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FOCUS RETIREMENT SECURITY: LONG TERM CARE

Long Term Care Planning: A Profound Shift In The Making

Why affluent clients with no LTC coverage may be at risk

BY ANTHONY STRATIDIS

SOME ADVISORS have been known to tell clients with $2 million to $3 million or more of assets that they don't need to worry about developing a strategy to fund a long term care health risk because they have more than enough money to cover it on their own.

This is changing. Many advisors are probing this assumption a little further to see if it is prudent.

A sound plan for an individual's LTC strategy should address 2 critical components. The first is to assess the financial impact a long term health care event may have on the individual's retirement portfolio. Second and equally as important is to evaluate the emotional impact the event would have on family, friends or neighbors.

Many advisors focus solely on the first issue. Let's look at one scenario:

Mr. and Mrs. Smith, ages 66 and 64 respectively, have 2 sons, a daughter and several grandchildren. The Smiths' estate is worth $4 million, with $2.5 million of that made up of their home and possessions.

Both are entitled to Social Security. Mr. Smith has a single-life pension, and their retirement portfolio is an IRA worth $1.5 million.

Let's be conservative and assume the Smiths are not using any of the IRA and support their lifestyle from the pension and Social Security. The total monthly income from both is $12,000 ($9,000 from the pension and $3,000 from Social Security). The Smiths, like many others, consider a retirement portfolio available for living, traveling and having fun (which clearly does not include the cost of an extended health care event). They regard their life savings as evidence of their life's work and their legacy to children, grandchildren and charities.

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Fifteen years into retirement and now age 81, Mr. Smith suffers a debilitating stroke. Mrs. Smith cannot personally provide for all his care, so she hires skilled home care aides for 8 hours a day. Using today's national average of $7,768 per month (as a recent Genworth Inc. study found), and applying a 6% average inflation factor for LTC costs, the monthly cost for a home health aide would be almost $18,616 at the time of Mr. Smith's stroke.

It's easy to see the challenge for the Smiths. Monthly income is now about $23,200 and has kept pace with inflation, but only about $6,800 a month would remain after covering the cost of Mr. Smith's care. This amount may also need to cover medications, rental of hospital equipment for Mr. Smith's confinement at home and physical therapy costs over and above Medicare payments.

As a result, Mrs. Smith is faced with some hard choices. It seems unreasonable to expect her to maintain any semblance of her current lifestyle on roughly a quarter of her former monthly income. She could either reduce expenses related to her lifestyle, allotting more of her income to cover the cost of Mr. Smith's care, or she could begin liquidating more of the IRA. If she did that, within 5 years of providing for Mr. Smith's care, she would exhaust over $1 million of the IRA. That would leave little for her continued income needs.

Typically, affluent clients have above-average expectations for most of the things they consume. The costs of LTC described above are averages. A higher level of service and care could easily raise the figures significantly. Affluent clients also understand that wealth creates risk, and they usually understand the value in mitigating it.

Looking at the Smiths' situation, would they have been better served by looking at transferring this significantly large risk to an insurance carrier, rather than self-funding it? Let's look at an alternative approach that incorporates an LTC insurance policy.

Assume Mr. and Mrs. Smith instead had purchased an LTC insurance policy with a $300 per day benefit or $9,000 per month, with a total pool of health care dollars of $540,000 ($9,000 per month times 60 months) for each of them. They purchased a zero-day elimination period for home care, while the elimination period for facility care is 100 days. They also added a shared-care rider that allows both of them to have access to each others' pool of funds, should one of them require care beyond their own benefit pool. Included as well was a 5% compound inflation rider with a dual waiver of premium.

Their combined premiums are $7,500 per year (about $625 per month). When Mr. Smith went on claim 15 years later, they would have paid total premiums of $112,500 ($7,500 x 15 years). Further, the policy provisions waive both individuals' premiums on the claim of one, so no additional premiums are due after Mr. Smith's stroke. Had they addressed their LTC risk with insurance, the Smiths would have reduced their financial exposure by over $1 million, allowing Mrs. Smith to maintain her lifestyle while more greatly protecting the retirement portfolio that she and Mr. Smith had built.

Had the couple truly believed neither would ever need the benefits of an LTC insurance policy, they could have added

a full or partial return-of-premium rider for an additional cost, which returns the total amount of the premiums to the estate if neither received benefits from the policy.

The impact on the caregivers should not be overlooked in LTC planning. Considering that 60% of all long term care is provided in a home or community setting—and the spouse, children or other family and friends manage and provide that care—many challenges unfold.

From the family's perspective, a thorough plan for LTC should address the following questions:

- Who in the family will develop a plan of care for the loved one?
- What expertise does that individual have in the LTC delivery system?
- Who continues to monitor and adjust the plan of care as the patient's needs change?
- Where will the caregivers come from, and who will scrutinize the caregivers' background and expertise?
- If the care required is complex and involves several disciplines within the LTC delivery landscape, who in the family understands this and also has the time and talent to develop the plan of care?
- If the individual requiring care is in a second marriage, is the current spouse the sole voice for the type and setting of the care, or are children from the patient's first marriage entitled to a voice?
- Is a durable power of attorney for health care in place?

In essence, these questions help determine which individual becomes the patient's "Health Care Advocate." The naming of such a person is critical to this discussion, particularly when the individual is alone and has no readily identifiable HCA.

These questions are delicate and emotionally charged, and they need to be tackled well before care is needed. In many cases, the stress of caring for a loved one brings families together long enough to tear them apart. Every member of the family brings his or her own set of values and perceptions about the care to be provided. Children argue with parents, siblings argue with siblings, while the individual who requires care has little to say in the matter. Keep in mind that many cannot direct their own care because of severe impairments. Decisions are therefore left up to the family.

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A thorough LTC plan, therefore, may call for providing for the appointment of an unbiased HCA, whose sole focus and motive is to provide the individual with the best care possible.

A qualified HCA is a professional in geriatrics with experience and specialized training to develop a detailed plan of care for chronically or cognitively ill patients. The HCA understands how to navigate the LTC delivery system to provide the family and the patient with the best care available. The HCA would be responsible for monitoring and adjusting the plan of care as the individual's health needs change. The HCA also would help the family identify and interview healthcare providers, providing background checking and vetting to ensure providers deliver excellent care.

Most quality LTC insurance policies provide an HCA as a policy benefit. This is yet another reason why LTC insurance should be part of a well-designed LTC strategy.

As the graying of America continues, more high net worth clients will look to their advisors to help them ease both the financial impact on their retirement portfolio and the physical and emotional hardships of caring for a family member.

Advisors who are uncomfortable with LTC planning can enter into a strategic partnership with an LTC insurance professional. This individual can help guide clients through the process of selecting among the many choices and designs associated with developing a comprehensive LTC plan.

Managing an LTC event generally takes more than money. Children often ask their parent's advisor, "Why wasn't this risk addressed as part of my parents' retirement plan?"

Many advisors have a significant number of their older clients depleting assets to pay for LTC needs. Based on data compiled by Genworth Financial, they may send from $2,000 to $3,000 per month to home care agencies and facilities on behalf of their clients to pay for care. If that care lasts 3 years, the financial risk exposure can amount to $2 million or more of after-tax dollars. A study by MetLife Inc. shows that individuals with cognitive care needs such as Alzheimer's could easily require care for 8 years, increasing the risk exposure to the range of $5 million.

So the next time a client asks you about LTC planning, consider all the facts. Do not underestimate the financial and emotional benefit of a comprehensive LTC plan. NU

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