WHITE PAPER

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Long-term Care Insurance: Is It Part of Your Portfolio?

If you're like most people, when you hear the words "long-term care insurance," the first thing that comes to mind is "I'll never need that." The fact is, long-term care (LTC) insurance could be one of the most valuable pieces of your financial portfolio. If you are afflicted with an illness or injury, LTC insurance pays for services that assist with daily living, such as bathing, dressing and eating, which can be quite costly. But there are so many myths surrounding this type of insurance that it can be hard to separate fact from fiction.

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For example:

MYTH #1: I'll never need long-term care — Overall, one in two people will need LTC, including 70% of those over 65. It's likely that you have a friend or family member who either required LTC or provided care for a loved one, and perhaps you even know people who lost their life savings paying for LTC. Yet the prospect of being unable to care for ourselves can induce a sense of denial, especially among men, who in their role as "providers" tend to dismiss risk.

MYTH #2: Long-term care is something you should consider in your 60s — Actually, 40% of those in need of LTC are age 18-64.

MYTH #3: Long-term care is covered by traditional health insurance, disability, Medicare or Medicaid — Health insurance only pays for doctor and hospital bills. Disability insurance pays some of your salary if you become disabled and unable to work, but it does not cover the cost of care. Medicare will only cover skilled care for periods up to 90 days with certain requirements and you must spend down your assets before Medicaid kicks in to pay LTC costs. A 2014 Genworth Cost of Care Survey found that, while costs can vary greatly depending on where you live, the national median cost for a home health aid for eight hours a day is $45,188 per year, and it increases to $87,600 for full-time nursing home care. You can see how the average American could lose their entire life savings paying for long-term care in just a few months.

MYTH #4: I can count on my spouse or children to take care of me — This is an unrealistic and unfair assumption. Providing long-term care can take a significant emotional, physical, and financial toll on caregivers. As much as they love you and want to help, they would have to put their lives on hold to take care of you, which can lead to resentment. What's more, care for a parent is typically not shared among siblings, which can be the source of disagreements and further family discord.

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MYTH #5: I can pay for long-term care myself — This is simply untrue for the vast majority of Americans, and even for the most wealthy, paying for care may impact important financial commitments, like paying for education, giving to charity, or living comfortably in retirement. Plus, because the need for long-term care can arise at any time, accessing retirement savings can create considerable liquidity and tax issues.

The Truth About Long-term Care Insurance

Basically, long-term care insurance picks up where health insurance, disability and Medicare leave off. Care can be provided in the home, assisted living facilities, memory loss units, nursing homes and adult day care. Your LTC insurance policy will start to pay for care when you have severe cognitive impairment — such as Alzheimer's disease and other forms of dementia — or are unable to perform two of these six activities of daily living without assistance or supervision: continence, dressing, toileting, feeding, bathing, and transference.

In 2014, 7.2 million long-term care policies were in effect. Having long-term care insurance brings the peace of mind of knowing that care will be provided without depleting your worth or burdening your family. In a way, it's like homeowner's insurance — you hope you never have to use it, but it's there if you need it. Although most policies have benefit caps and may not pay for all the care you need, LTC insurance can be an invaluable cushion against the high cost of care.

The Language of Long-term Care

- **Daily or monthly benefits** — The maximum daily or monthly amount your policy will provide toward the cost of long-term care.
- **Benefit cap** — Maximum benefit allowable under a policy.
- **Elimination period** — Waiting period before benefits are paid. Opting for a longer waiting period can help lower premiums.
- **Inflation rider** — Allows benefits to keep pace with increasing cost of care.
- **Shared benefits rider** — Allows couples to share benefits between their policies.
- **Free-look period** — 30-day period in which you can cancel your coverage for a full refund.
- **Guaranteed renewability** — Your policy cannot be canceled, and premiums cannot increase unless all policies of that type in the state are increased together.
- **Non-forfeiture provision** — If the insurer increases premiums beyond a specific level, the policyholder has the option to retain coverage at a reduced level of benefits.
- **Exclusions** — Examples include alcoholism, drug abuse, some mental illness/nervous disorders and self-inflicted injury.

