

Long-Term Care Insurance Can Help Protect Your Investments

By Andrew Menachem

In retirement there are three major risks to your accumulated investments. First, assets like stocks, or real estate could fall in value if market prices decline. Second, fixed-income assets like CDs or T-bills could lose purchasing power due to inflation. And third, unexpected medical or long-term care expenses could eat into your savings, leaving little or nothing for your heirs.

Building a diversified portfolio of many kinds of assets can help you protect your investments against the first two risks. But to guard against the high costs of nursing home, assisted living or at-home care, you may want to consider a long-term care insurance policy.

That's because a disabling accident like falling and breaking a hip, a chronic medical condition like heart disease or cancer, or the onset of Alzheimer's disease or another dementia may require ongoing care. About 70 percent of people over age 65 require this type of care, according to a 2011 study by the American Association for Long-Term Care Insurance, and the percentage rises at older ages.

At the same time, the cost of long-term care continues to rise in South Florida and across the country. For example, the median cost of a private room in a nursing home is around \$77,745 a year, according to the Genworth 2011 Cost of Care Survey. In the next decade, that cost is projected to increase to \$120,608 for one year of care. While care in the home is less expensive, median annual cost of \$43,472 can still cut into your savings.

Many people believe that Medicaid and Medicare can cover the costs of long-term care. However, these federal programs typically cover doctor's visits, hospital care and other medical services. Medicaid will cover long-term care, but only after your assets have fallen below a certain threshold. That means you would have to keep spending your hard-earned investments on care until little remains in your portfolio.

Long-term care insurance provides protection for your assets, and also takes some of the financial burden off your spouse, children or grandchildren if you should require prolonged care.

A typical long-term policy covers people who require ongoing assistance with their activities of daily living (ADLs), such as bathing, dressing or using the toilet. The cost of a policy typically revolves around three factors:

- **Benefit amount.** This is the maximum payment you would receive from the policy, such as \$100,000, \$500,000 or \$1 million. Since five years of care in a nursing home or memory disorders unit could easily total \$500,000 or more, a larger benefit amount is usually preferable, provided you can afford the premiums.
- **Benefit period.** This is the maximum number of years that the coverage remains in effect. That might be five years, ten years or the rest of your life.

- Elimination period. Like a deductible amount in a life insurance policy, the elimination period specifies how long you would pay the cost of care before the policy kicks in. Typically periods are 30, 60 or 90 days.

Although some policies also require a hospital stay before you could collect benefits, it's best to avoid those plans. That's because some types of long-term care conditions, such as dementia, do not require hospitalization.

In addition, some policies offer riders that protect against inflation. They increase the level of benefits, based on an index factor. Of course, the premiums on these policies are higher as well.

Another option is to purchase a whole life or universal life policy with a "linked-benefit" for long-term care. However, they tend to be more expensive than single-purpose long-term care policies.

In general, long-term-care policies may be most suitable for people between 50 and 75 who have at least \$200,000 to \$250,000 in assets to protect. Like life insurance policies, long-term care coverage becomes more expensive as you get older. The average age for applicants is 57, according to a 2011 report in *Kiplinger's Personal Finance Magazine*. Being in good health is also important, since your policy must be approved by a medical underwriter before it takes effect.

From a tax perspective, your premiums for a long-term care policy may qualify as a deductible medical expense. Also, the benefits you receive from the policy are usually not taxed as income.

If you have built a significant investment portfolio and want to pass those assets on to your heirs, you should consider long-term care insurance as part of your financial strategy in retirement.

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