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Nearly 70% ill-prepared to meet LTC needs, survey shows

By Gary S. Mogel, Investment News July 17, 2006

NEW YORK - Despite the recent publicity surrounding rising nursing-home and other long-term-care costs, nearly 70% of Americans refuse to buy LTC insurance or adequately plan for future care.

That was a key finding of a survey of 1,000 U.S. adults released last month by John Hancock Life Insurance Co. in Boston.

"Americans hold an alarming number of misconceptions about their potential need for long-term care," said Laura Moore, senior vice president of John Hancock's LTC insurance division. Many weren't planning for, or thinking about, their future care, though almost two-thirds said that they thought they would live to age 85 or older, she added.

"Many people think that there is a government safety net that will catch them, but it's not true," said Joe Catalano, John Hancock's vice president of distribution.

LTC insurance is expensive - often about $2,000 annually - and almost certainly will increase in subsequent policy years, noted Russell Hoffman, a registered investment adviser with Managed Capital Growth in Bainbridge Island, Wash. "Premiums will likely rise due to inflation and the baby boomers - especially those who smoke - filing claims," he said.

More than two-fifths of survey respondents said that they planned to pay for LTC costs out of savings, but they hadn't accumulated nearly enough to meet average yearly nursing home costs of $70,000, Ms. Moore said.

"They are in denial - taking a chance they won't need care - or just ignoring the fact that they might," she said.

The cost of the coverage is a burden for many clients

One possible way of getting people to buy LTC insurance is to encourage them to pay the premiums using money from their health savings accounts, according to Cameron Truesdell, chief executive of LTC Financial Partners LLC in Kirkland, Wash. HSA funds may be withdrawn tax free to pay for LTC insurance, he noted.

Purchasing LTC insurance as a group benefit from an employer via payroll deduction is seen by some as a way of making it easier and less expensive for people to obtain the coverage, according to a study by Seattle-based Milliman USA Inc. Even though group premiums are lower than those charged to individuals, such plans generally have had disappointing participation rates, because benefits often aren't high enough, the study noted.

One way of capping client premiums, according to Mr. Hoffman, is to buy a policy that is completely paid for over a 10-year period and that remains in force until the policyholder dies. But until the last installment is paid, premiums can go up during the period, he said.

More people might buy the policy if there were a return-of-premium rider allowing them to partially recoup premiums if no or few claims are filed - or if the policies had an investment component similar to an HSA - some experts say.

Lincoln Financial Group of Philadelphia sparked client interest with a combination life insurance and LTC policy, a company spokeswoman said.

But "hybrid policies combining LTC with life insurance or annuities have had only marginal success so far," Mr. Catalano said.

"Insurers haven't quite cracked the code as to what clients want in that regard," he added. "The traditional products do the best job of meeting LTC needs."

Trumpet tax savings

Advisers who want to spark interest in LTC planning should play up the potential tax savings, rather than focus on scare tactics about the high costs of care, said Jesse Slome, executive director of the American Association for Long-Term Care Insurance in Westlake Village, Calif.

For instance, owners of C corporations - and many wealthy small business owners fall into that category - can deduct their LTC premiums, he said.

Premiums also may be deductible for clients who itemize their deductions, according to Mr. Truesdell.

Congress is considering several bills that would grant tax breaks for LTC costs. In addition, certain states, such as New York, permit tax credits for a portion of LTC premiums, said Bernard Krooks, managing partner of the law firm Littman Krooks LLP in White Plains, N.Y.

"Clients with an adequate-sized estate may want to consider self-insuring for an extended illness," Mr. Hoffman said. But first, the adviser should determine if the self-insurance would be an acceptable risk in light of the potential hit on the client's estate and effect on heirs, he added.