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Family Office Bulletin:

Insight Into Long-Term Care Insurance

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Is Long-Term Care Insurance Worth a Second Look?

Americans are living longer compared to historical statistics (although maybe not healthier). The U.S. Department of Health and Human Services states that 70% of people turning 65 today will need some type of long-term care during their remaining years.[1] With longevity on our side and uncertainty about the future cost of healthcare, it may be prudent for high net worth individuals to review the option of long-term care insurance, and if appropriate, add a policy to their toolkit for retirement and/or long-term planning. Long-term care insurance ("LTCI") is insurance which pays for a range of healthcare services and support functions when an individual is no longer able to independently meet his or her personal care needs. These functions are considered "Activities of Daily Living" and consist of eating, bathing, dressing, toileting, transferring and continence. As it is a difficult scenario to address, most people tend to ignore the planning for what will happen to them in their later years of life — be it living in an assisted living facility, paying for home health care personnel in the privacy of one's house, or having family members come to their aid. All of these are viable options, since most high net worth individuals (a) are typically not eligible for Medicaid; (b) have limits placed by Medicare on its payment of or reimbursement for long-term care facilities and (c) likely have ample liquidity now that one assumes can cover for care later. For those who would prefer to leave those liquid (and other) assets to family members and/or have peace of mind concerning personal healthcare payments for the future, LTCI may be worth a second look as you review your estate plan with your insurance broker, tax expert, or Family Office advisor. LTCI should certainly be addressed if there is a history of long-term illness in the immediate family, a current disability exists, or possibly if one is single and does not have relatives close by.

What is LTCI?

Historically, LTCI was simply a policy which paid benefits out to the policyholder when two of the six "Activities of Daily Living" (referenced above) were no longer able to be physically completed by the policyholder without the help of another. The premiums needed to be paid annually, and if at any time you ceased payments, the plan was cancelled and all past premium payments were lost. Additionally, if you did not use the benefits of the plan during your lifetime, there was no cash residual value or the ability to transfer the plan to any beneficiaries, so premium payments were considered "monies not well spent." Needless to say, the attractiveness of this product declined dramatically in the 1990s. It was expensive, had no cash value, and there was annual "premium creep". Nowadays, there are more varied LTCI options, each of which have their own pros and cons, and will be briefly discussed below.

The reality of LT Healthcare costs:

To put long-term care costs into perspective, according to Genworth Financial, the annual cost of a private room in a nursing home averaged $92,378 in 2016.[2] In areas where the cost of living is substantially higher, such as the East Coast, this figure

[1] American Association for Long-Term Care website

[2] Forbes Magazine, Aug 2016, "Will the Cost of Long-Term Care Bankrupt You"?

can double. If we assume the average time spent in a long-term care facility (or procuring long-term care if the decision is to handle it "in-home") is two to three years (per person), a couple could incur well over $1million in long-term healthcare costs. Long-term care policies are typically purchased when an individual is in his or her 50s or 60s. Once you reach age 70 or older, the cost of a policy increases dramatically. The cost of a LCTI policy can start at 25% of the total benefit, but this estimate can vary with factors such as current health, family history and age at the time of the initial policy underwriting.

LTCI offers unlimited benefit up to the policy amount ("lifetime protection") as there are no limits to the size of the claim one can make. Thus, if you purchase a $2 million plan and you have only paid one or two premiums before you require LTCI, the full amount is available for you to claim.

Planning Tip #1: If you have a birthday approaching within 3 months, purchase your LTCI PRIOR to your birthday. Rates are based on "attained age" which means you will be more out of pocket for the same coverage if you purchase it AFTER your birthday!

LTC Option Considerations

In addition to the standard option mentioned above, LTCI is now packaged a few different ways to remove the "What if I never need long-term care" concern/question that typically arises with this product. Some of those options are:

1. Fixed Annuity with LTC rider percentage: A Certificate of Deposit-like investment which produces a small income stream and adds a long-term care rider component. The benefit to this product is that you retain access to your funds without having to go through the health underwriting process. The cons to this product are the low interest rates associated with the annuity and the amount of money one needs to lock up today in a hefty upfront payment. This product is a good hedge for an individual who is risk adverse, and for an individual who prefers to "write a single check and forget about it."

2. Life Insurance with LTC rider: An investment into a life insurance product (cash value life insurance such as term, whole life, etc.) which adds a long-term care rider to the policy. This piece is paid from the policy's death benefit, and is typically based on a prearranged schedule. This product is a good strategic consideration for an individual who would like life insurance (and has beneficiaries they wish to name), coupled with the ability to draw down on the policy for healthcare needs. Thus, one eventually gets the benefit of the premium even if the policyholder did not need it for long-term care. Another pro is that these polices typically have set fixed premiums, alleviating "premium creep." These policies are expensive, so cost is a factor in its overall appeal.

3. Short-term care insurance: Benefits for this policy are usually capped at one year, or a maximum of two years. These policies are less expensive than LTC policies, and are considered "bet to die" policies. The policyholder would need to pass away within the year to fully utilize the benefits. If the policyholder outlives the term, other means of liquidity must be utilized to pay the healthcare bills going forward.

Planning Tip #2: Have your insurance broker bid out your long-term care policy with all the national carriers and ask to see the quote results – both the LTC monthly benefit and the death benefit amounts will vary by carrier so you should review to see which allocations will work best for you.

4. Home Equity: Though this option is not a common way of sourcing funds for high net worth individuals, it is important to highlight for those who maintain multiple residences. A reverse mortgage (based on the current fair market value of the house) may be placed on a home in order to free up funds which can be utilized for any use of the homeowner, including long-term care. The appraisal and application process for a reverse mortgage is quite streamlined, and once approved, funds are accessed by a simple request to the bank by the homeowner. The detriments to a reverse mortgage are that the homeowner pays an interest payment back to the bank for the funds drawn, and if 100% of the funds are utilized, the bank owns the home outright and heirs no longer have the home as an asset to inherit.

Conclusion

The enormous cost, both financially and emotionally, of dealing with long term healthcare is an increasing concern for families. Prudent planning, including a review of medical histories, net assets, and the wishes and intent of each individual are key factors to take into consideration when weighing the potential purchase of a LTCI policy. LTCI can be greatly beneficial to high-net worth individuals and families depending on their liquidity needs, healthcare desires and/or insurance inclinations.

At Chilton Trust, we believe it is our duty to not simply assist clients in reaching their retirement and life-planning goals, but to guide them in identifying and understanding the necessary steps to reach those goals. We stand ready to help assess what insurance strategy may be appropriate for you and your family.

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