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Based on the information above, we believe everyone should at least consider long-term care insurance. Here are some questions to help you decide:

- **Does a long-term illness like dementia run in the family? Has anyone ever needed long-term care?**
- **How much care can I realistically expect to be provided by my family?**
- **What is the average cost of care in my region? Would a LTC policy need to cover the entire cost of care or can it be supplemented by retirement income/assets?**
- **What assets do I plan to pass along to heirs? How will that affect my ability to pay for LTC?**

Harley Gordon, an elder law attorney and LTC expert, boils it down to just two questions: 1) Where can I live (home, assisted living facility, etc.) and receive care while protecting the emotional, physical, and financial well-being of my loved ones? 2) How do I pay for it? Long-term care insurance is often the answer.

The Cost of Long-term Care Insurance

Premiums can vary widely depending on factors including age, health and region of the country. The best time to buy LTC insurance is in your 40s and 50s. After that, you can expect to pay significantly more — for the same person, monthly premiums can more than triple if you sign up at age 65 vs. age 50. Plus, if you wait too long and develop a chronic or serious medical condition, you could become uninsurable.

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As a point of reference, in 2015 the average LTC insurance premium for a 55-year-old male ranged from $1,066 to $2,075, according to the American Association for Long-Term Care Insurance. For a 55-year-old woman, premiums ranged from $1,400 to $2,411. The reasons women's premiums are higher are: 1) Women tend to live longer; 2) Women are often the caretaker for the husband; and 3) Women are often left alone at the event of their husband's death with no one to care for them.

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Most insurers offer discounts of 10% or more if you are in excellent health. Discounts for spouses or domestic partners who apply for coverage together are available, and starter policies can provide limited coverage at a lower premium. Incentives from federal and state government can reduce costs or provide a tax break.

Look into a Hybrid Policy

Hybrid policies that link long-term care to life insurance or an annuity have become increasingly popular, growing by more than 400% between 2009 and 2013, according to the National Association of Insurance Commissioners. As we get older, the need for life insurance diminishes, while the need for LTC can become a higher priority. That's why the flexibility of hybrid policies makes them so attractive. When the need arises, you can access the policy's LTC benefits. But if you never need LTC, you can receive a death benefit for your heirs and/or an annuity that makes regular payments to you.

Getting Coverage

Basically, there are three ways to get LTC insurance coverage:

- **Through an agent** — An agent can help you shop for coverage and find flexible options to meet your unique needs. Agents can also get you preferred pricing based on your age or good health.
- **Through an employer** — This can be the most convenient option because it's easy to qualify and enroll, and you can pay premiums through payroll deduction. However, your choices may be limited and discounts for good health may not be available. Plus chances are, your employer doesn't offer LTC — only .5% of employers did in 2014.
- **Through associations or membership groups** — Having access to affordable insurance can be one of the benefits of joining an association. Some offer LTC insurance with flexible options and premium discounts based on health and age.

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Keep in mind that, unless you make a lump sum payment on your policy, you'll need to stay current with your annual premium payments. Miss a payment and you may lose your benefits. As policyholders get older, it might be good to pay premiums via automatic bank draw or turn this responsibility over to a trustee.

Conclusion: Consider Long-term Care Insurance as a Part of Your Portfolio

The need for LTC is a real possibility especially as we live longer. A LTC policy can provide significant benefits to help you achieve your financial goals, plus peace of mind knowing that you won't be placing an undue burden on your family.

Although we don't sell LTC insurance directly, Diversified Trust can still be a resource for you. We'll ask the right questions and look at your assets and goals to determine if LTC insurance is right for you. Through long-term modeling, we can project the future costs of care and we can assist you in finding the right plan. While we have strong relationships with top LTC insurance providers, we receive no incentives from any of them, freeing us to recommend coverage to meet your specific needs.

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