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Long-Term Care of Your Personal Finances

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Article Highlights

- Covering the costs of long-term care should be part of your financial planning. Insurance is one way to provide for those expenses.
- Long-term care insurance can help you maintain a larger allocation to stocks, which provide better longevity and inflation protection.
- Triggering conditions and their elimination (waiting) period determine when benefits will be paid.

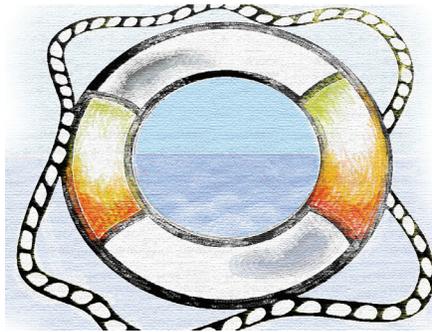
Your odds of needing long-term care—care to help you with the activities of daily living—are seven out of 10.

According to the 2011 handbook of the American Association for Long-Term Care Insurance, 70% people over the age of 65 will require long-term care, either at home or in a facility. And with medical advances keeping people alive but not necessarily healthier longer, the odds may change—and not in your favor.

Don't be lulled into a false sense of security because you have good health insurance or by thinking you can rely on Medicare. Long-term care isn't the same as care during an illness or for an emergency medical condition, so it isn't covered by health insurance or Medicare. Long-term care is defined as assistance with the activities of "daily living": bathing, continence, dressing, eating, toileting and transferring. Most policies today also cover cognitive impairment (such as Alzheimer's disease).

Long-term care can occur either in your own home or in a facility, such as a nursing home or an assisted-living situation. Be sure to read the fine print with respect to care in your own home, as policy coverages may differ. (See the sidebar titled "Read the Fine Print.")

There are three ways to pay for long-term care: By self-insuring (i.e., having no insurance, and paying all of your costs out of pocket); by having some sort of long-term care insurance coverage; and by relying on Medicaid, which requires that you exhaust almost all of your financial resources in order for the government to pay for your care. If your goal



is to stay in your own home as long as possible and to maintain control over your care for as long as possible, consider purchasing some form of long-term care insurance. The more coverage you pay for, the more choices you will have.

The costs of providing long-term care are significant. According to the government-run website LongTermCare.gov, average costs for long-term care in the United States (in 2010) were:

- \$205 per day, or \$6,235 per month, for a semi-private room in a nursing home;
- \$229 per day, or \$6,965 per month, for a private room in a nursing home;
- \$3,293 per month for care in an assisted-living facility (for a one-bedroom unit);
- \$21 per hour for a home-health aide;
- \$19 per hour for homemaker services; and
- \$67 per day for services in an adult day health care center.

The older you are when you purchase coverage, the higher the annual premiums. On the other hand, the younger you are, the more years you will be paying premiums. (For information about long-term-care costs, visit the American Association for Long Term Care Insurance's website at www.aaltci.org.)

If you don't factor the possible need to pay for long-term care, either through insurance or out of pocket, into your financial plans, it could play havoc with your financial stability down the road, and your ability to leave anything behind for your heirs. And how you choose to cover those expenses could have an impact on how you invest your money in retirement.

Read the Fine Print

There are almost limitless numbers of variations with regard to long-term care coverage. Two policies of the same type from different companies could have different levels of coverage, and prices vary as well.

While it's important to understand any kind of insurance policy—or any document you sign, for that matter—it's especially important with long-term-care insurance because it is very difficult, not to mention expensive, to change your coverage once you start receiving benefits. You may want to consider consulting with a lawyer who specializes in elder care when evaluating policies.

Below is a list of some of the areas and issues you may want to go over in greater detail. It is by no means exhaustive, but is meant to serve as a starting point:

Levels of Care

- Will you be covered for skilled nursing care? For personal/custodial care?

Where You Can Receive Care

- Will your care be covered in any licensed facility—nursing home, assisted living, adult day care, other facilities? If there are exclusions, what are they?
- If you are receiving care at home, will you be covered for benefits provided by skilled nurses, home health aides, homemaker services, family members, or other providers?

