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Long-Term Care Planning for Mature Clients: Insuring Against Longevity and Healthcare Risks with Modern Solutions

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INVESTMENTS & WEALTH INSTITUTE[®]

Long-Term Care Planning For Mature Clients

INSURING AGAINST LONGEVITY AND HEALTHCARE RISKS WITH MODERN SOLUTIONS

By Moe Allain, RMA®, CPWA®, AAMS®, MBA

One of the top three concerns Americans have about retirement is higher-than-expected healthcare costs. As we age in retirement, a bigger part of our retirement budget will be spent on health care.

According to the Social Security Administration, a quarter of 65-year-olds will live to be at least 90.¹ Longevity can be both a blessing and a curse. The website LongTermCare.gov estimates that as many as 70 percent of people turning age 65 can expect to use some form of long-term care (LTC) during their lives.² Because we are living longer, longevity and healthcare risks now intersect. The magnitude of these two unsystematic risks is so large that, as part of any retirement plan, it makes sense to both assess, and put a plan in place, to mitigate these threats to retirement security.³

LONG-TERM CARE INSURANCE AND ITS REPUTATION

When you hear the phrase long-term care, you may imagine a community-type nursing home environment.

In the 1970s, when long-term care insurance (LTCI) first became available, it was used mainly to pay for care in nursing homes. But the LTCI industry underestimated costs and customer life expectancies and, as a result, many insurers stopped selling the coverage. Now only about a dozen companies offer it. Those that continue to offer LTCI seem to be on a path of consistent annual price

increases, which could price many policyholders out of the market.⁴

The LTCI market and its policies, however, have changed over the years. Many people still have ideas about LTCI that were shaped by the traditional policies held by their older relatives, and they may not be aware of the evolution of both LTC and LTCI—and the ways they can be used to mitigate healthcare and longevity risks.

Indeed, Americans have plenty of reasons to dread buying traditional LTCI, including the “use it or lose it” nature of the traditional LTCI policies. These policies also can be expensive and can come with rising annual premiums. They have many different variables to evaluate, so shopping for a policy can be overwhelming and create frustration for all parties involved. There is even a chance that you go through the rigorous underwriting process and find out you are uninsurable.

You wouldn’t build an investment portfolio without thinking about an asset allocation strategy, and you also need to address longevity and healthcare risks as part of an overall retirement strategy.⁵ Growing life expectancies require longer income streams, with more dollars to be spent on health care. What if you could allocate and prepay for LTC expenses before retirement?

With all the new LTCI tools and resources that have become available

since the 1970s, a huge knowledge gap exists between what consumers think about LTCI itself and how they can insure against LTC costs.

THE MODERN LEVEL-OF-CARE SPECTRUM FOR SENIORS

The LTC problem seems to lack a potential solution because a large part of the population lives in the past on this issue. They don’t realize that things have changed. Figure 1 illustrates the many ways that health care for seniors has expanded. Nursing home care is now just one of many different levels and options.

Some of the newer levels of care include independent living and continual care retirement communities (CCRCs). A CCRC allows a resident to remain at the same location and receive varying levels of care as needed rather than moving to a new location.

