Long-Term Confusion

Long-term-care insurance is getting more complicated, with some companies dropping out and others pushing new products. By Angie C. Marek

IT'S A PRODUCT many consumers don't even want to think about, and who can blame them? Long-term-care insurance isn't exactly designed for the best of times: Payments kick in to cover nursing home and other costs if the policyholder can no longer live independently. Buying it means thinking about things like growing old and losing control over your mind, your body or both. It can also be expensive: an average premium of $2,100 a year for the 7 million policies now in force.

If that's not unsettling enough, recent developments make the market for long-term-care insurance more confusing. Although many financial advisers consider the product an important tool as retirement approaches, a profit crunch is leading to some big changes. Several providers are seeking rate increases of as much as 44 percent, and MetLife says it will stop selling policies altogether. Some insurers are stepping in with offerings to help fill the void, but they are far different from standard long-term-care policies. "Long-term care is definitely not going away," says Bret Howlett, an insurance industry analyst at Standard & Poor's, "but the industry is rapidly evolving."

Experts say the industry's latest solution has some appeal, thanks to help from Uncle Sam. Under changes that took effect last year, consumers can now tap the death benefit of their whole or universal life insurance or the balance in an annuity to cover long-term-care expenses—tax-free. The result is a new emphasis on so-called combo products, or life-insurance policies or annuities that double as vehicles to cover nursing home and home-care expenses. Limra, an industry-funded research firm, says the policies appeal to consumers who don't like the idea of paying for traditional long-term-care insurance they might never need. Another plus: Money not withdrawn from the accounts still passes on to the policyholder's heirs.

Of course, not everyone has or wants a whole life policy or an annuity. And the new options come at a price. The Hartford's LifeAccess Rider, a life-insurance rider that lets consumers pay even family members for offering care, can add as much as 15 percent a year to life-insurance premiums. Robert Pokorski, the insurer's chief medical strategist, says most customers pay about 10 percent more. "It's affordable for middle-income folks," he says.

Scott Witt, a consumer insurance adviser in New Berlin, Wis., says riders don't provide the same peace of mind as a standard long-term-care policy, mostly because riders usually have a limit on what they can pay out. Wind up in a nursing home and a $500,000 annuity can be exhausted in just a few years. Some advisers get around that by purchasing yet another rider that shifts a consumer to a standard long-term-care policy if they exhaust their annuity balance. Still, Witt isn't recommending any combo products to his clients just yet. "The jury is still out" on whether they will be a good deal, he says.

PHOTOGRAPH BY JOHN KUCZALA FOR SMARTMONEY

A Difficult Pursuit

A couple of months ago I was having lunch with a friend and colleague. We were talking about stuff--work, family etc.

At one point the conversation turned to retirement – a topic on the minds of many older "baby boomers." "Don't you have to have a job first in order to retire?" I asked my friend.

I explained that I hadn't "worked" in over thirty years (unless you count things like cleaning out my basement), so I didn't know exactly how the word applied to me. Though I have run my consulting business for almost three decades, I simply don't think of my week day as a work day.

I talk to fascinating people with interesting problems. I help make a difference in their lives. And I get paid to boot. Hardly work. More like a joy and a privilege.

I am well aware that other people's lives are not my life. Millions of people are going to retire. Let's assume you plan on being one of them some day.

There is increasing evidence that this will not look like your parents' or grandparents' retirement.

Nevertheless, it's never too early to start asking some important questions.

Are You Retiring *from* Something or *to* Something?

The word "retire" is an interesting word. In the 19th century, it was often used as a "moving toward verb" as in "retire to the parlor" or "retire to the bed chamber." In the 20th century, it became more of a "moving away from verb" as in "retire from my job."

Thinking about retirement as moving away from or moving toward something, can significantly affect the experience.

The past few years I have worked with numbers of professionals in their late 40s and early 50s who have "cashed out." They have been fortunate enough to have enough money that they can live out the rest of their lives on the wealth they have accumulated. They leave their jobs and businesses excited about the next chapter of their lives.

At least they're excited for a while. For six months to two years, they do anything and everything they had ever wanted to but didn't have the time to do. They rest, they travel, they volunteer. Then after they have played and volunteered themselves "to death," they come and see me.

Their standard complaint is that they feel a lack of purpose or meaning in their lives. In spite of the financial comfort they have, many of them end up going back to some type of work. Though they no longer need the money, they miss the purpose and fulfillment work gave them.

Their problem was that they had retired *from* something but not *to* something.

Will Your Life Get Out of Balance?

Just as the meaning of "retirement" has changed, so has the meaning of "work."

Once upon a time liking what you did was not really an issue. The thought was "Ya gotta eat so ya gotta do what ya gotta do. Why do you think they call it 'work'?"

No more. For many, liking what they do is critical. Countless people will simply leave a job if they find they are unhappy. Work has become an important part of people's lives not only for the material benefits but also for the psychic rewards.

Most of us grow up in a world of extremes. From ages six to twenty-two we spend a disproportionate amount of time learning. Not much work and some time for play.

The next forty years we shift the balance. Learning and playing take a back seat to working.

The last transition focuses on play. Learning may return but work is assumed to be a thing of the past.

While this scenario works for many, it doesn't work for many more.

That being the case, "the new retirement" will often hold a work component. Not only will this help individuals supplement their savings, it will also allow them to maintain a bit of the balance with the "play" part of retirement.

If all else fails might you choose to follow the example of Buster Martin?

Buster Martin is not exactly a household name. You may never have heard of him. Four years ago he tried retiring from his plumbing job. It didn't work for Buster. He missed working, being busy. So two years later he went back to work. Recently, he's begun to spend more time on one of his interests--running. He recently completed the London Marathon. "That's not all that unusual," you might say. "Lot's of people pursue athletic endeavors in their later years.

Buster is a tad different. You see he was 97 when he retired, 99 when he returned to work and on April 13, 2008 he completed the marathon at 101 years of age.

Buster decided to simply stay fully engaged in all facets of his life.

So how will your golden years look? Will you retire to a life of

leisure? Retire to a combination of working, learning and playing? Simply make it up as you go along? What ever you choose, choose carefully. Be open to change when the need arises.

As the English poet William Cowper observed -"A life of ease is a difficult pursuit."

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