WISER Woman

Late Spring/Summer 2005

A Quarterly Newsletter from the Women's Institute for a Secure Retirement

A Woman's Guide to Long-Term Care Insurance

Thanks to improved medical care and a higher standard of living, Americans are living longer and healthier lives. Currently, a person who lives to the age of 65 can expect to live to about age 85 and of course, women live longer than men on average. However, with longer lives comes the increased likelihood of needing long-term care services at some point. In fact, individuals over age 65 have about a 50% likelihood of needing some type of long term care at some point in their lives.

It is important for women to understand the different types of long-term care services and how they can be paid for. Careful planning will help to ensure that you will have the financial resources you may need for help with daily living activities later in life and the flexibility to choose the type of care setting that is best for you.

Here are the answers to the most common questions women ask us about long-term care insurance policies.

What are the different kinds of long-term care?

Long-term care services can be provided at home, at a nursing home, in an assisted living facility or an adult day care center. Professionals, such as doctors, nurses and physical or occupational therapists, provide skilled care. Custodial care refers to help with routine daily tasks that do not have to be performed by professionals, such as bathing, eating, using the bathroom, moving from place to place, dressing, grocery shopping, cooking and cleaning. Some individuals will need care for a short time, after surgery for example, and others with more severe impairments may need it on an ongoing basis.

What about the costs?

The costs can vary quite a bit depending upon where you live and what types of services you need. To give you an idea of costs: the average cost of nursing home care is about $70,000 a year and the average cost of an assisted living facility is about $26,000. Regular home care visits could cost about $25,000 year, while skilled care at home would cost more.

Many people do not know that Medicare does not cover most long-term care costs, nor do health insurance plans. Medicare will pay for home care for a limited time following a hospital stay for those who need skilled nursing care. Many people receive benefits from state Medicaid programs, but Medicaid provides long-term coverage only to those with limited income and resources. Usually, before a person can qualify for Medicaid, they must be "impoverished" – meaning that they have exhausted most of their personal financial resources.

There are four ways to pay the costs of long-term care: out of your own pocket, with a long-term care insurance policy, using Medicare (very limited) or Medicaid (if you qualify). For some people, purchasing long-term care insurance should be seriously considered. Long-term care insurance helps to pay for many of the costs of care or personal assistance people would otherwise have to pay for themselves. You can purchase long-term care insurance to pay for services you might need to live fairly independently in your own home, when you are no longer able to do certain things for yourself. In addition, long-term care insurance can provide the resources to choose between types of assisted living facilities or nursing homes. It can help protect people

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From WISER's Executive Director

About half of all Americans will need long-term care services at some point in their lives, and the number is much higher for women. Women live longer than men, and they are twice as likely as men to need long-term care. According to the American Council of Life Insurers, women are more than twice as likely to suffer from Alzheimer's than men, and women are four times more likely to develop osteoporosis, a leading cause of hip fractures.

Long-term care insurance can help you maintain financial independence and choose from an array of care services—including care in your own home. In this issue we offer a primer on buying long-term care insurance. Use it to start the process of planning for security and independence in your later years.

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Published by WISER.

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Design and layout: *amp&rsand* graphic design, inc.

Money Traps That Keep You Broke

If you're having trouble finding money to save, try these tips to clean up messy money habits that drain your income and prevent you from saving for your future:

First try to pay bills as soon as they come in! Have stamps ready and a checklist so you can check off the bills you have paid. Check our website or write to us for fact sheets that you can copy to help you keep track of the due dates of all your regular monthly bills. www.wiserwomen.org

- *Avoid late fees*. Look over past credit card, rental or mortgage and utility bills to see if you are paying late fees unnecessarily. Late fees can easily add up to $25-$50 a month or more if you are not in the habit of paying everything on time.

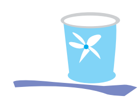
- *Don't use "pay by phone" options that charge you for the convenience of paying with a credit card or check by phone.* These services are convenient but cost $10-$20 each time you use them. Plan ahead and consider setting up on-line bill paying or automatic debit.