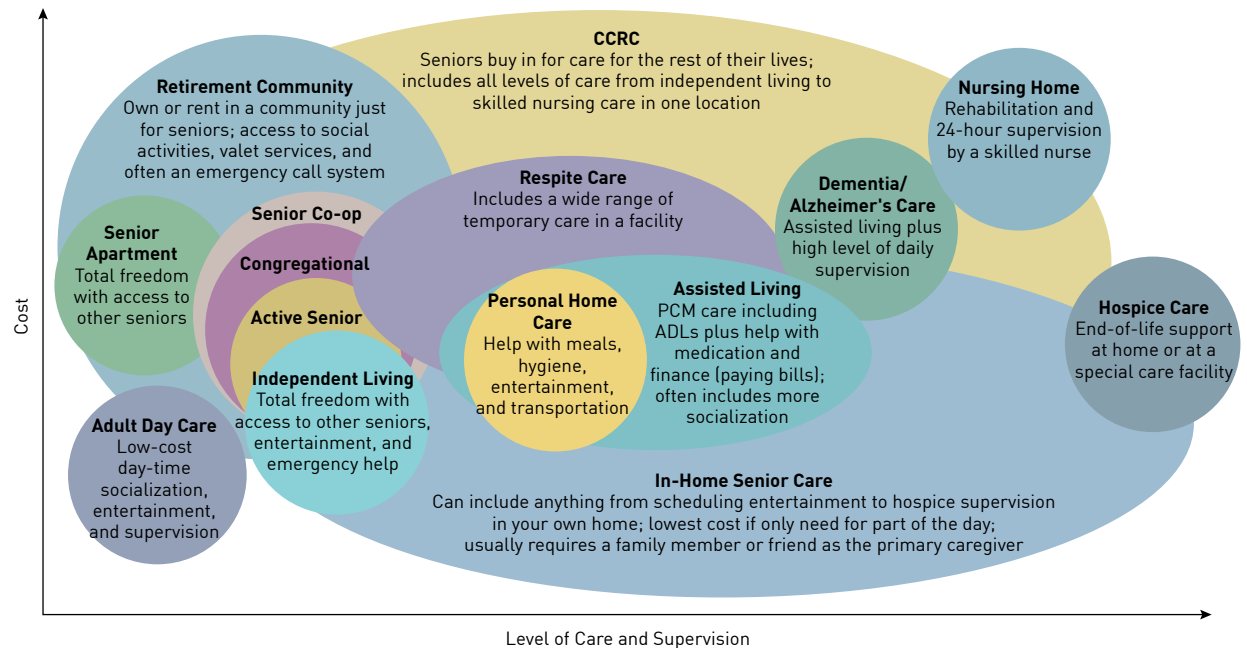
The five most common ways to receive care are (1) in your own home, (2) at a day-time program in your community, (3) through independent living, (4) in a residential setting, or (5) at some hybrid of the above, such as a CCRC.

One idea not contained in figure 1 is the accessory dwelling unit (ADU), a second living space within or adjacent to a home. It is sometimes called an “in-law apartment.” It has a separate living and sleeping space, a place to cook, and a bathroom. If you or a loved one owns a single-family home, adding an ADU may be an option, too. Attics, upper

Figure 1

THE EXPANSIVE MODERN SENIOR CARE LIVING SPECTRUM

How different types of senior care overlap, and the relationship between the level of care and cost.



Source: <https://www.seniorliving.org/>

THE MOST COMMON REASONS FOR NEEDING LTC

- Age.** The older you are, the more likely you will need help with the activities of daily living or other LTC.
- Gender.** Women outlive men by about five years on average, and they are more likely to live at home as they age.
- Disability.** You may develop a chronic illness or have an accident that causes a disability. More than two-thirds of people age 90 or older have a disability.
- Health status.** A chronic condition such as diabetes, high blood pressure, dyslipidemia, cancer, or arthritis makes you more likely to need LTC.
- Living arrangements.** If you live alone, you're more likely to need LTC than if you're living with a partner.

includes community services such as meals, adult day care, and transportation services.

People may need LTC when they have a serious, ongoing health condition or disability, or the need for LTC can arise suddenly, such as after a heart attack, hip fracture, stroke, or fall. Most often, however, it develops gradually, as people get older and frailer, or as an illness or disability gets worse.⁷

LTC services are available from a range of providers, as shown in figure 1. The most comprehensive care in a single location, from active age 55+ to skilled nursing, is the CCRC. The CCRC solution minimizes the stress of relocating a senior from home to independent living to assisted living to skilled nursing care that may include custodial care or advanced Alzheimer's and dementia care.

floors, basements, and rooms over garages can be turned into ADUs.

