Six Facts

What You Must Know <u>Before</u>

Buying Long-Term Care Insurance

GURLEYLTCI
Long-Term Care Expense Planning

1 Know the risks and costs.

Most of us are in denial and don't believe we'll ever need long-term care. Yet 70% of us who reach age 65 will experience a long-term care event in our remaining years, according to the U.S. Department of Health and Human Services.

The brain is wired to be optimistic. The thought of going to a nursing home is intolerable. Our minds play tricks on us. We think that because our parents did not need long-term care or because we exercise and eat healthy meals that we'll dodge the long-term care bullet. Pacemakers, DNA-customized medications and advanced technologies like gamma knife surgery mean many of us will live very long lives. It's counterintuitive, but the longer we live, the greater the likelihood of needing care. And, we are living longer, much longer.

The cost of long-term care astounds most people. One year of care often exceeds $100,375, the 2018 national median cost for a private room in a skilled nursing facility. In many areas of the United States costs already exceed $100,000 a year. And, extensive home care exceeds these costs.

Compounding the high cost of care is the length of time care is needed. An average care event when care is provided at home lasts three to five years. An average facility stay is now about three years. In the case of Alzheimer's, which affects half of our seniors age 85 and older, care may be necessary for a decade or possibly longer. The math is simple. The cost is staggering.

- ✓ ***The likelihood of needing care is greater than not. The cost of care is already high and rising at twice the annual rate of inflation.***

Considering the risk and expense of eventually needing care, we recommend for those clients who choose not to purchase long-term care insurance, a specified fund of $400,000 or greater, per person, be set aside to pay for care. Depending on the client's age this fund must be able to earn 3% to 5% after taxes for as many as 20, 30 or 40 years in order to pay for the average long-term care event.

✓ ***Long-term care insurance (LTCI) allows policyholders to do other things with the money that would otherwise be set aside to pay for care – fund college expenses, pay off mortgages or invest more aggressively.***

Why is long-term care insurance unique? Most of us already employ several asset protection strategies. We wouldn’t drive a car without auto insurance or own a home without homeowner’s insurance. But few of us have protected our assets and the income derived from those assets with long-term care insurance despite the overwhelming odds of one day needing care. The likelihood of experiencing a catastrophic homeowner’s event is quite low – one claim to about 1300 policies. The likelihood of experiencing a long-term care event is quite high – greater than one in two! Industry pundits now describe long-term care insurance as an expense transfer strategy rather than a risk transfer strategy.

2 Know the three ways to pay.

For most Americans there are only three ways to fund long-term care expenses:

1. **You can self-fund expenses.** Long-term care expenses can be paid “out of pocket.” This means paying with your income, savings and/or investments.

This may result in liquidating assets at an inopportune time like selling real estate in a down market, cashing in retirement plans and incurring penalties, selling stock or draining bank accounts. Any of these transactions may result in unfavorable tax consequences.

✓ ***Self-funding means that money that was intended to support the family or a surviving spouse, pay for grandkids’ education, endow a charity or transfer wealth to the next generation may no longer be available for these purposes.***

2. **You can rely on Medicaid to pay your expenses.** Qualifying for Medicaid requires that you spend down assets and income in accordance with government requirements.

Medicaid has general, financial and medical requirements. To qualify financially, you must adhere to resource reduction rules. In most states a single individual may not have more than $2000 in a cash reserve. Relying on Medicaid means you put all your care decisions in the government's hands. It will determine what assets you may keep, where you will receive care and who will provide care.

Medicaid budgets may make qualifying for long-term care assistance even less desirable in the future.

3. **You can fund with the benefits of a long-term care insurance policy.** LTCI is specifically designed to fund long-term care expenses – assistance with activities of daily living such as bathing and dressing, supervision due to cognitive impairment and homemaker services like meal preparation. LTCI empowers policyholders so they may choose where care is received and who provides their care.

- ✓ ***Securing LTCI coverage alleviates anxiety for families as they no longer have to worry about who will provide care or how to pay for it.***

Medicare and private healthcare insurance provide very little in the way of long-term care benefits. Veterans' Administration benefits may provide some assistance if the veteran was on active duty or injured during war time.

3 Know good health is your ticket to a policy.

Your ability to purchase a long-term care insurance policy depends on your good health. You may be denied LTCI if you are not in good health when you apply.

- ✓ ***Long-term care insurance is medically underwritten.***

During underwriting the insurance company may review your medical history, prescription records and conduct a cognitive exam.

