The New York Times

Investing for Your Future Health Care

MARCH 25, 2016

By ALINA TUGEND

Ken Dychtwald, who is 65 and is the chief executive officer of Age Wave, a consulting and research company focused on aging, decided in his 50s that he and his wife should buy long-term care insurance so they wouldn't be a burden on each other or their children if they became ill or disabled.

Mark V. Pauly, 74, a professor of health care management, business economics and public policy at the Wharton School at the University of Pennsylvania, considered long-term care insurance and decided against it.

He is "self-insuring" — that is, stashing enough in savings so that, hopefully, it will cover any needs that arise.

Both are experts in the field of aging and both understand, more than most, the potential cost of paying for care in later years. But they took different paths in addressing those needs.

Even as the debate about how to take care of an aging population grows, interest in long-term care insurance has waned. Individual market sales of long-term insurance stood at 380,000 in 1990, peaked at 750,000 in 2002 and were at the lowest figure in a quarter-century at 110,000 in 2015, according to the American Association for Long-Term Care Insurance.

That slide has occurred for a number of reasons. First, insurance companies found themselves faced with more claims, and more expensive claims, than they had anticipated. Another factor is that the low interest rates of recent years mean their investments didn't earn what they once did.

Companies began raising premiums on long-term care policies. Some left the business. Long-term care insurance developed a reputation for being unpredictable.

Now, only about eight million Americans, of the almost 45 million who are 65 and older, have such insurance, which is usually sold to people in their 50s and 60s. The average long-term care insurance premium for a couple who are both 60 years old is $2,000 to $3,500 annually, according to the American Association for Long-Term Care Insurance. The older you get, the more difficult and more expensive it is to buy.

That hypothetical couple would be eligible, upon buying the insurance, for $164,000 each in benefits, which would go up to $365,000 each when they turn 85. Policy holders must be medically certified as disabled to collect the insurance, but once that occurs, they no longer have to pay premiums. Policies vary widely in what they cover, so it's important to do some research. Caring.com offers helpful tips, including making sure the policy includes controlled premium increases and inflation protection.

Research shows that people who buy such insurance tend to be very conscientious and cautious.

"They're the people who get their flu shots, get their mammograms, exercise, always wear seatbelts," said Kathleen McGarry, a professor of economics at U.C.L.A., whose research focuses on the well-being of the elderly. So that means the very people most likely to buy long-term care insurance are the very ones who are least likely to need it.

The lack of interest in the insurance probably stems from a number of factors.

One is the mistaken notion that Medicaid will help them when they need it.

"The presence of Medicaid crowds out insurance," said Gopi Shah Goda, a senior research scholar at the Stanford Institute for Economic Policy Research. "It's a classic case of the more insurance provided by government, the less incentive there is to buy private." But to receive Medicaid, you must be essentially impoverished.

Family dynamics comes into play, as well. Surveys show that most people are divided about whether they want professionals or their family members to take care of them if needed, according to research by Professors Goda and McGarry, and Prof. Jeffrey R. Brown, who teaches finance at the University of Illinois at Urbana-Champaign. Not surprisingly, 26 percent of those surveyed who said they preferred professional care had long-term insurance, compared with 15.7 percent who would rather have their children care for them.

And some people have a different worry: that long-term insurance will make it "too easy for their kids to put them in a nursing home," Professor Pauly said.

The decision is complex and tough to make because no one knows whether 24-hour care or just partial care will be needed. Insurance companies have too often oversold worst-case situations, plying people with more coverage than they need at higher premiums, said Anthony Webb, the research director at the Retirement Equity Lab at the New School for Social Research. The reality is that the average stay in a nursing home for men is 10 months, and the average for women is just over one year, he said.

The average annual cost of a semiprivate room in a nursing home is $81,030, while the average home health care cost is $21 an hour, according to "Long-Term Care: How Big a Risk?" published in 2014 by the Center for Retirement Research at Boston College.

For Mr. Dychtwald, concern about his wife and children was the reason he decided to get long-term care insurance.

He knows insurance will not cover all the costs, but says he believes it will take a large burden off his family if he becomes disabled in some way.

Professor Pauly said he assessed the benefits of long-term insurance and self-insuring and decided that he preferred to put money into annuities and other funds to ensure an annual income of at least $100,000 during his retirement years to cover his long-term health care needs.

Maureen Whelan, a financial planner, said that long-term insurance for her aging parents had one significant emotional benefit. “It made it easier for my parents to accept help in the home, knowing that they had paid for this type of insurance,” she said. “I believe it would have been quite a struggle for my siblings and I to convince my father to start paying out of pocket for home health aides.”

She said she relayed her experience to clients but realized that “the decision to purchase insurance is much harder now — the premiums are so high and the benefits limited.”

A new option is including long-term care coverage in a general life insurance policy.

For years, experts have been looking at ways to revise government and private long-term insurance to make it more palatable and effective. One idea is to have payments go directly to those who need it — or their children, if they are the caregivers — rather than the nursing home or home health care. That way, children who leave their jobs to take care of their parents can receive some reimbursement.

The real challenge, said Dylan Ross, a financial planner with Garrett Planning Network, is getting people to take a hard look at what various situations in the future might look like, something that is not easy when faced with the all-too-human desire to ignore unpleasant topics.

“What would I need if I had a short-term stay in a rehabilitation or a skilled nursing home?” he said. “What would I need for an extended stay? How does that affect my spouse? Should I spend on premiums or beef up my savings?”

Or as Ms. Whelan said, this process of imagining the future “is about so much more than insurance.”

Alina Tugend is a writer based in New York and the author of “Better by Mistake: The Unexpected Benefits of Being Wrong.”

Original URL: http://www.nytimes.com/2016/03/27/your-money/investing-for-your-future-health.html?_r=0