WHERE LTC FITS IN RETIREMENT

The Health Insurance Marketplace website defines LTC as the following:

Services that include medical and non-medical care provided to people who are unable to perform basic activities of daily living such as dressing or bathing. Long-term supports

and services can be provided at home, in the community, in assisted living, or in nursing homes. Individuals may need long-term supports and services at any age. Medicare and most health insurance plans don't pay for long-term care.⁶

The most common type of LTC is help with the activities of daily living—bathing, dressing, grooming, using the toilet, eating, and moving around. LTC also

DISCUSSING LTC WITH YOUR FAMILY

Many people think they can avoid ever needing LTC. They assume that a family member or members will take care of

them. This is exactly why you need to discuss LTC with your spouse and adult children. This conversation can be difficult, but it is necessary. Spouses and adult children often have full-time jobs and other family responsibilities, and just the thought of becoming an accidental caregiver is stressful and can be overwhelming.⁸ Social workers, medical professionals, and counselors can help. Ultimately, a trained medical professional, most oftentimes the physician, determines if someone needs full-time care from a nurse in a residential type of setting.

PLANNING FOR LTC IS IMPORTANT

Someone who is age 65 has a 70-percent chance of needing some type of LTC, yet fewer than 10 percent of Americans age 50 and older have LTCI.⁹

It's a myth that Medicare covers LTC costs. Medicare can help with skilled nursing care, but it does not cover any type of custodial care delivered in nursing homes, assisted living facilities, or your own home, if that is the only care you need.¹⁰ And most nursing home care is custodial, i.e., helping people with activities of daily living such as bathing, dressing, housekeeping, feeding yourself, and using the bathroom.¹¹

More than 85 percent of Americans surveyed acknowledge that having an LTC plan would help them feel more confident about their financial futures. Furthermore, more than 90 percent of Americans surveyed said they believe

that an LTC plan would make things easier on their adult children.¹²

An LTC plan does the following:

- Helps protect your hard-earned savings.
- Gives you more control over decisions affecting you and the freedom to choose your own care preferences.
- Reduces emotional and financial burden on family to provide care.
- Provides your family with resources and support to manage care.
- Helps you feel more confident about the future.
- Provides more certainty regarding a couple's ability to care for one another.
- Ensures more of your assets are passed on to your loved ones.¹³

WHEN TO START PLANNING FOR LTC NEEDS

Most advisors recommend that clients start planning for LTC years before they think they will need it. The most robust planning and communication sessions with clients and their families should occur in the pre-retirement years between ages 45 and 55. A tremendous amount of information is available, so clients need to start their research early and take the time to get opinions from friends, family members, and colleagues.

Assuming your client is in good health, eligible for coverage, and decides not to self-insure, this should allow plenty of time to shop for LTCI. If you decide to buy LTCI, you want to have it in place before an injury or illness forces you to seek medical or personal care.

LTC COSTS

Genworth provides an annual cost of care survey across multiple care categories, updated annually. The surveys for 2019, 2021, and an estimate for 2029 are shown in table 1.

The four most common ways that LTC care is paid for are (1) out-of-pocket (OOP) or self-funded by personal savings and investments, (2) government programs such as Medicaid, (3) traditional LTCI, and (4) hybrid LTCI. Most people who enter residential-type settings start by paying for their care OOP.¹⁴ The amount paid OOP depends upon the LTCI policy's elimination or deductible period. These are the most common ways to pay for LTC, but other more modern options are worth considering.

The most robust planning and communication sessions with clients and their families should occur in the pre-retirement years between ages 45 and 55.

FINANCING YOUR LTC AND LTCI COSTS

Medicare versus Medicaid. Medicare will pay for short stays in skilled nursing facilities that provide rehabilitation or therapy only after a hospital stay.

Table 1

GENWORTH COST OF CARE SURVEYS: USA-NATIONAL-2019 AND 2021

| Type of Care | 2019 Monthly Cost | 2021 Monthly Cost | Estimated 2029 Monthly Cost |
|---|-------------------|-------------------|-----------------------------|
| Home Health Care: Homemaker Services | \$4,290 | \$4,957 | \$5,765 |
| Home Health Care: Homemaker Health Aide | \$4,385 | \$5,148 | \$5,893 |
| Adult Day Care | \$1,625 | \$1,690 | \$2,164 |
| Assisted Living Facility: Private, One Bedroom | \$4,051 | \$4,500 | \$5,444 |
| Nursing Home Care: Semi-Private Room | \$7,513 | \$7,908 | \$10,097 |
| Nursing Health Care: Private Room | \$8,517 | \$9,034 | \$11,446 |

Source: Genworth Cost of Care Survey, 2019 and 2021.

