which most agents liken to the deductible on your car or house insurance. Basically, once you qualify for benefits, the longer you wait to start tapping them (with choices typically including zero, seven, 30, 60 or 90 days), the better the break you'll get on your premium.

Of course, you would have to pay any bills in that gap yourself, right? Maybe -- but maybe not. Many health-insurance plans have short-term rehabilitation benefits, one agent pointed out as she encouraged us not to "overinsure." Medicare, the government health program for people 65 and older, provides a brief period of skilled nursing care in some situations after a hospital discharge.

Be careful: With home health care in particular, the elimination period is an area where the language can get sticky. Some insurers include every calendar day in that countdown; others count only days when you get a visit from a care provider. So, for example, if a nurse called on you once a week and you had a 30-day deductible, it would take 30 weeks for your coverage to kick in.

And make sure you understand the laws that regulate long-term care insurance in your state. Two agents told us that Georgia law doesn't allow a waiting period of more than 90 days for nursing-home care, or 60 days for home health care. But when we called the state insurance department, we were told that the maximum wait allowed is 150 days for nursing-home care, or 60 visits, not days, for home health. That's a big difference.

Use add-ons sparingly.

Insurance companies offer all sorts of riders to these plans, most of which would be nice perks. But some may not be worth the expense. And again, if you work with more than one agent, you'll get varying opinions on the subject. After our experience, we decided that the next time around, we would ask for a basic quote, then ask for a second quote with the add-ons that we consider necessary, along with the exact wording in the policy that describes each rider.

After sifting through the many riders that were described to us, we settled on only two that seemed crucial. We've already described one of them -- the compound-inflation option. We would also be willing to pay for a rider that doles out your benefits on a weekly or monthly basis, rather than daily. That way, if you're receiving home health care two or three times a week, and the bill each time exceeds your daily allotment, the total might still come to less than your weekly or monthly benefit. And you're not losing out on a potential payment for the days when you get no outside care.

Group deals have pros and cons.

More and more employers -- 4,700 at last count -- are offering group long-term care coverage as an employee benefit. In contrast to health insurance, most companies don't subsidize their workers' premiums. So, you may or may not get a better deal by buying a policy at work.

The advantages include a more likely chance of securing coverage if you have a health problem already. And if you're single, buying a policy through a group is probably the only way you can get a discount. You may find the shopping experience smoother as well. Some employers, such as the federal government's joint venture, have put together plain-vanilla package policies to simplify the process.

But if you're married, you could lose out on a spousal discount, sometimes as much as 20%. And a group deal could limit your options, too. The joint venture selling coverage to federal workers, for example, reimburses home health care at 75% of the daily maximum benefit for nursing-home care.

Home care is generally less expensive and more eagerly used than facility care, says Paul Forte, the venture's chief executive, "so we don't make quite the same payout in absolute dollars. But on the other hand, we will give more options in how that care is provided."

Whether you're comfortable with a smaller home-care allowance probably depends on your age. It might be a little cheaper today, but who knows what sorts of in-home services could be offered 15 or 20 years from now? We decided we wouldn't be comfortable with a policy that didn't have equivalent payments for home care and facility care. After all, we'd rather stay home if we could.

Consider the tax ins and outs.

Some agents we talked to emphasized that the policies they were recommending were "tax-qualified." But when we pressed them on what that means, the deduction involved turned out to be all but useless. You can deduct a small portion of the premiums for a tax-qualified policy, with the amount rising as you get older, if you itemize your deductions and spend more than 7.5% of your adjusted gross income on medical expenses.

More meaningful is the benefit down the road: You won't be taxed on your policy's payout when you use it.

Tax-qualified policies occasionally backfire, though, because they usually have higher thresholds you have to meet before you qualify to get reimbursed for care. "More and more, I'm recommending to older adults that they buy nonqualified plans, because it's often easier to qualify for benefits," says Mr. Perry, the Alpharetta agent. With tax-qualified policies, for example, federal law requires that you must need "substantial assistance" to do two "activities of daily living" before you can qualify for your policy's benefits. Policies that don't qualify for tax breaks, in contrast, may be more lenient in how you qualify.

Likewise, tax-qualified policies require that the disability be expected to last at least 90 days, but nonqualified policies don't have to require that. And for cognitive impairment to be covered by a tax-qualified policy, you would have to need "substantial supervision" -- but not with a policy that's not tax-qualified.

You're in this for the long haul.

If your personal finances go south and you quit paying the premiums, you lose the policy. You might get a check for some sort of residual value, depending on the state law where you live, but there's no way you'll get anywhere close to a full refund. And if the insurer goes belly up, you could be left with little or no coverage.