Clients in their forties often feel young and healthy. They are focused on other financial issues like college tuition for children or saving for retirement. Yet age 40 is not too young to consider long-term care insurance. Age-related diseases like multiple sclerosis and other conditions such as obesity, diabetes, musculoskeletal issues and cancer are common and may prohibit you from qualifying for coverage.

The insurance application form will ask detailed questions about health conditions, height and weight, medications, prior conditions and treatment protocols including surgeries. In many cases conditions as simple as currently receiving physical therapy or being considerably overweight will disqualify clients from consideration.

✓ *Age forty is not too young to apply for coverage. In the U.S. today, 43% of those receiving long-term care are working age adults and the primary reason for their care is auto accidents followed by spinal injuries.*

Clients in their fifties and early sixties often place a strong priority on building their retirement plans and fail to secure long-term care insurance while they are healthy and insurable. Ironically, these clients expose all their retirement income and assets to a long-term care event.

Securing LTCI is always a balancing act between cost and coverage. How much coverage is needed to protect assets? Coverage needs to be affordable as LTCI should be purchased with the mindset that it is a life-long commitment.

✓ *LTCI is an age-based product. Generally, the younger you are and the healthier you are, the more likely you are to meet the underwriting guidelines. And, the younger you are, the less expensive premiums will be. Buying at a younger* *age saves money, a lot of money over a lifetime.*

Although some clients can pass underwriting requirements well into their seventies and occasionally early eighties, as we age insurability becomes more challenging and premiums more expensive.

When cash flow is tight, older clients sometimes ask their children to help pay for their LTCI. Although this can initially be a difficult conversation, children's own financial security may be at risk if they need to pay for a parent's care. Children providing the hands- on care to their aging parents often sacrifice their own careers and future financial security.

Caregiving impacts entire families – children, spouses and grandchildren. Many children will gladly help pay for LTCI allowing parents to stay at home. Then children can oversee care rather than providing the hands-on care.

- ✓ ***Caregiving may require three eight-hour shifts a day and is often required within the first 30 minutes of waking. The average duration of informal caregiving provided at home by friends and family is between three and five years.***

4 Know the common excuses and fallacies.

Which of these excuses about long-term care have you heard?

My spouse will take care of me.

Let's hope your spouse outlives you and is around to provide care. So many times, we've heard this reasoning from a big, burly guy whose wife is petite and might weigh half of his weight if sopping wet. Just imagine her, aged and frail, trying to lift him off the floor after he's fallen.

When care can be scheduled, like assistance with bathing and dressing, a spouse providing limited care on a short-term basis can make sense.

However, long-term on-demand assistance with activities of daily living or supervision due to cognitive impairment requires full-time assistance or supervision. In this case, care provided by a spouse will eventually need to be supported by other family members or paid caregivers.

The caregiving spouse may also have his/her own health concerns, may not have the strength for the physical tasks such as support and lifting, or may lack the endurance required to wake at night to provide care.

- ✓ ***Paid care usually becomes the only viable long-term option. Once paid care becomes necessary family assets and income are exposed.***

My kids will take care of me.

Most children do want to care for their parents as they age. They simply don't understand how big a job it is or how disrupting to their own lives it can be. Children may need to quit their jobs, relocate to live closer to or with parents, and be prepared to provide round-the-clock assistance for extended periods.

Research shows that adult children caregivers on average lost over $324,000 (women) and $284,000 (men) in wages and benefits, pension or 401(k) contributions, Social Security benefits, etc.

Siblings often disagree on the level of care required and whose job it is to do what. After a few months of caring for a parent, children seek assistance and paid care usually becomes necessary.

Many parents are uncomfortable uprooting their children's lives. And, assisting with intimate aspects of care like bathing and toileting often changes the dignity of relationships.

If I never need care, the premiums will have been wasted.

- ✓ ***Some clients resent the "use it or lose it" proposition of insurance. Today, there are products and options that address this issue.***

Traditional LTCI policies can be designed with a return of premium option that will refund premiums paid, less any benefits paid, to the policyholder's estate or beneficiary upon death. Other options allow a couple to share the benefits. This increases the likelihood that at least one spouse/partner will use the benefits. A survivorship option provides for a paid-up policy for the surviving spouse upon the death of the first spouse or partner. There are specific requirements that must be met for this to be in effect, but the benefit is that there are no future premiums for the surviving spouse/partner.