However, Medicare does not pay for LTC. By contrast, Medicaid covers LTC costs at home or in a skilled nursing facility. Medicaid is the primary payer for LTC services. The biggest challenge is that most people who need LTC don't qualify for Medicaid because they have too much income and/or too many assets. Depending upon the specific state, you may be allowed to have only \$2,000-3000 in assets in order to qualify for Medicaid.

Get LTC coverage through your employer. If you are still working, and your employer offers LTCI as an employee benefit, you can enroll regardless of your health history. If you have a chronic condition and enroll in LTC coverage, then leave your employer, you may be able to carry forward this coverage.

Buy a new LTC policy. Based on the rule of thumb noted above, individuals with a net worth between \$200,000 and \$2.5 million are good candidates for LTCI. Those with less net worth are likely to qualify for Medicaid and those with more net worth may be comfortable with self-funding. Fewer than 10 percent of Americans age 50 and older have LTCI.¹⁵

Roth IRAs. Setting aside Roth individual retirement account (IRA) assets for LTC costs or LTCI premiums may be an excellent funding mechanism unless you specifically plan to pass those assets to your heirs. Assuming the Roth IRA has been funded for at least five years, and the individual is at least age 59½, these assets are available for LTC use income-tax and penalty-free.

Health savings accounts (HSAs). Withdrawals from HSAs for LTCI are tax-free when they meet certain guidelines. You can use HSA monies tax-free to pay for LTCI premiums depending on your age and if your policy covers only LTC services (refer to the most recent Internal Revenue Service tax tables for details).

Advancing cash from or converting existing life insurance. Some life insurance policies offer accelerated benefits in the form of a cash advance against the death benefit. Converting cash value from an old whole life or universal life policy into a paid-up or partially paid-up hybrid LTCI policy through a 1035 exchange is also possible.

Sell your life insurance policy outright. If you already own a life insurance policy, you can do what is referred to as a life settlement.¹⁶ You can sell your policy for its present value to raise cash for any reason. This option is usually available only to women age 74 and older and to men age 70 and older. You may then choose to use those proceeds to pay for LTC services. This should not be confused with a viatical settlement, which requires that an individual be terminally ill when selling a life insurance policy.

Before-tax savings vehicles such as traditional IRAs or 401(k) plans. You might consider using proceeds from an IRA or 401(k) to purchase a hybrid LTC/life insurance policy. If the LTC benefits are never needed or used, the death benefit would flow into the estate tax-free.

Buy a short-term (recovery) care policy. Recovery policies are designed to provide benefits for a period lasting 12 months or less.¹⁷ Most short-term policies have no elimination period (versus 90-180-day elimination periods in most LTCI policies) and are less expensive than LTCI policies. They have the potential to be used to cover the LTCI elimination period. Short-term care coverage can be better than no coverage at all. The typical person buying short-term coverage is between age 65 and 74.

Adult children pay their parents' LTCI premiums. Adult children may offer or be convinced to pay their parents' LTC premiums. You could say that this might be a way of potentially protecting one's inheritance.

Self-insure (self-fund) for LTC. An individual also can choose to set aside savings and/or assets to pay for LTC costs OOP. On average, LTC lasts about 2.2 years for men and 3.7 years for women. The rule of thumb used to be that if your net worth fell between \$200,000 and \$2 million, purchasing LTC insurance made the most sense. So, an individual with assets of more than \$2 million was considered able to self-insure. But as healthcare costs have soared, the new number to be considered LTC self-insured is closer to \$2.5 million.¹⁸ Regardless, you'll want to consider your family history and health to gauge the likelihood of needing care. You also should estimate the cost of care in your local area. If you do self-fund, keep LTC assets separate from spendable assets.

SELF-INSURING FOR LTC—A CLOSER LOOK

Because a large percentage of an individual's assets may reside in tax-deferred vehicles such as traditional IRAs and 401(k) plans, this may seem like an obvious bucket of money to use for paying LTC-related costs. Consider that the 2019 U.S. Census Bureau's Net Worth of Households analysis showed that retirement accounts, including IRAs and 401(k)s, are the second-largest contributor to net worth for individuals age 55 and older.¹⁹

But are taxable withdrawals from these types of investment vehicles an optimal way to accomplish this? Every dollar that leaves a traditional IRA or 401(k) plan is likely to be taxable. So, a larger before-tax distribution will be necessary to get the net amount needed for the care.