Whether you can swing the premiums is ultimately your call, though some states require insurance agents to go through a worksheet with you to decide if long-term care insurance is right for you. (Nobody offered to do this with us, so you may have to ask for such help.) If you expect Social Security to be your only source of retirement income, then you can't afford the premiums. But that's about the only consistent rule we heard.

The insurance companies, at least, are subject to a grading system. Several rating services analyze the financial strength of the insurers, though each one uses a different scale. You can get the ratings from most of the services free online (see chart).

Long-term care insurers are barred by law from raising rates of individual customers; if they run into financial trouble, they can ask state regulators to raise the premiums for an entire group of policyholders.

You could pay off the policy before you retire.

Here's a reason for people younger than age 55 to think about coverage now: Some long-term care insurers offer "limited pay" options through which you can pay off a policy over 10 or 15 years, or pay until you turn 65. After that, you never again have to worry about a possible premium increase, particularly when the first wave of baby boomers starts to rack up long-term care bills.

You can generally expect premiums to be two to three times what they would be for a regular policy, but sometimes you hit on a deal. My husband and I received a quote of $2,569 a year in premiums for a policy we could pay off in 15 years from Allianz Life Insurance Co. of North America, a unit of Allianz AG. That was only $145 more than the $2,424 we would pay for the rest of our lives for the same policy, which includes a $100 daily benefit, 100% match in payments for home care, weekly benefits (instead of daily) and the compound-inflation option.

Our choice

In the end, we decided to wait. We still want to buy coverage by the time we turn 50, and our goal is to snag a basic policy we can afford to pay off while we're still working. But for now, we think there aren't enough choices of products you can pay off over a set period of time.

Two agents warned us that we're making a mistake, because prices will only rise. Maybe they're right. Or maybe, as more limited-pay products are introduced where we live, competition will lower prices -- or at least keep them stable.

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Unscrambling the ABC's

The letters after your insurance agent's name could refer to one of a number of training programs that vary widely in content, time commitment and testing

Letters	What They Stand For	Who Awards Them	Avg. Completion Time
CECA	Certified Elder Caregiver Advisor	American Society of Specialty Counselors	35-45 hours
CLTC	Certified in Long Term Care	Corp. on Long-Term Care	2 classroom days or 4-6 weeks' correspondence
CLTCA	Certified Long Term Care Advisor	Society of Long Term Care Advisors	2 classroom days or 15 hours' correspondence
CSA	Certified Senior Advisor	Society of Certified Senior Advisors	3.5 classroom days or 8-12 weeks' correspondence
CSS	Certified Senior Specialist	Center for Senior Studies	2 weeks - 1 month
LTCGS	Long Term Care Group Specialist	Carequest University	45-plus hours
LTCIS	Long Term Care Insurance Specialist	Center for Senior Studies	2-4 classroom days
LTCP	Long Term Care Insurance Professional	Health Insurance Association of America	2.5 classroom days

*Most rating services provide some basic information at no charge on the Internet and charge a fee for longer analyses. Different services use different rating scales.

Sources: "A Shopper's Guide to Long-Term Care Insurance"; "Planning for Long-Term Care"; Association of Health Insurance Advisors

Getting Started

Selected free or low-cost sources of information about long-term care insurance

• "A Shopper's Guide to Long-Term Care Insurance," published by the National Association of Insurance Commissioners, available free through

• "Planning for Long-Term Care," a book published by the National Council on the Aging's United Seniors Health Council, available for $19.50 at 800-373-4906

• Internet calculator to help you work through the math: www.ltcfeds.com/NASApp/ltc/do/assessing_your_needs/ratecalc

• The Eldercare Locator hotline, which can connect you to state or local area agencies on aging, is reachable Monday through Friday, 9 a.m. to 8 p.m. Eastern time, at 800-677-1116, or check online at www.eldercare.gov

Qualifying for Benefits

Long-term care insurance policies generally pay benefits to care for people who have cognitive impairments or cannot do two of six "activities of daily living," including:

• Bathing

• Continence

• Dressing

• Eating

• Transferring from one location to another

• Using the toilet

Checking Up

Web sites of rating services where you can check on the financial strength of insurance companies*

A.M. Best Co.: www.ambest.com

Fitch Investors Service Inc.: www.fitchibca.com

Moody's Investor Service Inc.: www.moodys.com

Standard & Poor's Insurance Rating Service : www.standardandpoors.com

Weiss Ratings Inc.: www.weissratings.com