**Smart Solutions for Affluent Clients and Family Offices:**
**Addressing Extended Care Planning Needs for Family Office Clients**

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*Part I of a Two-Part Series on Extended Care Risk Management Strategies for Family Office Clients and Staff*

Achieving the top strata of net worth has its advantages and its challenges. To address the challenges, persons of exceptional wealth enlist the assistance of family offices to manage planning needs and day-to-day affairs.

The purpose of this strategy is easy to understand. A family office offers the client the valuable expertise of trusted advisors and experts, the most effective and up-to-date solutions and time savings.

There are many risks subject to such management, not the least of which is the risk of debilitating injury or illness or onset of a chronic condition requiring extended health care. Why should ultra-high net worth clients address this risk? Why should family offices include planning for this risk alongside traditional wealth management efforts? How can family offices and clients secure the right expertise to best address this risk?

The typical response to the invitation to plan for long-term care is that these clients can easily self-insure the costs of such care. But are these clients prepared to invest the time and emotional capital needed to treat a family member who requires around-the-clock care? A full-service family office would be remiss in failing to bring this aspect of risk and best solutions to the attention of their clients.

Long-term care insurance ("LTC insurance") offers peace of mind through employment of experts to oversee care. The value of this expert care management and coordination is a key benefit to the insurance solution.

Why would a client choose to pay more for a service when that client could pay less and secure a better result? An insurance solution as part of a long-term care plan could potentially produce significant savings to the client. While ultra-high-net-worth individuals certainly have the assets to self-insure, the purchase of LTC insurance is an effective tool for asset preservation and risk management. LTC policies can be structured with a guarantee that 100% of premium payments, less benefit received, can be paid to an individual's family or a trust upon the death of the insured.

The long-term care question should be addressed with family office clients. LTC insurance offers a very practical tool for solving the challenges posed by this issue for both clients and their family office advisors.

**Family Offices: Consider Offering Expert Risk Management**

There are as many different family office configurations and available services as there are family offices. They primarily function as personalized, sophisticated investment advisers. But family offices often offer counseling in tax, estate planning, charitable giving, private foundation and even budgeting issues, along with traditional wealth management.

Family offices also offer insurance risk management. Clients readily understand the need to insure extensive real estate holdings, vehicles, vessels and aircraft and valuable personal property. They also understand the need to cover liabilities that might arise in professional and personal dealings. They comprehend the value of life insurance as an estate planning mechanism to efficiently transferring wealth to future generations.

Complete risk management, however, requires a comprehensive review of all the potential threats to security and formulation of a plan to address all risks. An oft-overlooked peril is the chance of a major health event requiring extended care, which strikes without regard for socio-economic class. The instance of an extended health care event is more statistically likely to happen than a major house fire or automobile accident.[i] A complete risk management plan must take into account the risk of a catastrophic medical event and offer clients a mitigation strategy.

**Numbers Associated with the Long-Term Care Risk**

The risk is sizeable. Projections by the Census Bureau show that the group of people age 85 and older is the fastest-growing group, and their numbers will increase 126% between 2000 and 2030 from 4.2 million to 9.6 million. More people are living longer and are suffering chronic conditions such as cancer, cardiovascular disease, and diabetes. This risk increases with age.[ii] According to the Centers for Medicare and Medicaid Services ("CMS") and the U.S. Department of Health and Human Services ("DHHS"), more than 12 million older Americans will need extended care by the year 2020.[iii] Per the DHHS, there is a greater than 69% chance that persons who reach 65 will ultimately require some level of care. Approximately 80% of extended care-giving falls on the shoulders of family members.[iv] Measured by the comparable cost of paid providers, the value of the services afforded by family members is in excess of $375 billion.[v]

It currently costs approximately $300,000 annually for in-home, around-the-clock nursing care. Based on the claims experience of insurance carriers offering long-term care insurance ("LTC insurance"), the likely need for such care peaks between 84 and 87 years of age. Thus, it would be wise for a 55 year-old client to calculate the anticipated cost of such care 30 years from now.

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Applying a conservative 6% rate of inflation for extended care services, the care costs 30 years from now will be $1,365,000 per year for comparable services.

