How Long-Term Care Insurance Can Help Protect Your Family's Finances

Checking into a nursing home may not be the most appealing retirement scenario. Yet preparing for that possibility could be one of the smartest ways to protect your family's finances and preserve your estate.

That's where long-term care insurance comes in. It was created to cover the costs of long-term care services, like nursing homes and assisted-living facilities. It can also cover services in your home, such as help with specific activities of daily living, which can include bathing, getting dressed and eating.

These services aren't cheap – and the costs are growing fast. According to a survey by insurer Genworth, the median annual cost for a private nursing home room in the U.S. was $60,225 in 2005. That figures rose to $75,190 in 2010 and is projected to surpass $350,000 in 20 years. Home health care is less expensive, but it still averages about $55,000 a year.

To complicate matters, costs vary widely depending on where you live. Genworth reports that a private room in a nursing home averages almost $117,000 a year in New York State, just over $82,000 in Florida, nearly $88,000 in California and about $58,000 in Texas. Metropolitan areas are especially expensive. In Manhattan, for example, the average annual cost jumps to over $167,000.

ASKING QUESTIONS

Faced with these costs, more families are considering long-term care insurance. But before you purchase a policy, it's worth asking some key questions:

- Could you afford to "self-insure," meaning you would pay long-term care costs out of your own pocket? The average stay in a nursing home is almost three years – which means the cost might run $250,000 or more. That expense might be manageable if you have a seven-figure portfolio, but it could be a huge burden for those with less savings.
- How important is it for you to leave an estate to your children, grandchildren or favorite charities?
- Have family members, whether they're a parent or other relatives, needed long-term care?
- Can you afford the premiums? The annual cost of long-term care insurance varies, in part, by your age when you first buy a policy. According to a 2008 study by insurance-market researchers LIMRA International, the average annual premium for a policy purchased in 2007 was $2,207. For a 40- to 49-year-old, however, the premium was $1,781, while a 60- to 64-year-old might pay an average annual premium of $2,249.

If long-term care insurance seems too pricey, consider some ways to trim the premiums. For example, you might buy a policy that only covers part of the annual cost, figuring you could potentially pay the rest out of savings or with any pension or Social Security income.

You can also choose a longer "elimination period," which is the waiting period before benefits kick in. You can choose an elimination period of 30, 60 or 90 days or even longer, depending on how long you think you can afford to pay health care costs yourself. A longer elimination period means lower premiums.

"If long-term care insurance seems too pricey, consider some ways to trim the premiums. For example, you might buy a policy that only covers part of the annual cost, figuring you could potentially pay the rest out of savings or with any pension or Social Security income."

If you are still working, your employer may provide some short-term coverage, perhaps enough to carry you through a 90-day elimination period. Similarly, after you turn 65, you may be able to get some short-term coverage from Medicare. But while Medicare Part A (for hospital insurance) and Part D (for prescriptions) may be adequate for short-term illnesses, they won't be enough for people with chronic disabilities or illnesses. Meanwhile, Medicaid can cover long-term care costs but, to be eligible, you will likely be required to spend down much of your current savings.

continued

COVERING YOURSELF

When reviewing a long-term care policy, you might look for certain insurance features, even though they may add to the policy's cost. For example, you may want a "waiver of premium" clause, either as a basic feature or a rider, to make sure you aren't paying premiums at the same time you are receiving benefits. You may also want an inflation-protection rider, which can ensure the benefits you receive increase with inflation. This is particularly important if you are under age 60 when you buy the policy.

Finally, you should probably consider a policy that covers all types of care: in-home care, nursing-home care and assisted-living facilities. While a policy that just pays for in-home care will be cheaper, declining health may require more care than you expected, possibly including a nursing home.

Alternatively, you might use life insurance to help meet long-term care expenses. For instance, with a single-premium life insurance policy, you hand over a lump sum in return for a guaranteed death benefit. Some single-premium policies give you tax-free access to this death benefit to pay long-term care costs. You might even combine a single-premium policy with a long-term care policy, using the single-premium policy's value to cover the long-term care policy's elimination period. Any remaining death benefit in the single-premium policy will pass income tax-free to your beneficiaries.

TAKING CARE

- Learn more about long-term care insurance at **www.longtermcare.gov, www.iii.org** and **www.lifehappens.org**

Citi Personal Wealth Management is committed to your long-term financial success. You can expect professional advice tailored to your needs, convenient access to Citi's global resources, and a broad range of diverse investment products.

For more information, please contact your Citi Personal Wealth Management advisor.

The information provided here is for informational purposes only. It is not an offer to buy or sell any of the securities, insurance products, investments, or other products named.

Sources: Genworth study based on survey of long-term care providers representing all 50 states, the District of Columbia and Puerto Rico, who were contacted by phone during early 2010. LIMRA's 2008 study quoted on www.longtermcare.gov, a website of the U.S. Department of Health & Human Services.

This material is derived from sources believed to be reliable, but its accuracy and the opinions based thereon are not guaranteed. Please note that by visiting the URLs or hyperlinks referenced in this piece you will enter another website created, operated and maintained by a different entity.

Citigroup Inc. and its affiliates do not provide tax or legal advice. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam.

Since life insurance and long-term care insurance are medially underwritten, you should not cancel your current policy until your new policy is in force. Your actual premiums may vary from any initial quotation you receive. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

There is no guarantee that these strategies will succeed. This information is intended to illustrate products and services available through Citigroup Global Markets Inc. The strategies do not necessarily represent the experience of other clients, nor do they indicate future performance. Individual clients should review with their Financial Advisors the terms and conditions and risks involved with specific products or services.

Terms and conditions of accounts, programs, products and services are subject to change.

793115 NAT045 5/11