# Long Term-Care Planning – Exploring the Options

## What is your plan?

We don't like to think about it, but if you or a loved one needs chronic care someday, how will you pay for it? Some think the government will pay, but we know Medicare only pays for up to 100 days immediately after being hospitalized. Medicaid only pays if you spend most of your assets first.

Some will rely on their family for care and others will rely on their assets and income. If the risk seems too great to retain or you want to add more confidence to your plan, consider transferring risk by owning some long-term care insurance (LTCi). LTCi leverages your money and creates tax-free benefits when needed. It protects your qualified money and market investments from having to be liquidated and shrunk by taxes and/or market losses. Having LTCi, adds flexibility and enhances legacy or charitable planning strategies while it protects your assets and income.

## Should you transfer some of the risk?

It takes money and good health to purchase long-term care protection. Insurance pricing rises with age, and if your health deteriorates it might limit your options or eliminate your ability to qualify for protection. We are here to educate you on the insurance options available and help you create your plan. If you decide not to purchase LTCi, then we both did our part to see if insuring for chronic care is right for you.

Each option has its pros and cons. If you self-insure, you may or may not do better than a LTCi policy. Only hindsight is 20/20. All 3 options leverage your premium into a much larger bucket of protection which can be used income-tax free when care is needed. The level of risk for self-funding depends on your net worth and actual chronic care expenses. If you have substantial assets, LTCi can still be of value due to its leverage, liquidity and tax-free benefits. There is a difference between projecting and protecting.

Robert M. Barnes, CLU, ChFC, President
Phone 708.307.2577 | rob@intinsconsulting.com | www.intinsconsulting.com

## Traditional Long-Term Care Insurance (Pure Protection)

This type of coverage is best compared to auto or homeowners insurance. It is a pure risk & protection policy. Like auto insurance, if you have a claim, you receive benefits, but if you don't, you rarely receive a return of premium. Rates can increase, but carriers must have any price increase approved by the state's insurance commissioner.

| Pros | Cons |
|---|---|
| Usually provides the largest amount of care for the lowest current outlay. | Premiums are rarely guaranteed and subject to increases. |
| Can design a policy to match your needs. | Fewer insurers are available today. |
| May provide additional benefits like asset protection in partnership states. | If you never need care, you generally do not receive a return of your money. |

Traditional long-term care insurance has a bad reputation. Carriers priced products with assumptions that didn't work out and many continue to raise prices to keep up with the claims they are obligated to pay. We have seen carrier's default and have concern about others.

Traditional LTCi may be the right fit solution for your situation. Today's products are more appropriately priced, are expected to have smaller price increases in the future and likely more years in between than earlier designed policies. You can design the coverage amount you care to have.

## "Hybrid" Policies (Payback & Protection)

A "hybrid" policy is also known as a "linked benefit". Most are life insurance based; some are annuity based. Hybrid policies solve the main concerns of traditional long-term care insurance – it guarantees pricing, and it pays benefits when care is not needed.

| Pros | Cons |
|---|---|
| Provides LTCi protection <u>and</u> a death benefit if you don't need care. | Typically costs more upfront and requires funding over a shorter period. |
| A simpler underwriting experience along with the ability to guarantee pricing. | May offer lower benefits than a traditional long-term care plan with the same premium. |
| Often allows you to quit and get some or all your money back. | Certain health conditions could cause this option to be unavailable. |



Robert M. Barnes, CLU, ChFC, President
Phone 708.307.2577 | rob@intinsconsulting.com | www.intinsconsulting.com

Hybrid long-term care products are more popular than traditional LTCi today. Guaranteed pricing and the ability to receive benefits when care is not utilized are the main reasons hybrids are preferred by many. Premiums can be paid from an existing life insurance policy. You can design coverage to be paid for a certain length of time, or over your lifetime.

## Life Insurance with a Rider (Known Outcome)

A life insurance policy with a chronic illness or LTCi rider allows you to draw off the death benefit if chronic care is needed. Whatever is not used for care will be paid to your beneficiary when you die. The best riders will allow for the entire death benefit to be accessed for chronic care, usually at a monthly amount of 2% to 4% of the death benefit. We prefer to stay clear of chronic illness riders that don't allow temporary claims as well as those that discount the death benefit received for accelerated claims.

| Pros | Cons |
|---|---|
| Can be designed with guarantees or performance-based assumptions. | You need a larger death benefit to have a significant LTCi amount of care. |
| May be the best option if you need care for a short period of time or not at all. | Some riders have restrictions on when and how much benefit is paid. |
| Full underwriting allows for counter offers for less healthy clients that won't qualify elsewhere. | Beware of "projected" v. "guaranteed" policies designs. |

I believe the future of long-term care is owning a permanent life insurance policy with a rider for care. If you can pay it up before you retire, great. You have a leveraged bucket of tax-free benefits adding flexibility and enhancing a positive retirement outcome.

If you are younger and not ready to fund LTCi protection, there are certain term insurance policies that offer LTCi benefits. This can lock in your good health now and allow you access to a long-term option while being protected along the way if "What if" becomes "What now".

## Key Questions™ - Policy Design

1. Which option(s) do you find the most appealing?
    a. **Pure Protection**: Traditional Long-Term Care Insurance
    b. **Payback & Protection**: Hybrid Policy
    c. **Known outcome**: Life Insurance with a Rider
2. Do you know how much protection you would like?
    a. How much coverage per month?
    b. How many months/years of coverage?
3. How long would you like to pay premiums?
    a. The rest of your life
    b. In a lump sum
    c. Until you retire?
    d. A certain number of years?
4. Do you want the ability to pay for informal care? (unlike a reimbursement claims model, indemnity claims allow you to pay family or unskilled caregivers)
5. Would you like us to prescreen your health to determine your eligibility for the different options?
6. What questions and/or concerns do you have?

_______________________________________________

_______________________________________________

_______________________________________________

_______________________________________________

_______________________________________________

_______________________________________________

_______________________________________________