

Planning Ideas—Long-Term Care Insurance: Do Your Clients Need it?

Advisors are often admonished to provide their clients with comprehensive wealth management including risk management. In this context, risk management translates into planning for risks such as dying too soon, becoming disabled, or living too long.

One concern with “living too long,” even with affluent and high-net worth (HNW) clients is the need for long-term care. More specifically the concern is that (1) the risk associated with needing long-term care is so great; and (2) the cost of long-term care is so high and rising so rapidly that clients may either outlive their resources or diminish them to the point that other planning goals (for example, charitable giving and bequests to heirs) are frustrated.

More to the point for advisors, if your clients’ assets are used up paying for nursing home or in-home care for chronic illness or disability in old age, you’re likely to be remembered not for what you accomplished with complex wills and trusts and sophisticated investment strategies, but for what you failed to accomplish—addressing a likely and costly risk like long-term care.

But does that mean you mean should be recommending long-term care (LTC) insurance to all your clients? Not necessarily, but it means you should be able to discuss the:

- Meaning of long-term care;
- Risk of needing long-term care;
- Cost of long-term care; and
- Alternatives for addressing the risk.

Definition of Long-Term Care

A good way to think of long-term care is to distinguish it from acute care. Long-term care is administered over a relatively long period of time and often involves not only medical treatment, but help with activities of daily living (ADLs), such as bathing, dressing or eating, or instrumental activities of daily living (IADLs), such as household chores, meal preparation, or managing money. Long-term care is often associated with illnesses such as Alzheimer’s and Parkinson’s disease and disabilities arising from stroke. By contrast, acute care is administered by a healthcare professional for a relatively short duration and is intended to save life or treat disease or injury.

Risk of Long-Term Care

A starting point for assessing the risk of a client needing some type of long-term care for a chronic disease or disability is to look at the risks for the US population as a whole.

One widely-quoted statistic, from the US Department of Health and Human Services, suggests that 70 percent of the people who reach age 65 will need long-term care of some type before they die. According to the Wall Street Journal, "... a couple turning 65 has a 75 percent chance that one of them will need long term care."

This suggests that a large percentage of your clients will need some type of long-term care, but it doesn't go very far in anticipating whether a particular client will need long-term care. Individual factors that increase the risk of needing long-term care are:

- Age –The risk generally increases with age.
- Marital Status –Single clients are more likely to need care from a paid provider.
- Gender –Women are at a higher risk than men, primarily because they tend to live longer.
- Lifestyle –Poor diet and exercise habits can increase risk.
- Health and Family History—A personal history of ill-health or a family history of diseases or disabilities associated with long-term care increase risk.

If you knew that 70 percent of your clients age 65 and older were likely to be subjected to an expensive liability lawsuit in the next fifteen years, you'd be remiss in not addressing that risk. Long-term care is no different.

An unavoidable conclusion is that most of your clients will need long-term care. One way to think of it is this. If you knew that 70 percent of your clients age 65 and older were likely to be subjected to an expensive liability lawsuit in the next fifteen years, you'd be remiss in not addressing that risk. Long-term care is no different.

Advisors and clients who ignore the risk do so at their peril.

Cost of Long-Term Care

The cost of long-term care insurance depends primarily on two factors:

- Duration of care; and
- Type of care.

On average, someone age 65 today will need some long-term care services for about three years. Service and support needs vary from one person to the next and often change over time. Women need care for longer (on average 3.7 years) than do men (on average 2.2 years). While about one-third of today's 65-year-olds may never need long-term care services, twenty percent of them will need care for more than five years.

The type of care needed varies depending on the client. The following chart sets forth the various types of care:

| | Help with ADLs | Help with other Services | Help with Care Needs | Costs |
|---|-----------------------|---------------------------------|-----------------------------|----------------|
| Community Based Services | yes | yes | no | Low to medium |
| Home Health Care | yes | yes | yes | Low to high |
| In-Law Apartments | yes | yes | yes | Low to high |
| Housing for Aging and Disabled Individuals | yes | yes | no | Low to high |
| Board and Care Homes | yes | yes | yes | Low to high |
| Assisted Living | yes | yes | yes | Medium to high |
| Continuing Care Retirement Communities | yes | yes | yes | High |
| Nursing Homes | yes | yes | yes | High |

According to the US Government, the average costs in the United States (in 2008) are:

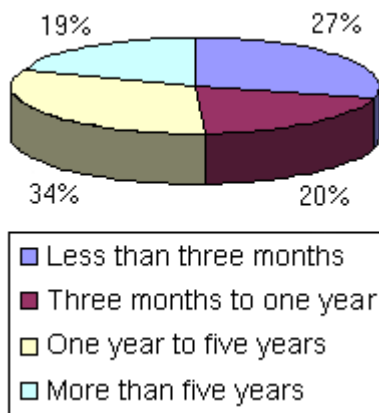
- \$187/day for a semi-private room in a nursing home;
- \$209/day for a private room in a nursing home;
- \$3,008/month for care in an Assisted Living Facility (for a one-bedroom unit);
- \$29/hour for a Home Health Aide;
- \$18/hour for a Homemaker services; and

- \$59/day for care in an Adult Day Health Care Center.