Benefit Duration and Amounts

- How much will the policy pay per day for care in a nursing home, assisted living facility, or at home?
- Do the benefits increase with inflation?
- What are the limits, if any, for the number of days or visits per year for which benefits will be given?
- What are the dollar limits on the amount the policy will pay during your lifetime? Are there limits for each different kind of care or facility?

Eligibility and Triggers

- What is the waiting period (aka elimination period) for when benefits begin? Does the waiting period differ depending on what kind of care you are getting or where it is administered? Are waiting periods cumulative or consecutive?
- Which trigger(s) will start your benefits? How many activities of daily living do you need help with for benefits to trigger?

Miscellaneous

- Are your premiums deductible as a medical expense? Will your benefits be taxable or income tax-free?
- What happens to your policy if you can no longer afford the premiums?
- If your policy is later acquired by another insurance company, can the terms of the policy be changed?

Should You Buy?

Long-term care insurance is designed to allow you to have more control over your destiny if your health deteriorates. (One way of thinking about it is as “stay in your own home” insurance). It can also be just as important for couples as it is for single people or those without children or family nearby, since it can free up loved ones—a spouse, children, grandchildren, siblings—from having to provide care for you. Relatives may not be up to the challenge of providing long-term care because of their own career and family obligations or geographic location, and there is no guarantee that your spouse will be physically up to the job.

If you're by nature a more cautious person, you'll likely want to be insured for catastrophic expenses. And the costs

of long-term care can certainly fall into that category.

Investment Alternatives

How you choose to provide for the possibility of long-term care will likely affect how you invest, not only for your retirement but also during your retirement. If you're self-insured, you need to have ready access to some of your assets, which you set aside in cash and short-term investments to cover long-term care needs, without having to worry about liquidating assets during unfavorable market conditions. On the other hand, this allocation to short-term investments will limit your flexibility to invest a significant portion of your portfolio in equities.

An advantage of having these potential long-term care costs largely cov-

ered via insurance is that you will have the freedom to keep a larger percentage in stocks in your portfolio, which will provide needed growth potential (i.e., longevity and inflation protection) over the long term.

The time to buy long-term care insurance is well before you need it. Generally, the younger and healthier you are, the less expensive the premiums will be. Also, you are more likely to be insurable. The emergence of a condition such as diabetes or high cholesterol could be seen as a red flag that you are at a higher chance of needing long-term care down the road. Your insurability could be affected, or your coverage could exclude pre-existing conditions. And unlike other forms of insurance, such as fire or theft, which you can buy after an incident (albeit with higher premiums), this would not be the case

How & Where to Buy Long-Term Care Insurance

So let's say you decided you want to buy some form of long-term care insurance. How do you do it?

You may wish to purchase your own insurance policy, or you may prefer to purchase coverage offered through your employer.

On Your Own

Begin by contacting your state insurance department to find out if they have any informational materials for residents wishing to purchase long-term care insurance. Also ask about whether they provide an insurance counseling program and how you can benefit from its services before making your purchase.

Then check with several companies and agents and compare the features and benefits (and costs) of their products. Also compare the financial stability of each company you are considering. A variety of rating agencies have websites where you can learn about the financial strength of each company (e.g., www.ambest.com, www.moody.com and www.WeissRatings.com).

Once you have made your purchase, be sure you look at your policy during the free-look period. In most states, if you change your mind, you have 30 days to cancel and get your money back.

Through Your Employer

With the escalating costs of long-term care insurance,

fewer employers provide it as part of their benefit package. However, some offer it as an add-on that you pay for. The advantage to buying it through your employer is that it is an easy, available solution. It also will have an open enrollment period at the time you join the company when you will be eligible to purchase coverage without any type of a questionnaire or medical exam.

If you would otherwise be uninsurable, or have a pre-existing condition excluded from coverage, this may be your best option. However, you can't assume that the rates are lower than you could get elsewhere, or that the policy is as comprehensive as what you want/need.

