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To discuss how long-term care insurance is changing, as well as what would-be buyers should consider before taking the plunge, *Encore* spent a morning with Phyllis Shelton, president of **LTC Consultants** ([ltcconsultants.com](http://ltcconsultants.com)) in Nashville, Tenn. An adviser both to consumers and businesses about long-term care insurance, Ms. Shelton has spent more than two decades in the field and is the author of "Long-Term Care: Your Financial Planning Guide."

**Encore:** *Let's jump to the \$64,000 question -- who needs long-term care insurance, and why do they need it?*

**Ms. Shelton:** I tell people if they are over [age] 18, they are not too young to think about it. Any of us can... be in a car accident and wind up paralyzed or in a coma. A third of the people who have a stroke every year are under 65.

**Encore:** *What about disability insurance?*

**Ms. Shelton:** Disability income insurance gives you money to pay your bills -- [your] mortgage, or whatever. It doesn't give you another \$5,000 a month for long-term care.

**Encore:** *What about health insurance or Medicare?*

**Ms. Shelton:** Once you get into a chronic maintenance state, your health insurance is done. Medicare is a short-term program. You might get a few weeks of care -- home health, a nursing home. These [kinds of insurance]...pay for skilled care, and most long-term care isn't skilled care.

**Encore:** *What about Medicaid?*

**Ms. Shelton:** If you want to keep your independence, Medicaid is the last program for you.

Once you're on Medicaid, it means no private room, very little home care. You go wherever there is a bed; it could be hours away. You don't get into private-pay-only facilities on Medicaid.

There are still some attorneys who make a practice out of helping people transfer their assets [in order to qualify for Medicaid]. It's a rampant problem. They aren't telling the family the "rest of the story," as Paul Harvey says. [With Medicaid,] you don't have any choices.

**Encore:** *If all that's true, why have so few people to date bought long-term care insurance?*

**Ms. Shelton:** Two big myths about this subject are in full swing today. One is that you are talking about "nursing home" insurance, and two, [that] long-term care insurance is for old folks.



The reality is that less than 20% of long-term care is in a nursing home. There are about 1.5 million people in nursing homes, and that's all. Most people will never be in a nursing home; that's just a tiny piece of this. Most people will receive home health care and some adult day care. And assisted living is growing so rapidly, you can't even count it.

The other big myth, about how it's just for older people... Forty percent of the people who need long-term care [are] 18 to 64. They are the Christopher Reeves and the Michael J. Foxes, and they have a debilitating illness, disease [or] accident.

**Encore:** *What are the chances that any one person will need long-term care?*

**Ms. Shelton:** This is a Health Insurance Association of America figure: The odds are greater than 50% that we will need some type of care. One out of two. For some people, it might be three weeks of care at home; for somebody else, it might be 15 years. That's the risk of insurance.

**Encore:** *How has long-term care insurance changed in recent years?*

**Ms. Shelton:** The biggest change... is that policies now are so much more friendly to staying out of a nursing home. In the beginning, there was no home-care option; it was nursing-home insurance. Now, we are at the other extreme. [Depending on the policy,] you can buy services however you perceive that you need them.

And the other [change] would be inflation coverage. In the beginning, it was terrible. Now, we can get it where the benefits grow 5% compounded for the rest of your life.

Those two things have revolutionized the market.

**Encore:** *What problems have consumers had in the past with long-term care policies?*

**Ms. Shelton:** Prior to 1993, there were some pretty bad pitfalls -- things like policies that excluded Alzheimer's. Another one, and this is huge, required people to have skilled care first before the policy would pay for nonskilled [or] custodial care. But... an Alzheimer's patient probably never has any skilled care.

You can see why we had to have some massive improvements.

**Encore:** *What problems remain with this insurance today? What would you like to see changed or improved?*

**Ms. Shelton:** [Policies are] still difficult to understand. There are at least five decisions that have to be made. You have to elect a

deductible, which is called a waiting period. You have to elect a benefit period, which is how long the policy will pay benefits. You have to elect a daily or monthly benefit, [as well as] levels of inflation coverage and home health coverage. That's a lot of stuff.

