Challenges in Long Term Care Planning

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People are in better shape today than ever before as they age. An 80-year-old in the year 2014 is likely to be significantly healthier than an 80-year-old was in 1984 or 1964. Elderly individuals have been the beneficiaries of more efficacious medications, and improved medical and surgical treatments as they have aged. But even with individuals being healthy, the sheer numbers of the advancing and aging army—the baby boomers—will create a massive demand for long-term care services over the next 30 years. Despite the statistics and facts, most people are finding it difficult to plan for this inevitable happening.

Because the need for long term care is a risk and not a certainty, it should be handled just as other unpredictable and potentially catastrophic events; with risk management tools such as insurance. A poll commissioned by the National Academy of Social Insurance found that nearly three-quarters of baby boomers and seniors are concerned either a great deal or a fair amount about paying for long-term care . It is also troubling that the current system impoverishes people before it helps them. As wealth advisors, we believe that planning is not an option, it is a necessity. Unfortunately, the tools that are available such as Long Term Care insurance policies are also losing their appeal due to the cost structure. Here is an explanation of some of the products that are popularly used to for Long Term Care.

Long Term Care Policy

Long Term Care insurance was designed to pay for the cost of care for those who needed care in a nursing home or in an adult day care. Long Term Care policies first emerged in the 1970's and by the late 1980's and early 1990's several insurance companies started to offer them as the demand for care for the aging population increased. Those who could afford the premiums secured their future with these types of policies. Problems began to arise as the insurance companies started to receive claims. Insurers suddenly realized that people were living longer and the cost of health care was much higher than anticipated. They had underestimated the cost of these policies. Across the board all insurance companies have raised premiums more than once since the policies were first issued. For most elders living on fixed income the policies became unaffordable. Many insurance companies offered to reduce the benefits to keep the premiums at the same level.

Long Term Care insurance is still an important planning tool. It is equally important however, to take into consideration the current and future cost of the policy as well as affordability before purchasing the policy.

Traditional Life Insurance with Long Term Care Rider

The life insurance approach to long-term care coverage is fairly straightforward: A cash-value insurance product -- whole, universal or variable universal life – offers LTC coverage as an additional rider in the policy. Once the insured triggers the long-term care insurance coverage, it comes out of the policy's death benefit, usually on a prearranged schedule. At death, the beneficiaries get what is remaining of the life insurance. The good thing about this type of plan is that if one does not need the LTC coverage, the death benefit of the life insurance will still be available to the beneficiaries. This type of plan however, can be expensive.

Fixed Annuities with LTC Benefits

The annuity approach requires a large deposit in the form of an investment and for an extra cost a LTC rider can be added to the annuity. There are advantages to the annuity approach. (1)The owner retains access to his/her money (although fees usually apply), (2) the cost of the LTC rider may be less than an LTC policy, The disadvantage is the requirement of the large deposit upfront.

With cost as a major constraint together with limited options in available products, Long Term Care planning is a huge dilemma. It is important to plan for this risk nonetheless. Here are a few possibilities to consider.

A. Determine your income and living expenses now and estimate the same during retirement. Are there enough assets to self-insure one or both spouses? If yes, a LTC product may not be necessary unless there is a need to leave assets for the next generation.

B Involve adult children in making some of these decisions. Will they or other family members be able to help in care giving, thereby reducing the cost? Many adult children are helping parents by sharing the cost of the LTC premiums. Communicate with them about your finances if necessary and applicable.

C. Proper investment planning and keeping living expenses under control throughout retirement will prevent depletion of assets and being at the mercy of government to pay for Long Term Care.

D. Reverse Mortgage may be a solution for many people in the future to pay for long term care. A home is one of the most valuable assets for most people and can be an important source for income to pay for long term care.

Long Term Care planning is challenging but not planning for it should not be an option.