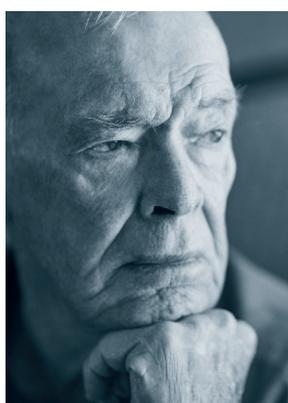


Is Long-Term Care Insurance a Necessity or a Luxury?



While long-term care insurance can lighten your cash outlay should you need extended care, not everyone can afford the expense. As financial planners, we help clients understand what insurances make sense, then navigate the broad field of products available in the market.

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MEET SAM AND SALLY. Each is 55 years old and on track to have a combined liquid net worth of \$500K when they retire 10 years from now. They will have social security income of \$39,000 per year and will need to draw about \$30,000 a year on their savings to cover additional living costs. Should they buy long-term care insurance? Probably not. If they were to require full-skilled, long-term care for three years, it would certainly devastate their finances. However, prior to those years, the insurance premiums would be unaffordable considering the overall retirement assets available to them. Let's say they were considering a benefit of \$3,000 to \$4,000 per month. As they do not have enough assets to reasonably afford a "hybrid" policy, which could provide a death benefit to a beneficiary, they would likely use a traditional long-term care policy for coverage. These policies are very much like homeowner's insurance. You pay your premiums and if you never use the insurance, you receive no benefit other than the peace of mind that you had the insurance in case you needed it. Of course you aren't disappointed that your house didn't burn down, but those premiums ate away at your retirement savings.

Now meet Mike and Alexis. Mike and Alexis are the same age as Sam and Sally, but they are on track to have a liquid net worth of \$2.5 million upon retirement with social security income of \$47,000 annually. They will use their portfolio to cover additional living expenses, approximately \$100,000 per year. Based on financial planning with their advisor, they determine they can afford the luxury of long-term care insurance — and they have options. They do not want to pay for traditional long-term care insurance,

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not knowing if and when the premiums will increase and by how much, but they do want coverage. They choose a hybrid alternative with a benefit of \$4,500 per month each, and, should they never use the policy, a death benefit for their beneficiaries in the amount of \$150,000. They also opt for the continuation-of-benefits rider, which extends the monthly benefit for as long as they need it.

Hybrid policies offer single-pay, 10-pay, 20-pay, or lifetime premium payment options, plus various combinations of those payment options. Mike and Alexis choose the 10-pay option and make premium payments of approximately \$15,000 annually for 10 years, which is appropriate for them as they plan to continue working through those years. And they have eliminated the risk of increased premiums. Hybrid policies come in many forms and with multiple options. It is important to determine which policy and premium frequency are appropriate given the overall financial plan.

Finally, meet Andre and Maria, also both 55. They are on track for a portfolio of \$7 million dollars and maximum social security benefits and will spend around \$225,000 annually. They don't necessarily need long-term care insurance but want to add it to their overall financial plan in order to reduce the burden of care on their loved ones and retain as much of their portfolio as possible for their heirs. This scenario also calls for a hybrid policy, but the single premium payment option. They implement the policy and make a single premium payment of approximately \$140,000. They have added additional protection to their financial plan as well as the coordination of benefits—available with most long-term care policies—should they need the care. Hybrid plan alternatives also include higher death benefits and higher lifetime long-term expense limits.

Long-term care costs will continue to increase. Non-guaranteed policy costs have risen as much as 25 percent in recent years. It is important to plan for these expenditures and needs — for the caregiver as well as the insured. Who is going to be responsible for your care, your finances? Making these provisions in advance will make the process easier should the time come.

We often focus our attention on the practical, numbers-based information, but there is an emotional side to long-term care. It is important for families to discuss their options both privately and with their financial advisors.

Long-term care policies are very much like homeowner's insurance. You pay your premiums, and if you never use the insurance, you receive no benefit other than the peace of mind that you had the insurance in case you needed it.

THINGS TO KNOW ABOUT LONG-TERM CARE

- The average cost for private room nursing home care is \$275 per day
— Genworth Cost of Care
<https://www.genworth.com/aging-and-you/finances/cost-of-care.html>
- Insurance companies paid over \$10.3 billion in claims in 2018; 64% of claims paid were for females.
— American Association of Long-Term Care Insurance
<https://www.aaltci.org/long-term-care-insurance/learning-center/lcfacts-2019.php>
- From: <https://www.morningstar.com/articles/879494/75-must-know-statistics-about-long-term-care-2018-edition>
 - » 52%: Percentage of people turning age 65 who will need some type of long-term care services in their lifetimes.
 - » 2.5 years: Average number of years women will need long-term care.
 - » 1.5 years: Average number of years men will need long-term care.
 - » 14%: Percentage of people who will need long-term care for longer than five years.
 - » 0%: Percentage of Americans over age 65 who have Alzheimer's dementia.
 - » \$30 billion: Long-term care expenditures in the U.S. in 2000.
 - » \$225 billion: Long-term care expenditures in the U.S. in 2015.
 - » 5.5%: One-year annual inflation rate in nursing home costs, private room, 2017.
 - » 34.2 million: The number of Americans who have provided unpaid care to an adult 50 or over in the past 12 months.
 - » 65%: The percentage of older adults with long-term care needs who rely exclusively on friends and family members to provide that assistance.
 - » 34.7: Average number of hours worked by unpaid caregivers who have jobs in addition to caregiving.
 - » 125: Number of insurers offering standalone long-term care policies, 2000.
 - » Fewer than 15: Number of insurers offering standalone long-term care policies, 2014.

IMPORTANT DISCLOSURES

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Ryan earned his Bachelor of Science degree in finance with a concentration in investment analysis and economics, graduating cum laude from the University of Pittsburgh. Ryan is a CERTIFIED FINANCIAL PLANNER™ and is licensed with expertise in life, annuity and health insurance.

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