Through Your State

Today, many states offer long-term care partnership programs. By purchasing an insurance policy that qualifies as a "partnership policy" (check with your state insurance department), you will receive insurance benefits until your policy is exhausted, at which time the state will enable you to qualify for Medicaid without having to spend down the amount of money you paid over the years on long-term care insurance premiums.

This is a potential win-win arrangement for you and the state. In other words, the state delays or avoids paying you Medicaid benefits and in exchange you are potentially allowed to retain more assets to leave to your heirs.

with long-term care insurance.

When it comes to choosing a policy, you will have to decide what kind of insurance you want—strictly a long-term care policy (either joint or single), or as a part of a life insurance policy or annuity—as well as the amount of coverage. Regardless of how you choose to be covered, there are myriad variations (see the sidebar titled "Read the Fine Print").

For example, a joint long-term care policy from two different companies could vary in terms of exclusions, triggers and benefit periods, depending on what kind of coverage you choose. This is why it's so critical that you do your homework. And as you would expect, premiums vary widely as well.

Below is a brief summary of the various kinds of policies, and the pros and cons of each.

Single-Life Long-Term Care Insurance

As the name suggests, a single-life long-term policy covers just one person. It's the obvious choice for a single person who wishes to have and can afford coverage, but some couples choose to buy two single policies rather than a joint one to maximize their coverage.

Conversely, some couples only buy insurance for one of them. How do you know which one to buy for, or that you both won't need it? Bet on the wrong person, and you're not only out the cost of the premiums, but the costs of care for the uninsured party who ends up needing it.

Joint-Life Long-Term Care Insurance

A joint policy provides a maximum dollar amount of coverage for both

members of a couple. If the policy maximum is \$200,000 and your spouse uses up \$150,000, you are left with \$50,000 of coverage for yourself.

While a joint policy is almost guaranteed to be less expensive than two single policies, you run the risk of one person maxing out the coverage, effectively leaving the other person with nothing.

Fixed Annuity With Long-Term Care Benefits

A fixed annuity with long-term care benefits is usually a single-premium product that will provide money to be used for long-term care if needed. Any money that is dispersed for long-term care will affect the amount of the annuity at maturation.

This type of policy is generally less expensive than a traditional long-term care policy, and if you don't need long-

term care, you will receive the annuity. However, today's low interest-rate environment currently makes fixed annuities less attractive overall.

Life Insurance With Coverage for Long-Term Care Expenses

You can also get long-term care benefits by putting your money in a cash-value insurance vehicle—whole, universal, or variable universal life—and then electing to purchase “an accelerated death benefit” or “life/long-term care” policy. After you’ve “triggered” the long-term care coverage, any such benefits that are paid out by the company are subtracted from the policy’s death benefit. (Usually the insurance company has limits on the daily or monthly benefits paid, depending on the policy’s death benefit.) Your beneficiaries will ultimately inherit any benefits remaining.

If you want more long-term care benefits than the life insurance policy will permit, you can also purchase more long-term care coverage in the form of a rider.

Triggers and Elimination Periods

When your long-term care benefits start kicking in will depend on two things: Triggers—the condition(s) that must be present—and your elimination period.

Whether you will need one trigger or two will depend on your policy. Also, whether care will be administered in a nursing home or other facility as opposed to your own home could make a difference as to what is considered a trigger. And you will need verification from a doctor—which could be your own, or the insurance company’s—to qualify. Below is a list of common triggers.

- **Medical Necessity:** Sickness or injury requires covered care, which must be consistent with accepted medical standards for treating the sickness or injury. The absence of such care would have a negative impact on your health.
- **Loss of Functional Capacity:** You

need assistance performing at least two of the six defined activities of daily living. (The number of activities you need help with to trigger benefits could be another variable.)

- **Cognitive Impairment:** You require supervision, direction, and assistance with activities of daily living because of cognitive impairment, such as Alzheimer’s disease.

You also need to look at the elimination period—the amount of time the triggering conditions must be present—before insurance will start paying for your benefits. You will be paying out of pocket for your care during the elimination period. Think of it as the equivalent of a deductible in other types of insurance policies. A long elimination period will likely mean lower premiums, but it could also mean significant out-of-pocket costs for you.