The average length of the extended care period is 3.7 yrs.[vi] Thus, in estimating the likely risk of an extended care event, the total cost of care in 30 years could be over $5,000,000 per incident. This does not take into account additional facility-based care or other special services that might be required.

The numbers are more staggering for cognitive impairments, such as dementia or Alzheimer's. Studies show that 21% of baby boomers will require care due to either dementia or Alzheimer's disease. In the ten year period from 1999 through 2009, the number of cases of Alzheimer's disease and other dementias will have increased by at least 25%.[vii]

The average length of care for cognitive event is 8.9 years. President Ronald Reagan, who suffered from Alzheimer's disease, first communicated about his disease in 1994 in a handwritten letter to the public. He passed away in 2004, having received in-home care during the intervening 10 years.[viii] Although the precise cost of the former president's care is unknown, the cost of in-home care over an average 8.9 year period currently is $15,685,647.

The baby boomer generation is well into the stage of life when the risk of a long-term care event is greatest. They are the largest group, with 77 million people born between 1946 and 1964.[ix] Who will provide care for this large group? There are fewer potential caregivers among the following generations and insufficient industry resources over which the care responsibility must be spread. All of this adds up to a heavy burden on next generation with an ever-increasing premium on top-tier care.

**Intangible Costs Associated With the Long-Term Care Risk**

Regardless of socio-economic strata, the impact on caregivers cannot be overlooked. Caregivers perform tasks that range from coordinating medical and nursing care and assisting with activities of daily living to administering medications, providing emotional support, and serving as liaisons and translators. In crafting a plan, the family and their advisors must consider 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 long-term care 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 is complex and involves several disciplines within the long-term care 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 care, or are children from the patient's first marriage entitled to a voice?
- Is a durable power of attorney or health care proxy in place?

Even if a client's family members are not engaged in the hands-on duties, they must make the decisions, vet and retain trustworthy personnel, ensure security and coordinate services, often from a location far removed from the afflicted family members' home. The responsible family member will need to connect the components of a potentially fragmented and disjointed system, facilitate communication between patients and providers about symptoms and concerns, and approve recommended courses of action, particularly if the client receives care in multiple settings. The afflicted client may well be incapable of making wishes known with regard to these decisions. All of this effort takes time, expertise and emotional capital.

A professional manager can serve as a concierge health care advocate offering personal service to ultra-high net worth clients by securing access to top-notch care that will positively influence the outcome. Conversely, the mishandling of long-term care can cause the patient's premature return to a hospital or acute care facility. The right choices by decision-makers early in a care event can forestall the need for nursing home placement.

It is not difficult to imagine how the emotional impact of these issues can wreak havoc on the family dynamic. In order to minimize the confusion and tension of a care event, the advisor and client must discuss the issues up front and designate an agent to serve and coordinate care for afflicted family members. Sometimes, depending upon the structure and dynamics of a particular client family, such decisions are best placed in the hands of a neutral expert.

**Alternatives for Meeting and Mitigating the Long-Term Care Risk**

Assuming the choice is not to ignore the issue, there are three alternatives for meeting the risk: self-insure the cost of care at the back end; invest the premium dollars now to create a fund to pay for care; or purchase an LTC insurance policy.

If the choice is to self-insure, the afflicted person and family members must raise the funds to meet or approach the lifestyle previously enjoyed by the afflicted person. In light of the anticipated costs of care ranging between $5 million and $15 million, meeting these costs can be impactful, even for high-net-worth individuals and their families.

If the choice is to create an investment fund, the client must invest more than $4.6 million right now to meet the $15 million projected cost of care at a conservative 4% rate of return thirty years from now. Market factors and environmental events can affect the net fund and rate of return, and the result is not guaranteed.

If the choice is LTC insurance, clients secure compensation for needed care needed when a care event strikes, with the distribution available on a tax free basis.[x] The coverage is flexible, and can include care in-home, in long term care facilities or in hospice care. The policy can compensate family members or friends who provide care. In-home delivered meals and housecleaning services can be included.

