

A Personal and Professional View of Long Term Care Insurance

By William J. Goldsmith

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Recently, I was speaking with a close friend of mine. We have known each other for fifty years. He shared with me that he and his brothers had decided to place their mom in a nursing home. She suffers from Alzheimer's disease and has for several years. Her condition has now deteriorated to the point it is no longer safe for her to remain at home even with around-the-clock supervision. Aside from making me sad because I love this woman and her sons, I understand the heartache associated with this decision from both a personal and professional perspective. I had to file a long term care claim for my mom when she was being treated for cancer and could no longer take care of herself.

Over the life of her policy, this woman has paid \$37,089 in premiums. Since the initial date of her claim which began in February 2013, she has received more than \$203,000 in benefits that have been used to pay for the care she has been receiving while living at home. In addition, she still has a pool of more than \$272,000 that will be used to cover the cost of her nursing home stay.

The sons are so grateful that their mom purchased this policy because the monthly benefit she receives has enabled her to live in her own home for as long as possible. Like most people, their mom was dead set against moving out of her home, whether it be into one of her children's homes, an assisted living facility or a nursing home. She did not want to be a burden to her children by living with them nor did she want to be in any type of facility. She wanted to live her life on her terms and where she was most comfortable. Her long term care insurance policy has enabled her to do just that.

Unfortunately, sometimes, we have no choice – medical necessity or safety concerns dictate our decisions. If you lack the financial wherewithal to stay at home or you have no family members to help, a facility may be the only option. While owning a long term care insurance policy can provide tremendous peace of mind both emotionally and financially, there is nothing that takes away the heartache of personally going through this process or having to watch a loved one go through it. This is a very difficult and challenging time for the individual and his or her family members. That said, knowing that there is sufficient funds to enable a loved one to maintain their

independence and live in their own home is very comforting. Knowing that their assets, which have been accumulated over a lifetime, are better protected is also reassuring. I often refer to long term care insurance as “anti-nursing home insurance”.

For those who can afford it and have the assets to protect, long term care insurance makes a lot of sense. That said, many people do not like the idea of paying for this coverage knowing that they may never use it. Also, the policies are not inexpensive and the premium rates are not guaranteed. For these reasons, many people have decided not to purchase traditional long term care insurance policies. While I understand these concerns and consider them to be valid, traditional long term care insurance policies are the most cost-effective way to protect against long term care expenses. Given the high probability of needing this care and its associated costs, it just makes sense to have it if you can afford it. In addition, policies being issued today include more conservative interest rate and lapse rate assumptions in their pricing. As a result, the prices for today’s policies are more expensive than policies issued in the past. Due to their more conservative assumptions and higher premiums, I expect that these newer policies will have a lower probability of future premium increases over time. Regardless, many people will still not purchase these policies due to their cost and the fact that their premiums are not guaranteed to remain level and could increase in the future.

Thankfully, there are other options on the market for people to consider. There are true hybrid life insurance/long term care insurance policies, life insurance policies that include a long term care insurance rider as a cost option and life insurance policies that include an accelerated death benefit endorsement with no upfront cost. Each of these options has its own pros and cons. The right choice simply comes down to each person’s situation. And, while there is a cost associated with each of these policies. Often, part of the funding for these premiums could be paid for by insurance policies you already own.

For example, someone I know had three existing life insurance policies. But, after having an in-force review of these policies completed, it was clear that they were not performing as originally illustrated due to a reduction in interest rates. Also, the existing policies did not include any guarantees with regard to their death benefits. For the same amount he was currently paying, he could replace his existing three policies that had a combined death benefit of \$643,000 with one policy for \$750,000. In addition, this new policy’s death benefit is guaranteed for life assuming the premium is paid in a timely manner. Plus, this new policy’s death benefit is accessible to pay for long term care expenses on a tax-free basis. This was not the case with his prior policies. So, by replacing his older policies, this person received a larger, guaranteed

death benefit and the ability to use the death benefit to cover long term care expenses he may incur during his lifetime. Since he had no desire to purchase a stand-alone, long term care insurance policy, knowing his new policy provided this option was a significant added benefit to him.

I always suggest that you review your existing policies every few years just to understand how they are performing. It also makes sense due to changing needs and a changing marketplace. A review may help you to realize that you can accomplish goals that you thought were not possible by redeploying assets and premiums in a better way to achieve them.

The need for long term care is one of the greatest concerns faced by people as they age. All too many of us will experience these issues first hand. They can be both emotionally and financially devastating to the individual and their families. But, with proper planning, at least some of these concerns can be addressed. There are now more options than ever to do so. It is possible that the solution can be achieved just by rethinking your current approach. Other times, additional planning will be required. The key is to plan. Once you are dealing with these issues, your options become limited. You owe it to yourself and your loved ones to explore your options, become an educated consumer and start where you are right now.

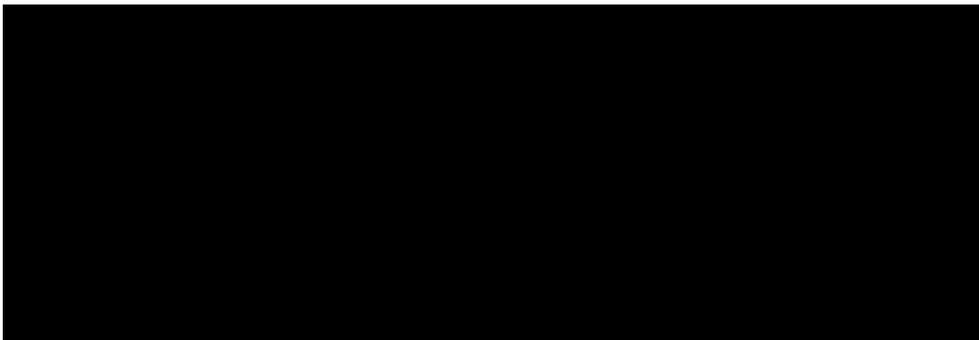
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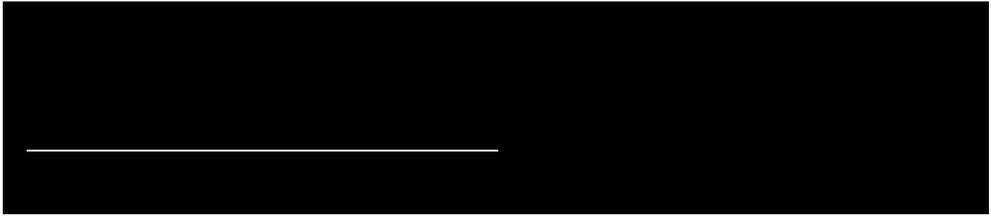


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