Table 2 provides some estimates of the size of before-tax withdrawals required to generate the cash flow needed to pay for various forms of LTC. The estimates in table 2 are based on the Genworth Cost of Care Survey 2021 information along with the 2022 IRS Tax Tables for Married Filing Jointly.²⁰ They were calculated by converting after-tax

Table
2

BEFORE-TAX WITHDRAWALS NEEDED AT AGE 59½ OR OLDER FROM TAX-DEFERRED ACCOUNTS TO PAY FOR SELECT LTC EXPENSES

| | Assisted Living | Homemaker Services | Nursing Home Care (semi-private) |
|---------------------------------------|-----------------|--------------------|----------------------------------|
| Monthly After-Tax Costs | \$4,500 | \$4,957 | \$7,908 |
| Annual After-Tax Costs | \$54,000 | \$59,484 | \$94,896 |
| Annual Before-Tax Costs | \$61,363 | \$67,595 | \$121,661 |
| Tax Bracket Used | 12% | 12% | 22% |
| 2.2 Years (Male) of Before-Tax Care | \$134,998 | \$148,709 | \$267,654 |
| 3.7 Years (Female) of Before-Tax Care | \$227,043 | \$250,101 | \$450,145 |

Source: Genworth Cost of Care Survey, 2019 and 2021; and Rocky Mengle, "What Are the Income Tax Brackets for 2021 vs. 2022?" Kiplinger (April 10, 2022), <https://www.kiplinger.com/taxes/tax-brackets/602222/income-tax-brackets#:~:text=The%20tax%20rates%20themselves%20are,adjusted%20to%20account%20for%20inflation.>

Table
3

OPTIONS FOR INSURING AGAINST LTC-RELATED RISKS HAVE EVOLVED

| | Traditional LTCI ("Pay as You Go") | Annuity-Based with LTC Rider | Life Insurance-Based LTCI ("Modern/Hybrid") |
|----------------------------|------------------------------------|---|---|
| Underwriting | Full underwriting | Most lenient underwriting | Full underwriting |
| Payment Structure | Full pay premium | Single pay, short pay, full pay options | Single pay, short pay, full pay options |
| Coverage Emphasis | Focus on LTC, no death benefit | Focus equally on death benefit and LTC | Focus on LTC and not on death benefit |
| Death Benefits | No | Yes | Yes |
| Return of Premium | No | No | Yes |
| Reimbursement or Indemnity | Reimbursement only | Reimbursement or indemnity | Reimbursement or indemnity |
| Informal Care | No | Yes | Yes |
| Guaranteed Premium | No | Yes | Yes |
| Inflation Options | Yes | No | Yes |
| Tax Deductible Premiums | Yes | No | Yes |
| 1035 Exchange | No | Yes | Yes |
| Most Suited For | Healthy | Less healthy | Healthy |
| Relative Cost | Least costly | Most costly | Intermediate cost |

Source: American Association for Long-Term Care Insurance, <https://www.aaltci.org/long-term-care-insurance/>; Jean Chatzky, "Long-Term Care Worries," AARP The Magazine (June/July 2022), <https://www.aarp.org/caregiving/basics/info-2022/long-term-care-worries.html>; Cynthia Ramnarace, "10 Misconceptions About Long-Term Care Insurance," AARP Bulletin (October 21, 2011), <https://www.aarp.org/health/medicare-insurance/info-10-2011/long-term-care-insurance-misconceptions.html>; Tamora Holmey, "How to Pay for Long-Term Care When You Are Not in Perfect Health," AARP (April 14, 2021), <https://www.aarp.org/caregiving/financial-legal/info-2021/long-term-care-insurance-alternatives.html>.

monthly dollars to before-tax monthly dollars, then to before-tax annual withdrawals. Table 2 shows the average annual cost of care across three different levels of care, and then adds up the total average cost of care for a man (2.2 years) and for a woman (3.7 years).

