Long-Term Care Insurance – Helping Clients Make an Educated Decision

Long-term care (LTC, for short) insurance has been one of the greatest areas of confusion and debate for couples entering or nearing retirement age. Clients who have experienced first-hand the debilitating health of a loved one tend to seek maximum LTC coverage regardless of the cost. At the other end of the spectrum are clients who believe they have enough investment assets to cover future expenses that "they may not ever need." Part of our job as a wealth manager and financial planner is to have this needed conversation with clients, who vary widely in their opinions of LTC.

What exactly is LTC and how does it differ from other forms of health insurance in retirement? LTC covers the types of care **not included** by traditional **health insurance**, **Medicare** (limited days for rehabilitation only), **Medicare supplemental plans** (Medigap A – N plans), or **Medicaid** (poverty level to qualify). People need LTC services when they are unable to perform basic activities of daily living that is often (but not always) the result from cognitive impairments or triggering events such as a stroke or cancer. LTC insurance will kick in when not able to perform two or more basic daily activities such as hygiene, dressing, eating, maintaining continence and transferring. Other instrumental activities include shopping, housework, preparing meals and managing finances.

To be clear, **Frontier believes that every individual should strongly consider offsetting at least SOME of the risks associated with a future long-term care event.** The optimal age to gain coverage is between 50 and 70, although most carriers will issue traditional policies up to age 79. We often remind our clients that the pricing of such LTC policies have multiple input variables and rather than a "take it or leave it" approach we believe you can build a policy that fits into your budget. For example, rather than simply rejecting a policy illustration based on a quoted premium, understand that adjusting policy features may lower that premium by 30% or more. Through our insurance advisor, we recently were able to help a husband-wife couple in their mid-60's obtain two LTC policies for less than $5,000 in combined premiums.

Many retirees simply hope they will beat the odds of needing custodial related care in the future and put that burden on their spouse, kids or nearby family members. Even then, there will be ancillary costs such as renting equipment, home modifications and relief assistance. This care can be a mentally exhausting, 24/7 job requiring a fair amount of physical strength. It is also important to note that nearly 70% of recent LTC claims are attributed to women, so you should at least consider coverage on the wife. An often-overlooked feature of most LTC policies is the coordination of care benefit, whereby a licensed health professional helps you and your family members interpret your benefits, establish a plan of care and locate a network of quality care providers. With approximately 70% of people age 65 estimated to need some form of care (*U.S. Department of Health and Human Services*), this could be money well spent. In the end, this is the same decision as with other forms of risk transference -- would you rather pay a little now to leverage your benefits or "roll the dice" and be exposed to major future cash outlays?

Some clients refuse to buy LTC coverage in fear of insurance companies raising premiums in the future. And there have been several examples of companies being allowed to do this rather than face bankruptcy with the first wave of LTC policies. However, whenever state insurance commissions have allowed a company to raise premiums, they also stipulated that clients have options to keep their premiums level and to reduce benefits alternatively (i.e. lower payout period, lower daily benefit, cap inflation). A higher threshold of cash reserve now required by state commissioners and an increasing interest rate environment should help insurers grow their general funds enough to cover rising claims occurrences.

Varying sources estimate the cost of annual LTC in a wide range depending on your desired location. The most quoted national statistics range from $46,000 for home health care (daytime only) to $97,000 for a private room in a nursing or community care unit. From a tax perspective, the IRS offers some relief to those who purchase qualifying LTC policies with possible income tax deductions for annual premiums paid and future benefits being income tax free (AGI thresholds and maximum benefit limits will apply).

While traditional, annual premium LTC policies are the optimal form of risk transference, there are backup strategies that would cover a lesser level of protection. AARP published an extensive article on this topic in May 2016… http://www.aarp.org/health/health-insurance/info-06-2012/understanding-long-term-care-insurance.html.

As couples (or a widow) reach their golden years, they may choose to sell their house and proactively move into a continuous care community by either paying a lump-sum (from home proceeds) or paying monthly rent for as long as their funds last. Most facilities charge monthly fees for meal plans and ongoing dues. Clients may monetize their life insurance cash value (or sell the policy via life settlement) and exchange those funds to a “hybrid” life insurance policy that includes LTC benefits. A critical illness policy is offered by a handful of carriers that may offer a lump-sum cash payment for some of the health conditions that would lead to a LTC stay (assuming their health situation is deemed terminal).

Lastly, for people who may have problems qualifying for LTC insurance due to existing health conditions, there are a few carriers that still offer fixed or index annuities with LTC riders for enhanced income in the event of a nursing home stay. Keep in mind that annuities come with high product fees and steep surrender penalties in the first 5-8 years of policy issue and typically have more strict definitions of a qualifying long-term care event, so our opinion is that these should be pursued only as a last resort.

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