- *Stop paying high bank fees*. Maintain the minimum amount necessary to eliminate monthly service fees or shop around for a lower cost bank account or try a credit union.

- *Don't bounce checks*. The new "Check 21 law" that went into effect late last year means that most checks you write will clear more quickly, many times in only one business day. If you're used to "playing the float" you will end up paying more costly overdraft fees. Many banks are charging $40 or more for each overdraft. Bounce four checks each year and it will cost you $120 year or more.

- *Avoid ATM charges*. If you are paying frequent ATM charges, you know it adds up. One withdrawal each week at an ATM not affiliated with your bank can cost from $75 to $100 each year. Get in the habit of making one withdrawal each week at your own bank and try to keep within your budget. Not only will this save you money on ATM charges, but it will help create budget discipline.

- *Make small changes in spending habits to free up more money to save*. Bringing lunch to work everyday can save up to $60 each month, cutting back on cable service can save over $25 month, and borrowing DVDs from the library can save $10-$20.



- *Don't spend your tax refund*. Put it in an emergency fund or Individual Retirement Account instead.

- *Get rid of high cost loans and high interest rate credit cards*. Refinance with a lower cost loan or open a new credit account and use an advance to pay off a high interest rate card. Credit unions are good places to start to find out if you are eligible for lower cost accounts. If you can't refinance, double your payments until you pay off the high cost accounts. You can save big on interest charges and invest the savings for your future.

Investing Errors—3 Common Mistakes That Will Cost You Money

When Susan B. turned 40 nearly ten years ago, she decided it was time to get serious about saving for the future. After reading an article about living below your means, she decided to open an investment account with a popular mutual fund company. She signed up to have regular monthly deposits deducted directly from her checking account. She doesn't really miss the $100 that is now deducted each month.

Success story? Not quite. Susan is off to a good start, by setting up the account and making contributions by automatic deduction. Most people will save more over a lifetime with automatic deductions than if they write a check only periodically. They will also earn more on their contributions if they are made regularly all year, instead of once a year.

Investment accounts need to be reviewed regularly for fund performance and asset allocation. Your tolerance for risk will change as you get older. Also, the amount you are saving for retirement needs to be reviewed at least twice a year. As your income goes up, so should the amount you are saving for retirement each year. Also, the fees that are charged by the fund should be reviewed. High fees will eat away at returns over time.

Susan is making the three common mistakes that many investors make. These mistakes keep investors from fully realizing their long-term goals.

First, many investors do not review how their money is allocated and they do not make changes over time. (Many people don't even open and read their statements!) While it's never a good idea to change your allocations based on the daily ups and downs of Wall Street, it is important to have a strategy that fits where you are in life.

In general, you should be investing aggressively when you are younger, with the goal of generating assets. You should also have a mix of investments that will protect you from large losses. As you move toward retirement, your allocations should gradually become more conservative, with a goal of preserving assets you have accumulated over your lifetime. You can find investing advice on the website of the Securities and Exchange Commission at http://sec.gov/investor/pubs_subject.shtml#mutualfunds and at www.nasd.com.

As a *very* general rule you can subtract your age from 100 and put that percentage into an aggressive investment account. The balance should be invested more conservatively.

In Susan's case, her age, 50, subtracted from 100 means she should consider investing 50% of her retirement savings in stocks.

Not paying attention to fees can be a costly mistake. Like many investors, Susan has no idea what her fund is charging her in fees. Fees vary from fund to fund. Low-fee funds are the best way for average-income investors to build assets. You can easily find out what fees you are paying by looking at the fee chart at the beginning of the fund prospectus. Yes, you will have to read the prospectus! Compare the fees to other mutual funds and decide if you are paying too much.

Fees are generally divided into two categories: "shareholder fees" and "annual fund operating expenses". Some funds charge a commission to be paid to a broker when you buy or sell shares. We recommend you look for "no-load" funds as a way of minimizing your costs. A load is considered a shareholder fee, because it is paid by an individual based on the amount of the investment. No-load funds do not charge a commission, although they may have a distribution or service fee.