Note that as we progressed to a more skilled level of care, we were faced with tax-bracket creep and the potential for Medicare recipients to be subject to the Income Related Monthly Adjustment Amount for Parts B and D, which increases with the larger withdrawals.

It's easy to see, if both spouses beat the longevity odds and end up needing five years or more of care paid for out of their IRAs or 401(k) plans, how quickly these costs and withdrawals might add up. Additionally, someone younger than age 59½ could be subject as well to the 10-percent early withdrawal penalty. I would not endorse this strategy without exhausting other possibilities first.

SHOPPING FOR A NEW LTCI POLICY

Shopping for an LTCI policy requires patience. There are many different types

of policies, features, riders, restrictions, and benefits within an individual insurance contract. This can make selecting one confusing, frustrating, and overwhelming. Often individuals want to get LTC plans in place before they retire, so they can enjoy retirement with less stress. If they can prepay in advance of retirement for those policy premiums, this is also a desirable option.

As mentioned earlier, the best time to begin planning the purchase of an LTCI policy is from your mid-40s through your mid-50s. This gives you a window

of time when your potential insurability is higher (than if you had waited) and you have a better chance to qualify for lower LTCI premiums.

The three basic types of LTC policies are traditional LTC, annuity-based LTC, and life insurance-based LTC. Table 3 summarizes the pros and cons of each; figure 2 illustrates the evolution of LTCI policies over the past 50 years. Note that only the modern hybrid policy has a return of premium (ROP) feature, inflation protection, a death benefit, is indemnified, and allows for informal care.

LETTING AN EXISTING TRADITIONAL LTCI POLICY LAPSE

The most-common reasons LTCI policies lapse are (1) the insured finds the premium to be a financial burden, (2) the insured is in good health and doesn't think the coverage is necessary, and (3) the insured is not making the best decisions, possibly because of cognitive impairment. Researchers conclude that because of these reasons, about one-third of individuals with LTC insurance at age 65 will let their policies lapse before death. Some carriers may announce annual premium increases,

then provide options to maintain a level premium by adjusting features such as the daily benefit amount, benefit period, remaining lifetime payment maximum, inflation benefit, and/or elimination period. Some 10-20 percent of policyholders respond by cutting off premium payments, and 20-30 percent respond by shifting to lower levels of benefits.

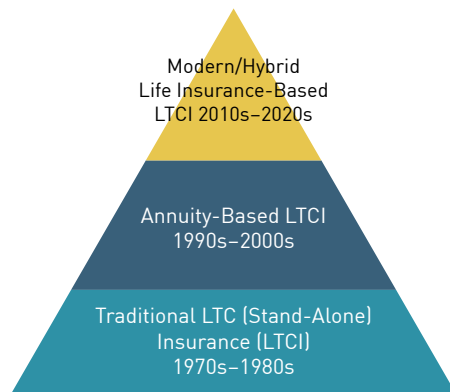
CASE STUDY 1: TRADITIONAL LTCI

In December 2021, a 74-year-old single female client who had held a traditional LTCI policy for more than 10 years got notice that her premium would increase by 16.67 percent in 2022, from \$186.00/month to \$223.21/month. The notice further stated that in 2023 her premium would increase another 15 percent, to \$256.69/month, if she took no action. Table 4 shows how the insurance company laid out the options for this 74-year-old client.

This is just one example of why traditional LTCI has gotten such a poor reputation over the years. We all know that mental acumen is more easily taxed as we age. So here is this senior client being asked to make a complicated, important, and time-sensitive decision. And it's a decision that determines whether she is going to be able to fund part or all of her LTC needs—with an LTCI

Figure 2

SIMPLIFIED EVOLUTION OF LTCI POLICIES DURING THE PAST 50 YEARS



Sources: Texas Health & Human Services, <https://www.hhs.texas.gov/services/aging/long-term-care>; The National Association of Insurance Commissioners, <https://content.naic.org/consumer/health-insurance.htm>; American Association for Long-Term Care Insurance, <https://www.aacl.org/ltc>; and LongTermCare.gov, <https://acl.gov/ltc>.