While ultra-high net worth clients do not need to fear the financial consequences of paying for the care outright at the time it is needed, they can appreciate the dramatic cost savings and benefits of the LTC insurance option. Family offices can advise these clients that they can better leverage cash reserves and minimize the net cost of services through the purchase of an insurance product for a fraction of the amount required for self-insuring the cost or creating an investment fund. There are many different options for customizing the coverage. And, when structured properly, the LTC insurance policy becomes an asset to the estate and a tax-planning opportunity.

For example, there are products available that combine life insurance payout with long-term care benefits and a guaranteed return of premium ("ROP") feature. For the initial investment of the premium, the client typically can receive more than double the premium amount in tax-free death benefits and more than six times the premium amount in income tax-free long-term care benefits. With the ROP feature, the only downside is the opportunity cost of putting cash reserves into the insurance policy. The death benefit is always provided, whether or not the entire amount is used for long-term care expenses. By using the insurance approach, it is possible the client could receive a greater benefit from the premium paid than a conservatively-invested non-insurance fund. And the client is able to use the remainder of the cash reserves that would otherwise be spent on long-term care expenses in other investment opportunities to greater yield.

The insurance alternative has another advantage over the investment fund alternative: insurance provides full benefits from the date of issue, while the investment alternative requires many years of investing and earning opportunity before it offers comparable assets. When the insurance plan is structured with an ROP, the actual out-of-pocket costs are further limited, since the risk of paying for an unused benefit is reduced to nil, while the investment fund is subject to market and timing risks.

The intangible benefits are less quantifiable but even more dramatic. LTC insurance includes the services of an objective health care advocate ("HCA") whose sole purpose is to assist in making the decisions and performing the tasks necessary to secure the best care. The HCA is a professional with experience and specialized training in geriatrics and development of care plans. The HCA will have the skills to navigate the LTC delivery system.

Much like a "concierge" health care specialist, the HCA will monitor and adjust the care plan according to the changing needs of the patient. The HCA can assist the family in identifying and selecting healthcare providers, securing background checks and vetting candidates to ensure the highest level of care. The HCA is deployed in the locale of the afflicted client, freeing up family members who are separated by miles.

Health care advocacy is a key benefit of LTC insurance and is of particular value to ultra-high net worth clients looking to simplify the care process.

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**Why Choose LTC Insurance?**

Managing the long-term care risk takes much more than money. It takes care, oversight, expertise and a comprehensive plan. Family offices looking to distinguish themselves as total service providers to existing and potential clients must address this risk. If a care event strikes, family offices that fail to do so face possible questions as to why discussion of this risk was omitted from the planning process.

While family office clients have the resources to avail themselves of any of the alternatives -- self-insurance, investment funds and LTC-insurance – only the LTC insurance option meets the need of finding expert care with maximum financial leverage. The benefits of the LTC insurance option are readily apparent and best serve family offices and their clientele in meeting the long-term care risk.

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[i] Stum, Marlene, PhD, Long Term Care Risk (last updated March, 2003)

[ii] Collins, S.R., et al. Will you still need me? The health and financial security of older Americans. Findings from the Commonwealth Fund survey of older adults, New York: The Commonwealth Fund, June Pub. No. 840 (2005) http://www.commonwealthfund.org/usr_doc/840_Collins_olderadults_report.pdf?section=4039

[iii] http://www.longtermcare.gov/LTC/Main_Site/Understanding_Long_Term_Care/Basics/Basics.aspx

[iv] Georgetown University, "Family Caregivers Issue Brief", 2007.

[v] MetLife Mature Market Institute, 2007.

[vi] MetLife Mature Market Institute, The MetLife Caregiving Cost Study: Productivity Losses to U.S. Business (July 2006)

[vii] Jeffrey L. Cummings, M.D. and Dilip V. Jeste, M.D., Alzheimer's Disease and Its Management in the Year 2010, American Psychiatric Association (1999)

[viii] Reagan, Ronald, Alzheimer's Letter, http://en.wikipedia.org/wiki/Ronald_Reagan%27s_Alzheimer%27s_letter (last modified February 1, 2009) (last visited March 11, 2009)

[ix] U.S. Bureau of the Census

[x] IRC §7702(b)