

Get There

Your strategy to contain the costs of long-term care



By Michelle Singletary Columnist September 27 at 4:01 PM

Should you ever require help with life's basic activities — eating, dressing and bathing — one thing is true: It will be expensive. In fact, the cost of your care could take an enormous chunk out of your savings.

Nationally, the median monthly cost of an in-home health aide is \$3,861, according to Genworth Financial. The monthly cost of a private room at a nursing home is \$7,698, and it's \$3,628 for an assisted-living facility.

Many federal workers and retirees have a tough decision to make. With a Sept. 30 deadline and a hefty premium increase looming, they have to determine how much coverage they can afford to keep under the Federal Long Term Care Insurance Program. The steep premium increase by John Hancock Life and Health Insurance, which provides coverage for the program, has enraged a lot of people.

I talked to several financial planners about growing fears over the rising cost of coverage. All cautioned people to put into perspective the premiums they've paid compared with what they could ultimately pay out of pocket if they don't have the insurance.

Lanta Evans-Motte, a Maryland-based financial adviser with Raymond James Financial Services, pointed out that about 70 percent of Americans over age 65 will need long-term care for an average of three years, according to federal estimates.

"Most policyholders should probably attempt to keep their policy in place with as much coverage as they can afford, while assuming some type of premium increase every five or six years," Evans-Motte said. "They may need to reduce expenses in other areas of their household spending plan."

For federal workers and retirees who cannot afford the top amount, lowering the automatic compound inflation option, or ACIO, along with reducing the coverage term and daily benefit may be viable options, Evans-Motte said. Pay attention to your maximum lifetime benefit under each scenario, she said.

"If the average time needed for care is about three years, then reducing the benefit period from five years to three years would make sense," Evans-Motte said.

As you consider your choices, take into account your family's health history. If "Alzheimer's or dementia runs in your family, a longer benefit period may be appropriate," she said. Even with the insurance, you'll still need some savings. Policy benefits kick in after 90 days.

Selecting an option with a lower inflation premium may make sense for older people. But that option is more risky for younger people. The inflation protection is a hedge against future health-care costs, Evans-Motte said.

I asked Carolyn McClanahan, a physician turned certified financial planner, to weigh in on the dilemma people are facing. McClanahan, who founded the fee-only Life Planning Partners, based in Jacksonville, Fla., concentrates on how health intersects with personal finance, including long-term-care issues. She does not sell long-term-care insurance.

Here's her advice for one of my readers. The background: The husband will soon be 74 and is still employed full time with the federal government, earning \$125,000 a year. He'll get a pension under the Civil Service Retirement System. He has Type 2 diabetes and arthritis. The wife is 72 and a retired state government employee with a small pension. She was diagnosed with congestive heart failure about a decade ago, but it's under control.

The couple has about \$42,000 plus two IRAs in the wife's name worth just under \$100,000. The couple has been helping with expenses for their grandchildren.

"We realize that we should definitely have saved more for retirement," the wife wrote. "But much of the savings we had accrued were depleted by paying the costs of eight-hour-a-day home health care for one of our parents in the two years before their death, and in assisting various family members in crisis."

If they accept the increase and maintain their current benefits, their monthly premiums will go from \$340.18 to \$768.22. As long as the husband keeps working, they can afford to pay the increase to retain five years of coverage with a daily benefit of \$267.

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"We realize that it will be more of a challenge when my husband retires, which could be anytime in the next few years," she said. "So we are leaning toward reducing [our inflation-protection option], which would bring our monthly payments down to \$554.07."

"We do not expect to have financial help or physical care from family," the wife added.

McClanahan suggested — given the income (including Social Security) and savings the couple will have in retirement, and factoring in age and health — they have the resources to partially cover the costs of long-term care out of pocket. She agreed that they should lower their long-term insurance premium by reducing the inflation option to 2.65 percent.

McClanahan participated in an online discussion recently answering other reader questions. You can read the transcript at live.washingtonpost.com/what-to-do-with-your-federal-long-term-care-insurance.html.

I get that you may be angry about the increases. But if you can't save enough to self-insure and you wouldn't qualify for Medicaid, choose an option that you can afford so that you at least have some level of coverage.

Michelle Singletary writes the nationally syndicated personal finance column, "The Color of Money."

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