Annual Operating Expenses: All funds, no-load funds included, charge participants for the administrative costs of operating the fund. These operating expenses are shown as a percentage of the fund's average net assets. You can compare the expense ratio of your fund to other mutual funds. The fee table in the prospectus will show you the costs associated with a hypothetical $10,000 investment. This is another good way to compare fees across different funds.

Finally, not adjusting the amount you save to reflect changes in your income and personal circumstances will not maximize your savings potential. Although Susan's income has increased steadily over the ten-year period she has owned a mutual fund account, she has not changed the amount she saves each month.

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who are no longer able to perform activities of daily living due to age or chronic health conditions.

Who should buy long-term care insurance and when should they buy it?

There is general agreement that if you do not have any serious health issues, you should be at least age 45 before you start looking for a long-term care insurance policy. The age at which you purchase a policy also affects its costs. The younger you are, the lower the cost. The older you are when you apply, the higher the premium will be, and if you have already developed a disability or severe illness, you may not be insurable. Once a policy is purchased, premiums cannot be increased because of age, but they may be raised if the increase applies to a whole class of insureds. Experts agree that more recently the companies have gotten better at pricing the policies.

However, if you do not have money to pay premiums, you may decide to skip buying insurance and rely on Medicaid to cover your nursing home costs. Remember that long-term care insurance policies will require co-payments when benefits are paid, so you will need to have assets or income to pay part of the costs. For those who are fortunate enough to have substantial assets—you can finance long-term care on your own.

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WISER Checklist—

10 Questions to Ask Before You Buy Long-Term Care Insurance

1. *Does the policy include protection against inflation?* This is an important feature, without it your policy will be worth very little when you need it.

2. *Does the policy guarantee that premiums remain level?* The company should guarantee that it will charge you the same as other policy holders of the same age, however, the premiums can still be raised for that age group across-the-board. Some policies will guarantee that the rate will not change for a specific period of time.

3. *Does the policy cover home health care benefits and all levels of nursing home care, including skilled, intermediate and custodial care?* Find out how the policy will cover each of these types of care, the benefit amount for each and how long benefits will last.

4. *Does it provide comprehensive benefits for both home care and nursing home care?* Make sure that the policy covers less severe impairments and allows you to stay in your own home.

5. *Is the maximum benefit period one year or more?* The maximum benefit period varies widely. Choose coverage for the maximum number of days or amount of benefits that you can afford, but at least one year of care.

6. *Is the policy renewal guaranteed?* Choose a policy that guarantees that you can renew if you pay the premiums on time regardless of your health or age.

7. *Is the deductible affordable and does the policy have a waiting period of 100 days or less?* Most policies require that you pay for needed care from your own money for a certain number of days before coverage starts. Find out what the rules are and decide if this will be feasible for you.

8. *Will the policy cover dementia if an individual is diagnosed down the road?* Many policies cover conditions like Alzheimer's and it is important to ask this question. Dementia is a common cause of nursing home admissions.

9. *Will you be able to keep up with the policy premiums?* Important provisions, such as inflation protection and nonforfeiture, increase the cost of the policy. A nonforfeiture benefit ensures that even if you cancel your policy or stop paying premiums, you will still receive some part of your benefits. Generally, your premium should not be more than 7% of your income when you buy the policy.

10. *Have you learned as much as you can about the insurance company?* Try to choose a company that is financially sound and has a good reputation.

Long-Term Care Legislative Update

On May 26, Reps. Nancy Johnson and Earl Pomeroy re-introduced legislation to create an above-the-line tax deduction for long-term care insurance premiums. The Long-Term Care and Retirement Security Act of 2005 (H.R. 2682) also includes a provision allowing long-term care insurance as an option under cafeteria plans and flexible spending accounts, as well as a caregiver tax credit. (Note: A companion bill is expected to be introduced by Sens. Chuck Grassley and Blanche Lincoln soon after the Memorial Day recess.)