**Encore:** *Especially for an event that might not happen for 30 years.*

**Ms. Shelton:** Well, long-term care insurance is moving in the direction [of health insurance]. Health insurance started out [where] part of the policy paid for the hospital, and part paid for doctors, and part -- major medical -- [paid] for outpatient [care]. And what happened? It went into one comprehensive [policy].

Long-term care insurance [formerly had] a bucket of money for nursing home [care] and a bucket of money for home care. The majority [of policies have] now moved into one pot of money, because -- at 40 years old -- you don't know what kind of care you are going to need 30 years from now. So that's a good change.

**Encore:** *Are there any parameters -- age, income, assets -- beyond which a person doesn't need this coverage?*

**Ms. Shelton:** Yes. Let's start with the lower end of the scale.

I believe that an [insurance] agent -- before even sitting down with a person -- should say: "Do you have assets greater than \$50,000, not counting your house and car?" And if the person says no, I think it's the agent's responsibility to say: "Do you know you don't need this? Because Medicaid is probably going to be there for you."

What I do battle with is the upper end of the scale. There are so many financial planners, attorneys and accountants who are telling people: "Forget about this; if you have \$1 million or \$2 million or \$3 million, just forget about [long-term care insurance]." And I just think that is ludicrous.

**Encore:** *Why is that?*

**Ms. Shelton:** [Reaches for a calculator.] First, they don't understand how fast the costs are growing. Second, they don't understand how long the care can be needed.

The average room and board throughout the country is \$131 a day. That's semiprivate. There's about, on average, another 20% in charges, mainly drugs. That is going to get you up to \$157. I'm using 5.8% [as the annual increase in costs], and I think that is fairly conservative. The industry uses 5%. So, 5% or 6% is probably a pretty good figure for the future.

Let's look at a 50-year-old today, and let's run this out to age 80 -- the

average age for needing long-term care if nothing happens to you, hopefully, in the younger years. Over 30 years, \$157 goes to \$850 a day, which is \$310,000 [for a year of care].

[In] the largest caregiver study that's been done to this point, caregivers reported an average of 4½ years of care at home; on the nursing-home side, it's 2.4 years.

**Encore:** *With premiums averaging more than \$1,000 a year, why not simply invest that money in a good mutual fund for 30 years instead of buying a policy?*

**Ms. Shelton:** I can see the temptation: "The stock market will take care of us," right?

Let's take a 40-year-old couple. A 40-year-old couple could get a meaningful [insurance] plan for \$1,300 a year. That's for two people. So for 40 years [instead of paying the premiums], we're going to invest this \$1,300...at 10%, and we are going to get \$633,000. That's before taxes and investment fees.

However, if we run that \$157 a day out at 5.8% for 40 years, it comes to \$546,000. That's the projected cost for one year for one person. [So], they saved [enough money] for one year for one person. And this premium was for two people.

**Encore:** *Is there an outside range -- a person with, say, \$5 million or \$10 million in assets -- at which point this insurance isn't necessary?*

**Ms. Shelton:** It's not that people can't self-pay; [rather,] it's do they want to?

This story is in my book. This man called [an agent]... in Ohio for long-term care. He owned a McDonald's; [he] could buy a nursing home, obviously. [But] he said [to the agent]: "My son died 17 years ago in an automobile accident. And I am determined that not one dime of my money will go to a nursing home. My money is going to his kids [and] my other grandkids. My money is for my family."

**Encore:** *What about age? Once people reach their 60s or 70s, is it too late to buy insurance?*

**Ms. Shelton:** The average age [of new policyholders] in the individual market is around age 66 and for group plans, age 43. This insurance is available with a few companies to virtually an unlimited age -- 99.

**Encore:** *That must get expensive.*

**Ms. Shelton:** I calculated annual premiums for the average benefit that's being purchased throughout the country. This is for a married

person, because most of the purchasers are married. The average for one person, for a 40-year-old, is \$828. A 50-year-old is \$1,108, a 60-year-old is \$1,783, and a 70-year-old is \$3,484.

