FINANCIAL PLANNING UPDATE

Long-Term Care Insurance

Is it Right for You?

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Myth...

Most people do not need long-term care.

Facts...

70%
of people turning age 65 can expect to use some form of long-term care during their lives.

$264,000
is the cost of an average nursing home stay of three years.

20%
While one-third of today's 65-year-olds may never need long-term care services, 20% will need care for longer than five years.

Source: U.S. Department of Health and Human Services.

In the 1980s, there was a popular television show called *Lifestyles of the Rich and Famous*, hosted by a colorful Englishman named Robin Leach. Every week, Leach took viewers around the world for a glimpse at the lives and lifestyles of the rich and famous. The mansions were beautiful. The cars were fast. The wealthy appeared, from the outside looking in, to not have a care in the world.

Fast forward 30 years. A low interest rate environment, compounded by an unpredictable economy, has led even the most affluent to pay close attention to protecting their financial assets and their family's long-term financial stability. This is especially true as it relates to long-term health care. Health care has become top-of-mind, driven in part by the politics of the day, but also by the reality of escalating health care costs and an aging population.

So how are high net worth individuals handling long-term health care and related costs, and is Long-Term Care Insurance (LTCI) a smart move for them?

Background

Long-Term Care Insurance (LTCI) was traditionally best suited for those with a net worth between $250,000 and $2 million. This group was able to afford LTCI premiums, had significant assets to protect for their family, and did not possess adequate resources to self-insure. For individuals with a net worth above $2 million, the general rule was to self-insure.

In recent years, net worth guidelines to determine who should buy long-term care insurance are being re-evaluated. Long-term care costs and average life expectancy both continue to rise.

2012 Long-Term Care Costs

Average private pay cost of nursing home stay	$88,000/yr *(exceeded $100,000 in 10 states)*
Base rate for assisted living facilities	$41,000/yr

Source: AARP Public Policy Institute.

These changes have resulted in more affluent Americans considering long-term care insurance, and not just for financial reasons.

In a recent study published by the Health Insurance Association of America, only 31 percent of those polled said they purchased long-term care insurance to protect assets, while 69 percent acknowledged purchasing the insurance for what could be labeled as "emotional" reasons, i.e., not wanting to be a burden on family.

Why would a high net worth family consider long-term care insurance? There are several valid reasons, some more surprising than others, but all worth serious consideration with your financial advisors.

To Avoid "Being a Burden"

None of us want our future health care needs to create a physical or emotional strain on family members. This is true regardless of net worth. And this emotional side in particular is one of the leading reasons high net worth individuals consider long-term care insurance.

One way to reduce family "burden," even the psychological impact, is to have long-term care benefits available. For some, such benefits mean a greater range of options. Families with long-term care coverage may be more inclined to seek outside professional help sooner and with less family conflict. In addition, opportunities are enhanced to remain at home with professional in-home care.

According to the American Association of Long-Term Care Insurance, over 50 percent of long-term care insurance benefits in 2011 were paid for in-home care. Most people prefer to stay in the comfort of their own home as long as possible. LTCI benefits often allow this to happen as professional in-home care can be started sooner and provided at a higher level.

To Protect Family Finances

Individuals work a lifetime to accumulate assets. They build a net worth and spend considerable dollars protecting assets against taxes, estate costs and family issues. They then plan for a happy and healthy retirement and hope to leave an inheritance to their family. However, many fail to plan for long-term care costs which can significantly alter that retirement and inheritance forecast.

Why is this? Some are unsure where to start the process, or hope family members will help when the need arises. Others believe premiums are too cost prohibitive.

This creates a financial dilemma. People want and need the long-term care benefit, but are unsure if the premiums are worth it, especially if cash flow is tight. Fortunately for high net worth families the cost of premiums is less likely to cause significant burden in their annual cash flow. Premiums may also be partially tax-deductible, which makes the insurance even more cost-effective. For these reasons, long-term care insurance should at least be considered as one part of a comprehensive strategy to protect family assets.