Life insurance based long-term care solutions will pay the policyholder in one of three ways: 1) death benefit if long-term care is never needed, 2) long-term care benefit if care is needed, or 3) cash value of the policy if the policyholder terminates the policy. We like to say, "Live, die or quit, there's a benefit." Certain annuities designed to cover long-term care expenses perform in a similar manner.

My advisor says I can afford to self-fund long-term care.

Planning to self-fund the cost of care and writing the checks are two different things. Frequently, those who can self-fund care are able to do so because they have made thoughtful money decisions all their lives. When they see their life savings eroded and the impact it has on the family, it is devastating.

- ✓ ***Extensive home care lasting beyond three years and high-end assisted living communities can easily exceed $500,000 per person.***

Most financial advisors are not familiar with the risk of needing long-term care, the cost today or how costs will increase over time.

Occasionally an advisor will suggest saving the money spent on LTCI premiums and investing to pay for long-term care. There are three big problems with this investment strategy:

1) When care might be needed. If a long-term care event happens tomorrow, or even in 5 years, significant earnings may not have materialized.

2) How long care will be needed. Even if premium expense is saved and invested, the returns necessary to generate enough money to pay for care are not guaranteed.

3) Tax consequences. Investments are taxable. The benefits of tax-qualified LTCI policies are tax-free to policyholders. Same with long-term care benefits paid from a life insurance policy or Pension Protection Act compliant annuity.

Just Shoot Me!

It is not unusual for clients to say, "When the time comes, just shoot me. I'm not going to a nursing home." Don't let the fear of a nursing home prevent you from buying LTCI. This insurance is designed to enable policyholders to remain in their own homes.

- ✓ ***Some 60% of LTCI claimants begin care at home and most never change venues meaning all care is received in their own homes.***

5 Know an expert.

Long-term care insurance is complex. There are multiple carriers offering multiple products with multiple options.

Some carriers offer traditional pool-of-funds products that reimburse for covered expenses. Others pay the policyholder cash benefits.

Asset-based or hybrid solutions including life insurance or annuity-based products are also available. It is possible to exchange an existing policy that does not offer long-term-care benefits for a new policy with long-term care benefits without creating a taxable event.

While it may be tempting to work with your financial advisor or property and casualty insurance agent to secure your long-term care insurance, you owe it to yourself to work with an expert who:

- Holds the CLTC (Certified in Long-Term Care) designation.
- Focuses exclusively on long-term care expense planning.
- Represents multiple top-rated companies and the full range of products in the market today.
- Can share with you the current and projected costs for care venues where you live or where you plan to live in retirement.
- Is familiar with state insurance regulations.
- Is certified to sell partnership policies.

Every insurance company has health and premium sweet spots. One company may consider an applicant for a "preferred" health discount while another will not. One may increase rates for older applicants while another discounts rates.

✓ ***Your long-term care specialist must have direct access to underwriters to prescreen medical conditions and shop for the best products and premiums for you.***

Most states now offer partnership policies that protect your assets from Medicaid resource reduction requirements. Your long-term care
specialist must be Partnership certified to explain and sell these policies.

Many brokers do not work with enough top-rated long-term care insurance companies to recommend the best carrier and product design for you. Work with a long-term care specialist who represents multiple top-rated companies and multiple offerings within each product type.

6 Know that you can't afford to wait.

We know, we know. You are not ready to focus on long-term care expense planning just yet. But don't put it off. Really!

We know it sounds dramatic, but we field calls daily from those who want and need LTCI

and it's simply too late. Our health and therefore our insurability can change in an instant. Even a seemingly small health problem could prevent you from qualifying for a policy. The result is that self-funding and/or qualifying for Medicaid may become your options.
Putting off planning for long-term care expenses today could result in changes to your standard of living and family wealth forever. Don't delay.

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Gurley Long-Term Care Insurance is an insurance brokerage firm specializing exclusively in long-term care expense planning and appropriate insurance solutions.

We believe that planning for long-term care expense is an important component of financial planning and critical to financial security in retirement.

If you are ready to take the next step in long-term care expense planning, give us a call.

Nicole Gurley founded Gurley LTCI in 2002. She focuses exclusively on long-term care expense planning and funding solutions. She holds the CLTC,

Certification in Long-Term Care, designation and is licensed throughout the country. Nicole can be reached at 480.515.2715 or Nicole@GurleyLTCI.com.