To me, it's not expensive compared to shelling out \$60,000 for a year of care, [a figure] projected to triple in 20 years.

**Encore:** *What are the biggest mistakes people make when they buy this insurance? What do they overlook?*

**Ms. Shelton:** The first one is the company. The other is inflation protection.

Too often, people and insurance agents alike stop with [an insurer's] financial ratings... [from] A.M. Best, Standard & Poor's, Moody's. I think it's critical to look at the size of the company. I always say look at companies with assets in the billions -- \$10 billion, \$30 billion, \$100 billion. I think companies have to have deep, deep pockets.

And when you go through an underwriting application, are they really checking you out? They should be. The better companies could take four, five, six weeks [before issuing a policy]. If they aren't checking you out -- if your policy gets issued in a week -- that is a very bad sign. You can't do that on this kind of insurance. It's a formula for [generating too many claims without sufficient reserves.]

Then ask if [the company] had any rate increases on policies [where premiums were supposed to stay level] in the last five or 10 years. If you want to know if a company has had a rate increase, you can call your state insurance department. It's public information.

**Encore:** *What about inflation protection?*

**Ms. Shelton:** Last year, [only] 41% of policyholders bought inflation coverage. And that's horrible. That would be like buying a health-insurance policy that only pays hospital room rates at what they [charge] today.

You can purchase a rider to your policy that automatically increases the daily benefit by 5% -- compounded or simple -- for life. "Simple" means the benefit grows 5% of the original amount and [thus] doubles in 20 years. "Compounded" increases grow faster, doubling in 15 years, because the 5% increase is based on the previous year. Premiums for the compound rider are higher.

Most people should [take] the 5% compound rider. [Otherwise,] I'm concerned that [benefits] may fall short over a long period of time.

**Encore:** *Are there alternatives to long-term care insurance?*

**Ms. Shelton:** There are. There is a policy, if you structure it right, [that's] linked to life insurance. Viatical settlements, where you sell your life-insurance policy, [are] certainly an option. A reverse mortgage is a great idea for people who are house rich and cash poor. And then there are a few other hybrid products that are tied to annuities or other types of life-insurance products.

I enjoy covering [the alternatives] with people, [but] I don't think they're as good. Financially, the benefits are better with [long-term care] insurance.

**Encore:** *Let's talk about changes in the workplace. Are more employers beginning to offer long-term care insurance to their workers?*

**Ms. Shelton:** They are. About 15% of employers are offering it today, and 49% [say] they expect to.

Now, very few of those employers are considering contributing to the premium. [But] the true cost [to the employers] isn't the premium they contribute; it's the lost productivity that's going to hit the workplace. The projection is that elder care will replace child care as the No. 1 dependent-care need in America.

It's just like on the national scene: If we have tax deductions [for long-term care insurance], more consumers will buy it. In the employer world, if the employer contributes to the premium -- I don't care if it's \$10 a month -- that says to the employee, "This is important." But I don't think many employers realize premiums are 100% tax-deductible for employees.

**Encore:** *That would seem to be the point: that it's difficult to convince people of the importance of a product that, ideally, they will never need or might only need decades from now.*

**Ms. Shelton:** People say to me: "You want me to pay premiums for 40 years -- [but] what if I never use this stuff?" I say: Did you seriously lie awake last night and worry because you haven't had enough house fires to justify your [homeowner's] insurance, or you haven't had enough car wrecks to justify your automobile insurance?

We finally had some good studies just in the past year on what's happening with people [who submit] a claim with long-term care insurance. The people [receiving benefits] at home -- half of them said they would be in a nursing home were it not for their long-term care insurance. The caregivers themselves have reported that they are twice as likely to keep a job because they have this insurance policy on their family member.

So, this insurance is so much more than financial. It is giving families the money and lifestyle to keep their dignity. And you can't put a price

on dignity.

*--Mr. Ruffenach is a reporter and editor at The Wall Street Journal and the editor of Encore.*

Write to Glenn Ruffenach at [encore@wsj.com](mailto:encore@wsj.com)

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