Table 4

NOTICE OF TRADITIONAL LTCI PREMIUM INCREASE AND OPTIONS

Your traditional LTCI coverage options; some of the options to change your benefits and avoid or reduce the premium increase are listed below.*

| | Option 1 | Option 2 | Option 3 | Option 4 | Option 5 |
|--|-------------------|------------------------------|----------------------------------|-----------------------|-------------------------------------|
| Current Monthly Premium 12/12/2021: \$186.00 | Pay Rate Increase | Guarantee Premium Until 2028 | Contingent Nonforfeiture Benefit | Basic Paid-Up Benefit | Remove Inflation, Reduce DBA by 25% |
| Monthly Premium 02/08/2022 | \$223.21 | \$307.43 | None | None | \$210.84 |
| Monthly Premium 2/08/2023 | \$256.69 | \$307.43 | None | None | \$242.46 |
| One-Time Cash Payment to You | None | None | None | \$8,936.96 | \$593.76 |
| Daily Benefit Amount (DBA) | \$293.63 | \$294.24 | \$293.63 | \$293.63 | \$220.00 |
| Benefit Period | 2 years | 3 years | N/A | N/A | 2 years |
| Remaining Lifetime Maximum | \$214,349.90 | \$322,192.80 | \$34,160.64 | \$25,223.68 | \$160,600 |
| Inflation Benefit | Compound 5% | Compound 1% | N/A | N/A | NO BIO |
| Elimination Period | 100 days | 180 Days | 100 Days | 100 Days | 100 Days |

* Client communication received from Genworth Life Insurance Company (12/21/2021) regarding active traditional LTC policy. NO BIO = No Benefit Increase Option

Table
5

DETAILS OF A HYBRID LTCI POLICY TO HEDGE RISING HEALTH AND LONGEVITY COSTS FOR A 59-YEAR-OLD SINGLE FEMALE

| Client Age | Premiums Paid by Client | Monthly LTC Benefit Amount | Lifetime Maximum LTC Benefits | Return of Premium (ROP) | Net DB If LTC Never Used | Residual DB |
|---------------|-------------------------|----------------------------|-------------------------------|-------------------------|--------------------------|-------------|
| Day 1: Age 59 | \$95,000 | \$3,555 | \$275,938 | \$32,725 | \$95,000 | \$17,064 |
| Age 65 | \$0 | \$4,245 | \$329,485 | \$39,402 | \$95,000 | \$17,064 |
| Age 70 | \$0 | \$4,921 | \$381,963 | \$45,694 | \$95,000 | \$17,064 |
| Age 74 | \$0 | \$5,538 | \$429,903 | \$51,150 | \$95,000 | \$17,064 |
| Age 76 | \$0 | \$5,876 | \$456,084 | \$53,960 | \$95,000 | \$17,064 |
| Age 80 | \$0 | \$6,613 | \$513,327 | \$59,589 | \$95,000 | \$17,064 |
| Age 85 | \$0 | \$7,667 | \$595,087 | \$66,230 | \$95,000 | \$17,064 |
| Age 95 | \$0 | \$10,303 | \$799,747 | \$76,065 | \$95,000 | \$17,064 |

Sources: Long-Term Care Client Planning Guide, Care Matters II, Nationwide Life and Annuity Insurance Company, 2021; Client Illustration, Care Matters II, Nationwide Life and Annuity Insurance, Run 10/26/2021 for Moe Allain, RMA®, CPWA®, AAMS®, MBA.

policy that she has already paid into for the past decade.

After consulting with her financial advisor, this client chose option 2. This option increased the monthly premium to \$307.43/month (a 65-percent increase, locked in for the next six years), increased the benefit period from two to three years, increased the lifetime maximum from \$214,349.90 to \$322,192.80, reduced the inflation compounding from 5 percent to 1 percent, and increased the elimination period from 100 days to 180 days. Had she stayed with the status quo and the insurance carrier continued to increase premiums by 15 percent annually, her premiums would have surpassed \$307.43/month by 2025.

The biggest levers in terms of premiums for LTCI policies are normally the level of inflation protection and the duration of the elimination period. In this case, the client will have to pay for her own care for 180 days before the LTCI policy will begin paying out. This is something the client knows she must plan for now, and it can be a significant OOP cost.

