Long Term Care: Now an Integral Part of Smart Retirement Planning

Talk to 50-year-old men and women about retirement, and they may well admit that they have not saved as much money as they'd like. Talk to them about long term care, and they may stare at you blankly, or confess that they haven't really wanted to think about it…yet.

As an advisor to individuals and couples, you've certainly seen this type of avoidance before. Issues of aging, especially as they relate to the possibility of failing health or abilities, are not as much fun to think about as, for example, a plan to sail around the world during retirement. But unfortunately, the possibility of needing long term care is every bit as real as the pleasures that can come along with being a senior. In fact, people of age 65 face at least a 40% chance of entering a nursing home sometime during their lifetime, according to America's Health Insurance Plans' *Guide to Long-Term Care Insurance,* published in 2004.

What's more, that care can be expensive. A year in a nursing home is estimated to cost a national average of $50,000 with some areas easily costing twice that amount, and just three visits a week by a home health aide can add up to $12,000 a year with skilled help adding up to much more, according to *Guide to Long-Term Care Insurance.*

How will your clients pay for long term care?

Between the probability of requiring care at some point, and the potential cost of that support, planning for long term care becomes an important factor in retirement planning. Many of your clients may mistakenly believe that Medicare will resolve the problem. However, America's Health Insurance Plans' *Guide to Long Term Care Insurance* estimates that Medicare pays for only approximately 12% of all nursing home costs overall, and only for short-term skilled nursing home stays following hospitalization. Further, Medicaid pays benefits immediately only for people meeting federal poverty guidelines. For other people, the nursing home patient must exhaust his or her savings to become eligible for Medicaid benefits. Fortunately, the law now permits a spouse remaining at home to retain specified levels of assets and income. Nonetheless, relying on Medicaid to fund long term care is not an attractive option for people who want to maintain control of their own assets.

Another increasingly popular solution is long term care insurance. According to a 2003 LIMRA International report, There were 5.3 million long term care insurance policies (3.8 million individual and 1.5 million group) and $6.9 billion in premiums in force at the end of 2002. In addition, the market is growing rapidly.

Is long term care insurance right for your clients?

The U.S. Senior Health Cooperative, in its book *Planning for Long-Term Care,* published in 2002, recommends that people consider long term care insurance if they have over $75,000 in assets other than a primary house and car ($150,000 for a couple) and over $25,000 in annual household income ($50,000 for a couple).

Just as there is a bottom line at which long term care insurance becomes an appropriate choice, there may be a top line, too, but it is a fuzzier one. Truly wealthy individuals can consider self-funding long term care. Advisors differ on whether self-funding is the best decision for their most affluent clients, or whether buying insurance continues to be a more financially prudent move. Issues of health, insurability, asset protection in the case of serious long term needs, and the cost of insurance are key to helping extremely well-off clients decide between insurance and “going it alone.”

Most advisors also consider their clients’ lifestyle preferences and needs in determining whether to recommend long term care insurance and, if so, what type of policy. For many people, the purchase of long term care insurance provides the comfort of knowing that they won’t burden a spouse or children with the financial, physical and emotional burden of full-time care. Many single people recognize that they will need institutionalized support, rather than home care, should they become unable to fully care for themselves. And women should recognize that they may use the lion’s share of both their strength and their assets caring for a husband, leaving little to care for themselves in the likely event that he dies first. In addition, if your clientele includes same-sex couples, they have many of the same issues, plus legal and financial considerations unique to their situation.

Two combined factors persuade many clients that long term care insurance is a good investment. These are the relatively high probability that, if they buy long term care insurance, they will use it; and the security that having the coverage brings.

At what age should clients purchase policies?

The second question, if insurance is called for, is when to buy. The correct answer, of course, is “when you can afford it, and before you need it.”

Certainly, many people well into retirement seek and buy long term care insurance. But increasingly, individuals and couples in their fifties are purchasing long term care policies, too. These people may be signing the last of the children’s tuition checks, and turning their attention to retirement and beyond. Like many people, they may be concerned about managing their assets, especially if they have not saved as much as they’ve wished. The possibility of someday needing long term care, and sufficient means to pay for it, may worry them.

There are two primary reasons to consider buying long term care insurance well before retirement. The first is that premiums may be lower at an earlier age. This fact must of course be balanced against the cost of paying those premiums over a longer period of time. Even more importantly, it is prudent to buy long term care insurance before serious health problems make the person uninsurable.

Long term care insurance is becoming more responsive, and more popular

Long term care insurance policies themselves have become more attractive, with an increasing number of features and options that respond to buyers' preferences. A good policy will be designed to be tax-qualified, and will allow clients to determine an appropriate level of protection against inflation, for example. It will offer many options to allow the buyer to customize a plan to mesh with financial needs, family situation and other lifestyle preferences.

The bottom line is this: many of your clients will eventually use long term care, and for many, that care will involve a serious expense. Many of your mature clients should consider long term care insurance as a protection and a funding option. It will be a good choice for many of them. Others will determine that they can afford to self-fund long term care, and still others many lack sufficient assets to make long term care insurance a good investment. Largely, though, long term care insurance will become as important as life insurance or disability insurance, as a tool to prepare for life's challenging situations.