In most situations, the type of care required varies over time. A client may start out needing Homemaker Services, then graduate to requiring a Home Health Aide once or twice a week. Although most individuals requiring long-term care will see treatment in a nursing home for part of their care, the duration of nursing home care is relatively short. Figure 2 illustrates average stays for individuals in nursing homes. Keep in mind that these are average figures, actual stays could be more or less.

Figure 2

How Long Do People Typically Stay in a Nursing Home?



Source: US Department of Health and Human Services

Based on the estimated costs above, a full-year’s stay in private nursing home care could cost as much as \$76,000 (more or less depending on the client’s geographical location). While an amount of this size is probably not going to upset the plans of most wealthy and HNW clients, a longer duration of care could. Also, keep in mind that long-term care costs, like other healthcare costs, continue to rise at double digit rates. Assuming increases of just 10 percent annually, costs could double in seven years, about the time that many clients currently in their mid-60s will begin requiring some type of long-term care.

The key to assessing long-term care needs is to model the impact of long-term care expenses, using reasonable assumptions as to the risk of needing care, the type of care needed, and the anticipated cost of care.

Alternatives for Paying for Care

For affluent and HNW clients, the choices for paying for long-term care are likely to come down to self insurance and commercial insurance. Self insurance contemplates accumulating and

earmarking certain assets, or relying on already accumulated assets, to pay for long-term care. As noted above, this may be a viable solution for many clients.

But be sure to remind clients considering this route of the hidden costs of self-insurance to them and their families. These hidden costs include:

The financial cost of identifying and liquidating assets—Wealth tied up in closely-held business interests, real estate, art work, jewelry, and antiques may prove especially difficult and costly to move quickly. Even marketable securities may pose concerns. As the recent financial downturn has taught us, the worst time to sell is when you have to sell.

The emotional cost of decision-making—Self-insurance places additional burdens on the client's family members at the time they least need it. Who will decide what assets to liquidate and how much to spend?

LTC insurance assures that the amount needed to pay at least some of the costs of long-term care will be available at the time it is needed without liquidating assets. On the other hand, LTC insurance is considered by many to be too expensive, too complicated, and too difficult to obtain due to the fact that policy issuance depends on the client's health. Furthermore, many insurers have abandoned their LTC insurance product recently due to lack of critical mass in the market.

Here are a few guidelines to follow in recommending LTC insurance:

Work only with top-rated carriers—Check online ratings from A.M. Best, Moody's, Standard & Poor's, or Weiss (at www.ambest.com ; www.moody.com ; www.standardandpoors.com ; and www.weissratings.com). The first three services are free. Weiss charges \$7.95 for each company rating online and \$15 by phone. Recommend only those insurers that are rated in the top two financial-strength categories by at least two of the ratings services.

Focus on a four-year benefit period—Nearly 90 percent of all people over age 65 who enter a nursing home stay fewer than five years. The longer the benefit period, the higher the premium. Don't recommend a policy that provides more benefit than your client is likely to need.

Pick a longer elimination period—Affluent and HNW clients can probably handle the cost of a three or four month stay in a private care nursing home without much difficulty. A policy with a 90-day elimination period is likely to cost about 15 percent less than one with a 30-day elimination period. Again, it doesn't make sense to pay for more than the client needs.

Look for policy flexibility—Recommend policies that cover care not only in nursing homes but also in assisted- living facilities and at home. A home-care benefit should include adult day care, hospice services, and respite care (temporary overnight care).

Scrutinize additional benefits—Policies with inflation riders and premium refund features can be very expensive.

Finally, if you aren't comfortable making recommendations about LTC insurance, don't hesitate to call in a professional, someone who knows policy features and benefits inside and out.

Bottom Line

Not all of your affluent and HNW clients are candidates for LTC insurance. However, all of your clients are candidates for a discussion about long-term care. How do they feel about it? What would they like to see happen? How do they feel about liquidating valued assets to pay for long-term care? What would be the consequence if charitable gifts or family bequests were diminished or eliminated due to long-term care costs?

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