Long-Term Care Insurance Is For the Wealthy

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Of all the obstacles long-term care insurance faces to becoming a viable product for the financial services industry, none is harder to overcome than the belief that is it inappropriate for high net worth individuals. These clients are generally defined in trade journals as having between $2 million and $2.5 million in investment assets. This belief is based on fundamental misconceptions of what long-term care insurance actually does. When combined with a historical antipathy towards the product, it leads many to avoid the subject entirely by suggesting to their clients they can self-insure a long-term care event.

There are three key misconceptions:

1. Long-term care insurance protects individuals
2. Long-term care insurance protects assets
3. Wealthy people can afford to self-insure

Long-term care insurance doesn't protect individuals – it protects *families*

To understand what long-term care insurance does, you must first understand what motivates people to purchase it. The commonly held belief that individuals purchase the product for reasons such as maintaining their independence, getting into a good nursing home, or to avoid being a burden to those they love, is incorrect. No one purchases any form of personal-line insurance such as life or disability income, expecting to use it; if this was the case, the carrier would never issue the policy.

As with these mainstream products, people purchase long-term care insurance because they understand the consequences a need for care would have on those they love. Simply put, reasonable people never assess the *risk* of an event happening to them, only the *consequences* to those they care deeply about if it ever did. If severe enough, individuals will completely disregard risk and focus only on a way to mitigate these consequences. It is no different than what motivates people to buy life and or disability insurance. And those consequences can be severe.

The majority of care is informal, which means family and or friends provide it. This assistance, referred to as custodial care, is necessary because of either a chronic illness, cognitive impairment, or both. The former makes it difficult, if not impossible, to perform basic daily functions. The latter affects the individual's ability to safely interact in his environment. The nature of custodial care is often all consuming for those who provide it, leading to serious emotional and physical costs.

Put simply, if your client ever needs care over a period of years, his life is not going to end, the lives of those providing his care, as they know it, are going to end.

Long-term care insurance should viewed exactly like life and disability insurance: as protecting not the insured, but rather his family. By paying for care, it allows your client's wife and children to supervise, rather than provide it.

Long-term care insurance doesn't protect assets – it protects *income*

It has long been held that long-term care insurance protects assets. It doesn't - it protects *income.* Clients work a lifetime to accumulate a portfolio which will generate sufficient income in order to maintain their standard of living during retirement. This includes keeping prior financial commitments. It is reasonable to assume that client's retirement income is matched with their

retirement expenses. If nothing has been allocated to pay for care, the income must be reallocated. Where else can the money come from?

In its purest sense, long-term care insurance is no different than disability insurance - it provides a source of income. In this case, the income is used to pay for care. This allows the client's retirement income to be used for its intended purpose, supporting lifestyle and keeping financial promises. Without this essential product, the family has few options, among them, curtailing lifestyle, liquidating assets, or both.

Not all wealthy people can afford to self-insure

Financial and consumer publications will often assess the cost of long-term care in terms of a stay in a nursing home. By doing so, the math becomes simple: the average stay in a facility is 2.5 years, which is then multiplied by an average cost of $67,000 per year, resulting in $132,000. This would seem well within the ability of a person with $2.5 million to afford. This one dimensional view fails to take into consideration two critical issues: long-term care is not about nursing homes, and income, not assets, pays for care.

Every carrier in the long-term care insurance industry reports that the overwhelming percentage of claims submitted are for care at home and in the community. That cost can easily exceed that of a nursing home. For example, the average life expectancy of an individual with dementia is anywhere from 9 to 11 years. If he ever goes to a nursing home, the average stay, as previously stated, is 2.5 years. A more accurate equation should consider the financial cost of care over the length of the illness, regardless of who is providing it and where it is given.

The question then becomes, what will be used to pay for this care. As previously stated, it's not assets, but rather income. Let's examine this using a $2.5 million investment portfolio. Assume a 5% rate of return and that 100% of the portfolio is in income-producing investments (which is unlikely). $2.5 million would generate approximately $125,000 each year, all of which is likely committed to support lifestyle. If the client wants to pay for care at the same time he would have to consider liquidating assets. That poses some serious issues:

- Is the portfolio liquid?
- Will there be tax consequences?
- What if the portfolio has to be sold in a bear market?
- Are there legacy assets? If so, which of them would be sold?
- Accelerating the draw down of qualified funds will shorten the payout.

Any one of these issues could threaten the financial viability of a surviving spouse and or their children who may rely on an inheritance.

Summary

Professionals should be prepared to discuss with their clients, not what the cost of a nursing home may be, but what the consequences failure to have a plan for long-term care would have on the emotional, physical and financial wellbeing of their family. Long-term care insurance is an essential tool which protects your client's family.

When it comes to financing that plan, the emphasis should be on income, not assets. Long-term care insurance protects retirement income by provides an independent source of income which can be used to pay for care. By doing so it protects, not only lifestyle, but the financial integrity of the family.