# A tough conversation: Broaching the LTC insurance topic

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**May 06 2016**

When clients read the sobering statistic that seven in 10 people will require long-term care in their later years, they may assume they will be among the healthy 30% who don't need assistance with the activities of daily living, such as walking, eating or bathing. They picture a well-funded retirement spent traveling and with grandchildren, and balk when approached with the topic of LTC insurance.

To overcome my clients' objections, I stress that the Employee Benefit Research Institute's annual retirement confidence surveys consistently find that a large percentage of retirees leave the workforce earlier than planned because of a hardship, such as a health problem or disability.

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(Bloomberg)

And the majority of these folks report that they pay more for insurance and health care expenses than they had anticipated when planning for retirement. And, as the cost of unplanned for in-home or nursing home care continues to increase, clients must understand that these expenses can have a significant impact on retirement security.

I tell clients my bottom line for funding health care costs is the same as it is for any of their other goals — if we don't discuss and plan for their future, we unnecessarily limit their options. And ignoring the possibility they may need LTC also could create a burden and limit the options for their family and friends. That message is especially powerful for clients who have been caregivers.

**A PERSONAL DECISION**

The decision on when and what type of LTC insurance to buy is deeply personal and must be made based on a client's finances, health and long-term goals.  Again, LTC can be a difficult subject to broach with clients, but a trusted adviser's job is to construct an appropriate asset allocation, identify all risks and tailor custom solutions — no matter how difficult the conversations.

Here are some of the most crucial LTC lessons to impart to clients:

**It's never too early to start**.
While most folks don't purchase LTC insurance until their 50s, you can discuss LTC with clients in their 30s and 40s. Often younger clients have a greater need for life and disability insurance, so they may elect to defer the LTC purchase simply due to cash flow.

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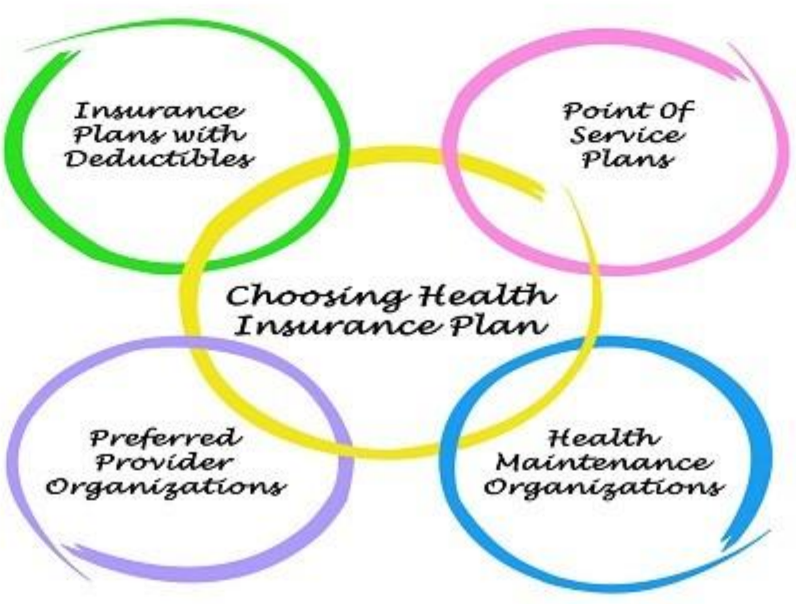
You don't want clients to skip contributing to a 401(k) in their 30s (especially if their company offers a match) to fund LTC insurance. However, I suggest the coverage be implemented as soon as financially possible. That's because the longer clients wait to implement coverage, the more likely it is they will be unable to obtain insurance coverage. Let's say osteoporosis is found in a woman in her 40s when she breaks her leg rollerblading. A weight-bearing fracture and osteoporosis commonly cause LTC coverage to be declined.

The average age of an LTC insurance purchase has declined sharply over the past decade. There are really two reasons for this: The first is price, the second is availability. Implementing coverage earlier rather than later just amortizes the coverages cost over a longer period of time. And, again, the longer you wait, the greater odds of having a health issue that precludes getting coverage.

