A recurring question raised by clients regards the advisability of acquiring long-term care insurance (LTCI).

The ballooning cost of home health care, assisted living and nursing home care is general knowledge. In central North Carolina, Genworth Financial released monthly costs for 2016 and projected for 2026, including:

- Home health aide (8 hours daily): $3,956 to $5,317 in 2026
- Assisted living facility private room: $3,841 to $5,162 in 2026
- Nursing home care semi-private room: $6,920 to $9,300 in 2026
- Nursing home care private room: $7,924 to $10,649 in 2026

As aging baby boomers approach their retirement years, projected medical expenses represent a large budgetary consideration that can be alleviated with Medicare and Medigap insurance policies. The above-listed long-term care expenses represent an even more significant drain on a retirement budget. Experts estimate that more than two-thirds of individuals age 65 or older will require long-term care for some period. The advisability of using LTCI to hedge against the significant financial risk represented by long-term care expenses has been the subject of considerable debate.

LTCI pays for some or all of the costs of nursing homes, assisted-living facilities and home health care for people unable to care for themselves. According to Limra, a research firm funded by the insurance industry, about eight million people have some form of LTCI. In the early 2000s annual sales of LTCI policies peaked at 750,000 but have decreased to around 131,000 annually recently. Only about a dozen companies remain in the LTCI market, down from a decade ago. In launching LTCI products, which originally offered unlimited lifetime benefits, many insurers underestimated factors such as number of claims, how long claimants would receive benefits, rising health care costs and lower return and yield on insurance company investments.

As the market has tightened, premiums have been rising. In the next column, we will speak more specifically on pricing of various provisions in an LTCI policy. For now, know that premiums have been rising at rates as high as 40 percent per year. The older you are when you commence the policy, the longer and the larger the coverage and the inflation increases, the higher the premium.

In November 2015, Boston College's Center for Retirement Research published a study on LTCI, indicating that previous research on LTCI understated the risk of going into nursing home care, but overstated the average length and cost of those days.

The study found that Medicare had paid as much as 25 percent of nursing home costs in recent years. Nearly half of men's nursing home stays, and 36 percent of women's, are less than three months, within Medicare's 100-day maximum for stays following hospitalization. The study places the risk for men or women, age 65 or older, of needing nursing-home care at 44 percent and 58 percent respectively, up from previous research indicating 27 percent and 44 percent. It also concluded that nursing-home stays are shorter than previously believed: 10 and 16 months for the typical single man or woman, versus the 16 and 24 months previously thought.

The real question is whether it is a smart idea to acquire LTCI or use the premium dollars for other investment purposes?

- People with low income and assets may need to rely on Medicaid.
- Those with over $2.5 to $3 million in retirement assets can likely afford to pay their long-term care expenses individually.
- The people in the middle are the potential LTCI clients.

If staying at home is the goal, round-the-clock home-based professional care can be costlier than a high-end nursing home. In 2012, according to the American Association for Long-Term Care Insurance, roughly half of newly opened claims were for home-based care, versus 31 percent for nursing homes and 19 percent for assisted care facilities. Reverse mortgages could assist with these costs of staying in your home. Homeowners borrow against a home's equity and continue to live in the house. The loan and accumulated interest are paid off when the house is sold, or the borrowers move out or pass away.

We will discuss other alternatives and what to look for in a LTCI next time. Stay tuned!

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