A final consideration is the soundness and stability of the insurance company you choose. The recent less-than-favorable economics of meeting the demands of policyholders has caused some companies to get out of the business and has discouraged others from entering.

Risks

Even if you do purchase long-term care insurance, there will still be risks. Most obvious is the risk that you will pay premiums for coverage you never need. Or, you may purchase an amount of insurance that does not come close to covering the significant costs of care.

There are other risks as well. The insurance company may experience financial difficulties or, in extreme cases, even go bankrupt before you claim any benefits. Or you may not need benefits beyond your elimination period, because you have a long elimination period or a relatively short-term need for long-term care. Not only will you have paid for premiums without getting benefits, but you will end up paying the out-of-pocket expenses. (Remember, however, that we prefer to pay homeowner’s insurance premiums annually and NOT have our house burn down. Consider the situa-

tion with long-term care insurance the same way.)

Sometimes premiums can be raised significantly for an entire class of policyholders. This could happen, as it did recently, after bond interest rates fell and remained low for an unexpectedly long time, while the insurance companies were depending on bond interest to pay for current and future claims. It could also happen as the result of revised assumptions and calculations on the part of actuaries employed by the insurance companies.

At some point you may find you cannot afford the premiums anymore. Several options may exist for you, but it is important to consult with the insurance company at the time you initially purchase the long-term care policy to determine which options, if any, will be available. Some companies will negotiate with you, for example, to provide reduced coverage in the future for a lower annual premium.

Others will offer you a non-forfeiture benefit when you first purchase your policy. Although this benefit will raise your premiums, it will also ensure that if you need to stop paying your premiums you will receive a paid-up policy from the insurance company. The revised policy will have a lower daily benefit or a shortened benefit period, or some other adjustment, but you will still have long-term care coverage, depending on how long you have been paying premiums and the cumulative dollar amount you have paid. Some companies have been very slow in paying benefits even after eligibility has been met. That’s another reason why it is important that you review the histories of each service provider before making your selection.

Conclusion

There are no perfect solutions. You need to define your risk and determine how much exposure you can live with. For certain investors, it would be unwise to purchase this insurance. For example, if you have trouble meeting your existing bills for essential day-to-day living

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President Obama's choice for Federal Reserve chairman, and the first reduction in quantitative easing (the Fed's bond-buying program) was announced just before we went to press. Many gurus believe the stock market will weaken with the tapering of quantitative easing because of investors switching from stocks to bonds. Given that continued tapering will depend on a strengthening

economy, any hit to the stock market should be short-lived, particularly if earnings continue to be strong.

The election cycle indicator has been so far off the mark lately that I hesitate to even mention it, but the second year in the cycle (2014) has historically been slightly below the overall average at 11.5%. However, 2013 would have been up only 6.7% based on the first-

year election cycle average since 1935, so I wouldn't take the cycle indicator too seriously.

The next column on the Model Shadow Stock Portfolio will be in the April *AAIL Journal*. In the meantime, you can follow updates at AAIL.com and through the AAIL Model Portfolios Update email (sign up at www.aail.com/email).

Happy New Year! ▲

James B. Cloonan is founder and chairman of AAIL.

Trading Strategies

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pen and that could happen is already factored into prices. The markets discount everything.

Lastly, when performing trend analysis it's important to always be cognizant of one of the main tenets

of Dow Theory, "trends exist until a definitive signal proves that they have ended." Dow Theory advises us to always assume that the trend is likely to continue until the weight of evidence dictates otherwise. The final question, of course, is: How much weight is

enough to make an early but accurate call of a continuation or reversal of an established trend? This is where the relevancy and weighting of the evidence comes into play, and these are ultimately dependent on the experience and abilities of each individual investor. ▲

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Insurance Products and Annuities

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expenses, adding long-term care insurance premiums to the mix would not be advisable in most cases.

However, if you're reading this

publication, chances are you're interested in investing wisely and having enough money to cover your expenses. Don't let the third act of your life play out

in a different way than it could—or frankly should—by not factoring into your planning the potential costs of long-term care. ▲

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