**Overcome the “Why spend all this money for LTC insurance?” objection.**

The reality of any insurance coverage is that you pay a premium and get nothing in return unless you have a claimable loss. This is true for home, auto, liability, medical, legal, even workman’s comp coverage. This is the definition of insurance — risk sharing. People seem to think LTC is different than all other insurances and that they should get something in return if they never file a claim.




**Choosing Health Insurance Plan**

Perhaps this is because LTC coverage is elective and not required. We see elective products such as life, disability and long-term care insurance often offer some form of return of premium as the industry’s expensive answer to this objection. In LTC, this is now found in hybrid products, often with much higher funding requirements than standalone coverage. The reality is consumers are paying higher expenses for these options.

What we forget is receiving no benefits means the individual has lived a healthy life without ever needing assistance with the common activities of daily living. Explain to clients that the benefit of any insurance that ends in premium loss to the insured is their improved quality of life from not needing benefits. Ask them, “Would you rather deal with your house burning down, replacing possessions, losing memories and dealing with reconstruction, or forfeit your annual home insurance premium?”

**Combo or hybrid LTC products are not always the answer.**

Although policies that combine life insurance and LTC coverage are reasonable solutions in certain situations, they are more of an answer to client-purchase objections as opposed to sound LTC planning. These policies effectively combine life insurance with some form of long-term care benefits, often with reasonable leveraging for the long-term care benefit. At first glance, these products appear attractive; however, they quickly lose their appeal when further investigated. Hybrid products almost always combine unnecessary insurance costs with inferior benefits to reach a marketable profile.

These products have become more popular because standalone LTC policy premiums have increased upwards of 100% in just the past five or six years. The increase in premiums led consumers to seek alternative solutions, especially when they had some assets to potentially self-insure the LTC risk. The insurance industry answered by developing these hybrid policies. Again, these policies simply respond to a perceived need, and the insurance companies charge for that.

**You don't have to buy a Cadillac LTC policy**.
Ask clients to think back to how they dug out of debt, or saved for college or retirement. Often the answer is, "One step at a time." Therefore, if the first LTC quote seems unmanageable in terms of cost, we trim back on the coverage until we arrive at an affordable premium. It's wise to insure as much of the perceived risk as you can, but LTC insurance does not have to be an all-or-nothing proposition.

**Be conservative when deciding to self-insure.**
The rule of thumb holds that those at a certain wealth level, let's say above $3 million, can self-insure. However, the decision on whether or not to buy LTC insurance should be based on more than a single number. It's necessary to delve into discussion about what the client thinks LTC insurance should look like. And if the portfolio is invested in a very aggressive illiquid manner, $3 million may not be enough if the market experiences a prolonged downturn.

**Quote**
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**Align LTC with clients' goals.**
While the cost of an LTC insurance policy, or even paying for LTC care itself, might not negatively impact a client's standard of living, paying for LTC over a period of decades would certainly impact any legacy a client hopes to leave. When LTC insurance is part of estate planning, a client's legacy will not be depleted by LTC costs. Also, the general security LTC insurance affords may allow us to take on more risk in a client's portfolio.

**Don't evaluate LTC through an emotional lens**.
I tell clients their health is their most important asset and LTC is a risk-management tool. LTC insurance becomes an emotional discussion because nobody wants to imagine themselves needing long-term care.

Yet no retirement or estate plan can be complete without addressing the issue of long-term care funding. We try to stick to the unemotional fact that retirement portfolios need to be protected from the high costs of LTC in the

same way we protect our families against our premature death or our homes against fire.
The heightened aversion to risk that grew out of the global financial crisis and has been since exacerbated by some recent market volatility is prompting many investors to consider LTC insurance as part of their financial plan.

While LTC insurance still is not commonplace in retirement portfolios, increasing longevity, the angst boomers feel about the future of Social Security and continued LTC product innovation should combine to change that.