Also of note: The reintroduction in March of the Ronald Regan Breakthrough Act of 2005 (S. 602) by Sens. Kit Bond (R-Mo.) and Barbara Mikulski (D-Md.). A companion, HR. 1262, was introduced by Rep. Chris Smith (R-N.J.) The bills include an above-the-line tax deduction for long-term care insurance premiums as well as a tax credit for caregivers.

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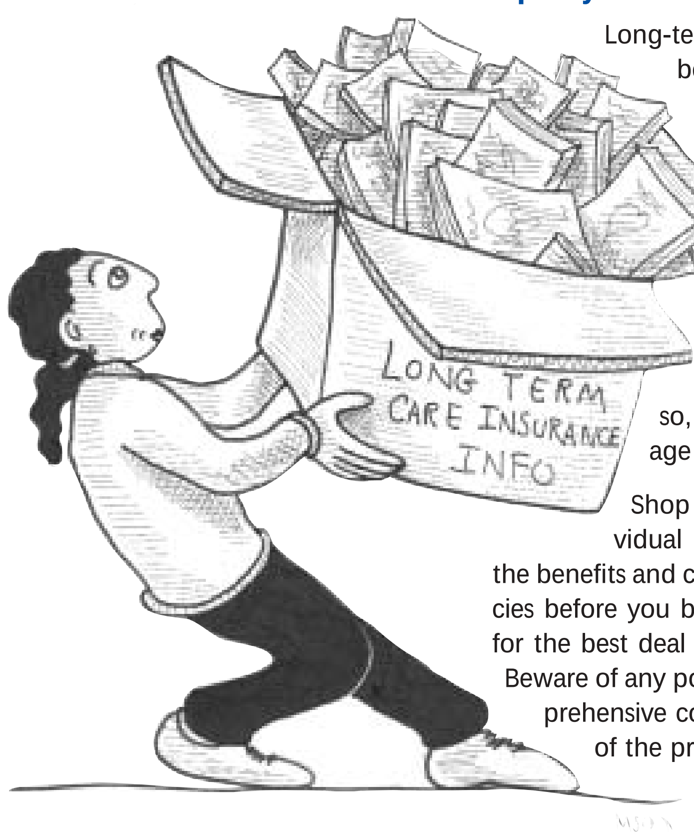
You will need to decide if you can afford the policy today and also be able to handle future premium increases. If you end up dropping a policy because you can't afford a premium increase, the money you've paid in will not be returned. Make sure that the policy premium fits comfortably in your budget. The National Association of Insurance Commissioners recommends that if you are buying insurance to protect your assets, you should have at least $30,000 in assets, not including your home and that premiums should not be more than 7% of your income.

How do I choose a policy?



Long-term care policies can be purchased on an individual basis and, increasingly, through group plans offered by employers. Find out first if your employer or retiree association offers a plan and if so, ask about the coverage and costs.

Shop around for an individual policy and compare the benefits and costs of different policies before you buy anything. Search for the best deal but also be realistic. Beware of any policy that offers comprehensive coverage at a fraction of the price of other insurers. You could be facing large premium increases down the road or an insurer that leaves the market. Couples can buy long-term care insurance together, and they may even receive a discount if they both buy from the same company.

Contact the state insurance commissioner or a financial planner for a list of companies licensed to sell insurance policies in your state. Prices for long-term care insurance vary, so it pays to shop around and examine the fine print. Look for an insurance company licensed in your state that is reputable and consumer-oriented. Several rating services measure the financial strength of insurance companies including A.M. Best, Moody's, Standard & Poor's, and Weiss Research. Your public library can help you check these ratings services.

The American Council of Life Insurers has consumer information on buying long-term care policies. See their website at www.acli.com or call 1-800-589-2254.

Did You Know?

77% of people age 65 are uninsured for long term care insurance.

—MetLife Mature Market Institute

Please note our change of address...

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WISER's Mission

To improve the long-term financial security of all women through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure fair pensions and adequate retirement income though research, workshops, and partnerships.

Next Issue:

- **Managing the Financial Risks of Retirement**

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