RIVERPOINT
CAPITAL MANAGEMENT | INVESTMENT ADVISORS

LONG-TERM CARE INSURANCE Q&A:

What Considerations Should Be Made When Buying Long-Term Care Insurance?

Q: Should I buy long-term care insurance to protect my assets and cover future expenses?

A: Long-term care insurance is often used to provide peace-of-mind, knowing the financial and non-financial caregiving decisions of an extended illness can be made with confidence.

According to the U.S. Department of Health and Human Services, 7 in 10 people over the age of 65 will require long-term care. This compares to a 1 in 340 chance of a major auto accident and a 1 in 1,200 chance of a total loss from a house fire.

Furthermore, the cost of long-term care (LTC) is high. The U.S. median cost of a private room in a nursing facility is $7,700 per month, an assisted living facility is $3,600 per month and home care is $3,900 per month1. A 55-year-old could expect to pay $600,000 to $750,000 for nursing care at the age of 80. This can easily wipe out a lifetime of savings[2].

The first thing you should consider is whether you have a financial need for long-term care insurance. In other words, do you have sufficient assets to be able to self-insure or do you need some type of insurance to avoid depleting your wealth in the event that you need assisted living?

For some clients, this is more of an emotional decision than a financial one. We have a client who is a nurse and her husband is a physician. They bought a long-term care (LTC) policy so neither of them would feel guilty about hiring help in the event the either spouse needed it. This is a case where the insurance coverage was appropriate even though they didn't technically have a financial need for it.

Q: If I'm interested in buying LTC insurance, what options are available?

A: There are many long-term care insurance solutions and the process of sifting through them can be overwhelming.

At RiverPoint, we classify the types of coverage for an extended illness into three categories. First is the **traditional long-term care policy**. The general design is a lifetime premium that will likely increase. It provides a reimbursement of qualified expenses once a triggering event has occurred. Due to challenging actuarial issues, these policies are issued by an ever-dwindling number of carriers.

Pro: The initial premium provides the most monthly benefit of any strategy

Con: Many see this as a use it or lose it strategy with increasing premiums.

A second strategy is an **asset-based design**. This strategy can be considered a shift of cash assets because you make a payment(s) into a plan that provides more than just a reimbursement of qualified care expenses. Many of these plans are "no questions asked" anytime return of premiums is paid, an income tax-free death benefit, and a monthly benefit that grows (as an inflation adjustment) annually for life. In most cases, all these benefits are guaranteed contractually.

Pro: Strong guarantees for future benefits, no possibility for rate increases

Con: Highest initial cash outlay.

The third strategy is a **new design of life insurance**. Traditionally, there is no way to access death benefits from a life insurance policy prior to death. In recent times, many carriers have designed riders on new policies allowing the policy owner to use the death benefit, during their lifetime, as a means to provide funding for an extended illness. These plans can be designed to have custom-tailored guaranteed premiums and death benefits.

Pro: Highest income tax-free death benefit of these plans

Con: No increasing benefits to offset inflation.

There is not a "one size fits all" solution, which is why we consider all options when working on your overall wealth plan.

[1] Genworth.com

[2] AARP.com

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