CASE STUDY 2: MODERN OR HYBRID LTCI

A single 59-year-old non-smoking female client went shopping for LTCI and opted for a hybrid policy. The policy is a cash indemnity policy, which means

that a specific amount is paid out each month for care without having to submit receipts to the provider and wait for reimbursement. The care covered by this policy can be home health care, care in a residential setting, adult day care in the community, informal and immediate family caregivers, and LTC services that are developed in the future.

The client opted to make a one-time premium payment of \$95,000 that came from some recently matured certificates of deposit that she had mentally reserved for her future health care.

Though the national average duration of female care is 3.7 years, she opted for a six-year benefit period along with a 3-percent compounded inflation protection benefit. Her policy has a 90-day elimination period and an ROP feature in case she changes her mind and decides to cancel the policy. The policy also has an interesting feature: If all the policy's LTC benefits are used and the policy holder passes away, the policy still pays out a residual death benefit (DB).

Table 5 shows the gradual increase in both LTC monthly and maximum benefits, as well as the ROP. The ROP feature is one of the distinguishing characteristics that differentiate the hybrid LTCI policy from the traditional LTCI policy. The policy provides a cash surrender value, based in part on a guaranteed

minimum cash value that grows steadily over the life of the policy. This cash surrender value represents a refund of some or all of the premium paid. The ROP allows the policyholder who paid these premiums into the policy to receive all or some of the premium paid back, should they change their mind about the policy or decide to use the funds for a different purpose.

QUALIFIED STATE LTC PARTNERSHIP PROGRAMS

A partnership-qualified (PQ) LTCI policy is a collaboration between private LTCI companies and a state's Medicaid program. This is a joint federal-state policy initiative to promote the purchase of private LTCI, which alleviates the burden on states to pay for LTC via Medicaid.²³

Not all states participate in the program. As of this writing, the District of Columbia, Alaska, Hawaii, Massachusetts, Mississippi, New York, and Vermont do not have approved PQ LTCI for sale.

Under Medicaid, one's home may not be exempt from estate recovery from LTC expenditures. Participation in a PQ LTCI offers asset protection for one's savings and one's home, but it doesn't offer income protection. A PQ LTCI policy provides a "dollar-for-dollar asset disregard" or "spend down" protection: those who purchase a PQ policy earn one dollar of Medicaid asset disregard for every

dollar of insurance coverage paid on their behalf.²⁴ Essentially, an amount equal to that paid out by one's PQ LTCI policy is protected from Medicaid's asset limit.

Consider the following example: Alice buys a PQ LTCI policy in her home state of Louisiana. By and by, she needs LTC. Her policy pays out \$225,000 in benefits. Alice earns a Medicaid disregard that allows her to keep an additional \$225,000 more than the \$2,000–\$3,000 she would ordinarily be able to keep to be eligible for Medicaid coverage. Additionally, Alice's home can now be passed on to her family as an inheritance, rather than the state forcing the sale of her home to be reimbursed for the amount it paid for Alice's LTC.

CONCLUSION AND CALL TO ACTION

As we age, longevity and healthcare risks collide and make LTC planning critically important. About a quarter of 65-year-olds will live to be at least 90, and these same 65-year-olds have about a 70-percent chance of needing LTC during their lifetimes. Starting this conversation at age 45–55 and getting educated should be a top priority.

Having this conversation about LTC and LTCI—with your spouse, partner, children, older relatives, parents, and/or siblings—is seldom easy. There are many uncertainties to be discussed and choices to be made. But even just starting this conversation and doing some initial planning can help alleviate some of the emotional, financial, and physical stress often related to making LTC decisions.

Remember, health events requiring LTC tend to be probable, expensive, and unplanned. Do your homework. Prepare to discuss. Listen to each other, avoid any kind of pressure, and be sure to exercise patience. You have many options for paying for this care, and there are many more potential solutions available today than there were 50, even 10, years ago. Explore and choose the most appropriate fit for your individual family circumstances and lifestyle.

Medicine is advancing quickly. The field of regenerative medicine has an exciting future, with strides being made that may allow people to rejuvenate both their bodies and minds, and even rewind their biological clocks.²⁵ So, as the longevity conversation gets more interesting, the need for LTC planning should continue to be a top priority. ●

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