How to pay for long-term care

Mechanisms for covering the costs include insurance, Medicaid and self-funding

BY GREG IACURCI

ROUGHLY HALF OF Americans turning 65 today will require long-term care. As life expectancy continues to rise and the cost of care creeps up, there's a growing need for financial advisers to be knowledgeable about long-term care funding mechanisms to help clients choose the best one — or combination.

Long-term care coverage is delivered primarily through "private" means. Roughly 55% of expenditures from age 65 through death are via these private forms of payment, with 2.7% of that from insurance and the remainder from out-of-pocket expenses, according to the U.S. Department of Health and Human Services.

About 45% of long-term care funding is from the "public" sector, mainly from Medicaid.

Public and private options have respective benefits and drawbacks related to expense, the level of long-term-care benefits and the quality of care.

There are a few insurance options to hedge long-term care risk: traditional long-term care insurance, and life insurance policies and annuities with long-term care features.

In 2017, the national median cost for a private room in a nursing home is roughly $8,100 per month, according to an annual report published by the insurer Genworth. An assisted living facility costs $3,750 a month.

Traditional LTC insurance is a stand-alone policy devoted specifically to providing benefits for long-term care if the need arises. This insurance delivers LTC benefits at the lowest cost and offers inflation protection, observers said.

Sales of these policies have dwindled over the past several years. While insurers sold 700,000 of these policies in 2000, the American Association for Long-Term Care Insurance estimates the industry will close out this year with 75,000 policy sales.

There's been negative consumer sentiment in the marketplace as insurers have had to raise premiums in recent years on in-force policies due to initial policy mispricing, following a misjudgment on lapse rates and interest rates, said Jesse Slome, executive director of AALTCI. A number of insurers also have abandoned the marketplace.

TRADITIONAL INSURANCE

Advisers typically use traditional LTC insurance if clients have a tolerance for a potential premium increase in the future and if they don't have a life insurance need, said Phil Jackson, insurance planner at ValMark Financial Group.

Sales have shifted more to combined life insurance-LTC products. These products drew $3.6 billion in new premiums in 2016, a 500% increase over the $600 million in 2007, according to Limra, an insurance industry group.

Broadly, advisers like the flexibility of these policies. Mr. Jackson explains it in terms of "live, quit or die": Clients get a long-term care benefit while living, but can also surrender the policy for a portion of their premium or provide heirs with a death benefit. The latter options aren't available for traditional policies.

Further, premiums and benefits are guaranteed, he said.

Combo policies come in two flavors: hybrid LTC and life insurance with LTC riders. Hybrids provide more of a long-term care benefit and have a "very small, very modest" death benefit, while policies with LTC riders are more life insurance focused, Mr. Jackson said.

One key difference is hybrids typically have an inflation-protection feature allowing a client's future LTC benefit to grow annually, while the benefits are fixed in policies with riders, Mr. Jackson said.

Among LTC-related sales year-to-date at ValMark, 45.9% have been hybrids, 49.5% LTC riders and 4.6% traditional LTC.

Annuity products are the insurance products least used for providing LTC benefits. Combination annuity-LTC sales were $480 million last year, up from $285 million in 2011, but little changed since 2014, according to Limra.

LIFETIME INCOME STREAM

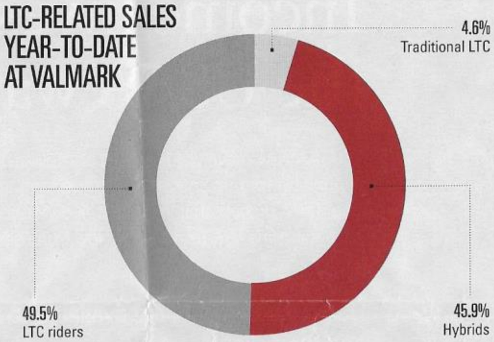
The products deliver a lifetime income stream and increase that income in the event of a long-term care need.

"Annuities are pretty much a last resort for long-term care," said Jess Rorar, a planner at ValMark. Life insurance products provide more of a benefit and give more value for the money, she said.

However, in the event insurers prohibit a client from buying traditional LTC or combined life insurance-LTC, annuities can serve as a backup because the underwriting requirements are easier, said Jamie Hopkins, the Larry R. Pike Chair in insurance and investments at the American College of Financial Services.

"Almost every adviser you talk to has clients that end up on Medicaid. It's just the reality of aging and living a long time," Mr. Hopkins said. Cont on Page 2

LTC-RELATED SALES YEAR-TO-DATE AT VALMARK



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The government assesses income and asset levels when determining individual qualifications for Medicaid. Generally, individuals essentially have to run out of money before Medicaid kicks in, Mr. Hopkins said.

Clients often need the help of an elder-care attorney to structure their assets appropriately — for example, there are several exceptions for assets, such as a home, that get protected from a Medicaid spend-down calculation, and an attorney can help protect those to the largest extent possible, Mr. Hopkins said.

Medicaid facilities, though, often aren't as nice as those provided by private care, so private insurance would likely better protect one's quality of life, he said.

Clients concerned about asset flexibility and freedom, as well as those with an aversion to medical underwriting, are often candidates for self-insuring if they have the appropriate wealth, Mr. Jackson said. "Generally, even if you have the assets to self-fund, you'll get a better return on your dollars if you use an insurance solution," he said.

Clients also "tend to have to hold a lot of assets hostage to that self-insurance," Mr. Hopkins said. "You're not really allowed to touch them," which sometimes leads to a reduction of lifestyle when young people set assets aside in a separate account for LTC purposes.

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BENEFIT ASSUMPTION

The retirement benefit estimate assumes you will continue to work and make about the same as you did in 2017. Generally, the older you are and the closer you are to retirement, the more accurate the retirement estimates will be.

For example, my estimated retirement benefit at full retirement age increased by about $800 per year from last year's statement because I continue to work and pay taxes. My latest year of earnings replaced one of the earlier, lower-earning years in the 35-year calculation used to determine future benefits. My husband's benefit estimate remains the same as last year — his part-time earnings over the past few years have not boosted his average lifetime earnings.

Advisers often ask me what happens to a client's benefit if he retires now but doesn't plan to claim Social Security until later. The Social Security Administration's Retirement Estimator can calculate personalized benefit estimates in such cases. If you have clients who are public employees who have pensions based on work where they did not pay FICA taxes and who also worked long enough in the private sector to earn a Social Security benefit, be aware their future benefit could be smaller than estimated.

The statement also includes an estimate of your benefit if you became disabled right now and how much your spouse and any eligible minor child could receive in survivor benefits if you were to die this year.

Pages 2 and 3 list your year-by-year lifetime earnings up to the maximum taxable wage base subject to Social Security taxes and total wages if above that annual amount subject to Medicare taxes. It serves as a timeline of your lifetime earnings and can help you map out plans for clients' retirement savings and future income needs.

You and your employer each paid 6.2% of your earnings up to the taxable wage base of $128,400 in 2018. If you are self-employed, like me, you pay the combined employee and employer amount, which is 12.4%, up to the maximum taxable wage base.

(Questions about new Social Security rules? Find the answers in my ebook at InvestmentNews.com/mbfebook.)

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