Timing is Everything When Planning for Long-Term Care Expenses

by Maryglenn Boals, CLTC

Charles Dickens described it well: "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness ..." (A Tale of Two Cities)

How many of you can look back over the last year and feel like you have experienced this range of emotions? Together, we have traveled through some unprecedented economic times. Has that journey made your clients reluctant to talk about retirement planning or other financial goals and objectives that they had previously hoped to accomplish this year? Your role this year may be taking the time to explore some creative solutions or ways to meet these goals.

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There are a number of things in life that we are expected to do at certain ages—entering kindergarten, driving a car, voting or legally consuming alcohol. These are all part of our "life timeline." I doubt many of these milestones were missed because of the economic downturn. But how many of your clients have used the economy as the reason they are not doing any retirement planning?

Like Dickens, our "age of foolishness" used to have people wait until age 65 to buy Long-Term Care insurance (LTCi). Usually this was when they were getting ready to retire. The focus was more on your "life timeline." The new "age of wisdom" is counseling clients to explore this purchase at a time when they are most likely to qualify medically. Clients need to understand that they must "health-qualify" for LTCi coverage. The most recent statistics from the American Association for Long-Term Care Insurance (AALTCI) in 2008 states that 22.9 percent of clients age 60 to 69 were declined LTCi coverage due to health conditions This rose to 44.8 percent with those 70 to 79. The time to apply and qualify may be now—not later when their portfolio recovers.

So how do you bring up this conversation and handle objections with current financial fears?

First, let's look at the common objections to LTCi:

1) I may not use it. None of the insurance we buy is something we "want" to use. Do you buy your car insurance hoping to have a crash and collect? Or that your home is damaged in a fire—just so you can feel like that policy was worthwhile? The new statistics are showing that the odds of you needing long-term care are much higher than either of those events happening. In fact, the odds of someone needing long-term care are one in two. For a couple, you can see how this makes sense. It is highly probable that one of them will use this policy at some point in his or her life. I encourage you to run an illustration and to show your client the "return on premiums paid" page. They are usually amazed.

2) LTCi is too expensive. Ask any adult child who is paying for their parent's long-term care services how expensive it is and you will learn that insurance is literally "pennies on the dollar" in terms of the return on the financial investment. You also need to examine the emotional costs associated with not having a long-term care plan in place. Currently, the average cost of a private room in a skilled nursing facility for Phoenix is $209 per day (2008 Genworth Cost of Care Survey) or $76,285 per year. Average length of stay in a skilled nursing facility is 2.4 years as reported by the AALTCI. This supports information from recent claim evaluations by Milliman, Inc. that only eight in 100 claimants exhausted their policy's three-year benefit period.

These statistics are vital to the current LTCi conversation with your clients. With portfolios feeling the squeeze, suggesting another expense may not seem prudent to them, but we can show them that the time may be right. We have to go back to the "age of wisdom" and the requirement of medically qualifying for LTCi. It's no longer a joke that "we only have our health!" These unprecedented financial times present an opportunity for us to approach LTCi in new and innovative ways. We need to maximize the discounts available and design plans that fit today's budget.

Ways to optimize your client's savings right now:

1) Capture the client's good health—get that "preferred" health rating and save about 15 percent on average.

2) Spousal discounts—couples can secure additional discounts, even if only one qualifies for coverage.

3) Protect the investment—when insuring a couple, are you offering a shared care rider which allows the policy owner to "move" some of their benefits to the ill spouse so that they are really getting the value out of the policy? Also, on that note—did you add survivorship? This usually allows the surviving spouse to inherit a balance of years from the deceased spouse.

4) Protection against inflation—using a five percent compound adjustment rider was always the best choice for your younger clients as you wanted their benefit dollars to grow at the greatest rate of return. Unfortunately, this drives up the cost of the policy—sometimes double or more. Have you explored some of the new options available? John Hancock's Leading Edge product uses a CPI—U calculation (based on the consumer price index—urban) with a guaranteed purchase option. How about looking at MedAmerica's innovative five percent compound, 2X maximum benefit? This option grows at a five percent compounding rate until the amount is double the initial benefit (i.e., capping when a $4,500 per month benefit reaches $9,000 a month). No, this will never match the five percent compound unlimited amount, but it will help someone hedge against the future cost of inflation. Remember, we are trying to capture their good health. These scenarios are more appropriate when working with a client that would have other assets in retirement to augment their LTC costs or could possibly purchase additional coverage when the market recovers. If their health status changes and they find themselves uninsurable for traditional

options—you may want to explore other financial tools, such as annuities. Otherwise, additional benefits could be purchased at a later date.

5) Length of the benefit period—Traditional "old wisdom" had us planning for the worst-case scenario and maximizing protection for the client. The "new wisdom" may be that we carefully evaluate the client's age and health and at least purchase a small (three-year) policy now. When the market recovers (call me an optimist) you can always purchase additional insurance if the health status is maintained or be thankful for the small policy you were able to purchase.

6) Group LTCi may not be the most cost effective for younger, healthier clients—the typical savings is about a five percent discount overall. Remember, "preferred health" on an individual policy could mean 15 percent. The group option is best for those with significant health challenges. Many carriers offer limited underwriting or guaranteed issue. Clients need to be advised and explore all of their options before electing to sign up for their group policy.

Don't let this time pass—take time to discuss some creative strategies with your clients in addressing their long-term medical expenses. Health may be their greatest asset – invest it wisely.

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