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WEALTH MANAGEMENT, LLC

February 2011

Should You Buy Long-Term Care Insurance? The $64,000 (Per Year) Question

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As we age, it is natural to worry what will happen to our finances if we find ourselves incapacitated for an extended period by illness or injury. Assisted-living facilities can charge more than $60,000 per year and skilled-care nursing home costs can easily exceed $100,000 per year. Many of us know someone who is dealing with these high costs for long-term care. It is understandable to wonder how you would fare and whether you should buy a long-term care insurance policy to help cover this risk. The answer is not simple.

Before analyzing the insurance coverage, you should first determine if you are able to cover the costs of long-term care with your own capital. If you are single at the time you face a long-term care situation, your home equity can be used to fund these costs because you are most likely leaving your home permanently. In addition, studies have shown that most nursing home stays last three years or fewer.

Most people consider their investment assets as the primary source to pay long-term care costs rather than their home equity. To fully evaluate the amount of capital needed, you must also estimate what expenses will change if you enter long-term care. Most people stop driving, no longer travel for vacations and stop dining at restaurants when they begin long-term care. So while the cost of the care is high, many other expenses will drop off or disappear. You should incorporate these estimates into your analysis.

If you have accumulated several million dollars of savings or have amassed several million dollars of home equity, you probably don't need long-term care insurance. You may still decide to buy coverage, but it would be optional rather than necessary. However, if you fall short of these amounts, it may be helpful to conduct some estimates of available capital and level of expenses needed to be covered to reach a decision on whether to buy long-term care coverage.

Once you decide to buy coverage, your work is not yet done. Now you need to find the policy that you feel best suits your needs. Some policies serve solely to provide long-term care coverage while other policies provide long-term care coverage as a rider inside a life insurance policy. Remember that long-term care insurance is essentially a bet with an insurance company whether you will need long-term care. The odds are in the insurance companies' favor because most policies are purchased by healthy people in their 50s and 60s. Most of these policies will never make a claim or make claims for far less than their policies allow. The American Association for Long-Term Care reported that only 7% of all women and 2% of all men who are healthy enough to buy LTC insurance will need the insurance coverage for more than two years.

Those who already have health situations that may necessitate long-term care are unlikely to qualify for coverage.

These statistics may convince you to opt for self-insuring because you don't want to simply line the pockets of the

insurance companies. One way to be certain that you will ultimately recover the premiums you pay for long-term care coverage is to choose a life insurance policy with a long-term care rider. Companies such as John Hancock and Lincoln Financial Group offer these policies. In these policies, generally the LTC rider is twice the amount of the death benefit. For example, if a policy carried a $200,000 death benefit it most often will have a $400,000 long-term care rider. If the insured goes into a long-term care situation, the policy will pay up to a stated maximum amount per month. As these benefits are paid, the death benefit is reduced dollar-for-dollar with the LTC benefits paid until the death benefit ultimately reaches 10% of its original face amount (assuming no cash value surrenders have been made or policy loans taken). The maximum payable under this policy is $400,000 of LTC benefits plus a death benefit of $20,000. Each insurance company may vary these parameters, but these are typically the ground rules for most life policies having LTC riders.

A key part of the decision making process is the ultimate cost for the policy. Some plans (such as Lincoln Financial Group's Money Guard policy) are designed to be paid in full in ten years. While a ten-pay plan may cause higher premiums, many people prefer a shorter premium payment period so they can be done before they retire and find themselves with less disposable income. Most companies offer plans that require premiums be paid for life. These policies have lower premiums initially than the ten-pay plans, but the premiums last for your entire lifetime. Of course, a big factor in determining the premiums will be your health status and family health history at the time you apply for coverage. As is frequently the case with insurance, applying when you are healthy can save lots of premium dollars in the long run.

Here are some other factors to consider when you are making the LTC coverage decision.

1. Try to pick insurance companies with solid financials and a good rating by the firms that evaluate the financial strength of insurance companies. It is important that the company backing your policy be able to pay claims when the time arrives to do so. You should be able to get this data readily from the insurance company's web site or other sources. In addition, the state insurance office can tell you how long a company has been licensed to sell LTC policies in that state and also whether a company has hit existing policyholders with premium increases.

2. Remember that medical care costs are rising rapidly and it's likely that the cost of providing LTC benefits will rise over time. One of the best ways to address the inflation issue is to buy a policy that contains a benefits inflation rider. Every year the LTC benefit increases to help keep pace with the expected rise in these costs.

3. Look for a "guaranteed" policy so that your premiums are set and cannot change as interest rates and other measuring sticks rise and fall. Many LTC policies are classified as Universal Life policies with cash value earnings fluctuating with various market conditions. If you buy a policy based on high interest rates being earned on cash values, you may be in for a rude awakening down the line when you are asked to pay additional premiums to keep the plan in force.

4. If you're having difficulty understanding the terms of a proposed policy, look for someone who can give you a second opinion. Werba Rubin Wealth Management, LLC is glad to help you evaluate policies you are reviewing. You can also consult other professionals (attorneys, CPAs, Certified Financial Planners (CFPs) or licensed insurance agents) to help with your analysis.

If you've often wondered about long-term care insurance as it applies to your personal situation, we recommend putting this topic on the agenda for our next review meeting. If you let us know in advance, we can prepare materials for the meeting that will help quantify costs and benefits of an LTC plan for you. Frequently we help clients determine that they do not need LTC coverage. If you'd like to know where you stand, we will be happy to assist you.