Average annual premiums for LTCI ranged in 2010 from $1,831 for those under 55 years of age to $4,123 for those 75 and older. These policies provided a daily benefit of $150, four to five years of coverage in home and institutional settings with a 90-day waiting period, and five percent automatic compound inflation protection. (Source: AARP Public Policy Institute)

One area that concerns most people regardless of net worth is the exorbitant costs associated with long-term illness or disability, such as Alzheimer's or a severe stroke. These situations often require high levels of care for multiple years. The physical and emotional demands on family members are significant, and long-term costs are potentially devastating for family finances. Long-term care insurance can ease at least some of the burden.

In 2012, AARP stated "high premiums keep most people from purchasing insurance. Yet, for those who own long-term care insurance and receive benefits, the policies pay for a significant portion of care received."

A couple with a net worth of $1 million could spend their life savings very quickly if they have to cover the cost of a severe illness. For example, with one spouse in a long-term care facility for Alzheimer's and the other living at home, in four to five years the couple could easily deplete their entire savings.

To Provide Liquidity

Some business owners have significant net worth, but minimal liquidity and cash flow. Farmers, for example, may have high land value assets, but the majority of their cash flow goes back into the operation of the farm. Other business owners may hold significant wealth in non-income producing assets, or assets that are difficult to sell due to tax consequences or an illiquid market. In these situations, long-term care insurance can reduce out-of-pocket health care expenses and protect cash reserves for day-to-day living and business costs.

To Provide a High Level of Care

For affluent families who may wish to invest in the highest possible standard of available long-term in-home, nursing home or other professional care, offsetting part of the expense with long-term care benefits may be a worthwhile investment. This offers families more freedom to choose the precise care level they want, and in the setting they prefer.

To Account for Changing Family Dynamics

In the past, families usually cared for their own. This is less likely today as families are smaller, children may live great distances from their parents, and even if located nearby, children and their spouses may work full-time and have minimal flexibility to provide proper care. As a result, the need to hire professional care increases with each passing year and comes at a higher cost over a longer period of time. To account for this, parents and children have started to plan together. Long-term care insurance is viewed as part of a solution to assure parents achieve family goals. Insurance may be an integral part of an overall plan to provide proper care for parents, to protect an inheritance for children, and to guarantee education funding for grandchildren.

To Obtain Peace of Mind

As stated earlier, most people purchase long-term care insurance for emotional reasons. Numbers and dollars are important, but so is peace of mind. With a net worth over $2 million it may be possible to self-insure, but that does not mean these individuals want to self-insure, or that it is the best solution for their situation. Higher net worth individuals may also want to consider asset-based policies rather than traditional LTCI, in which a one-time lump sum investment can be leveraged toward future long-term care needs. Asset-based policies also allow for the protection of funds via return of premium riders and death benefits.

Most affluent individuals built their wealth by understanding risks and planning accordingly. They understand the importance of numbers, but also rely on emotional clues and input to make wise choices. This same approach is advisable when considering long-term care insurance. Each individual or family must look at the risks, costs and benefits involved, and then determine if long-term care insurance is a smart way to achieve peace of mind.

LIMRA estimates that only about 7 million Americans have long-term care insurance. According to the U.S. Census Bureau, in 2010 there were more than 40 million Americans age 65 and older. A tremendous gap in coverage exists within a population that perhaps wrongly believes Medicare covers long-term care. It doesn't.

Conclusion

Long-term care insurance is a financial tool that can play an important role in planning for the future. For individuals who relate to at least some of the concerns mentioned in this article, long-term care coverage should be considered.

Take time to review and learn about all available options for your long-term care plan with your family and trusted financial advisors. The more options you create by planning for long-term care costs today will better prepare you for what could happen in the future.

Feel Confident About Your Future

BMO Private Bank — its professionals, its disciplined approach, its comprehensive and innovative advisory platform — can provide financial peace of mind.

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