

Long Term Care Insurance: Is it worth the cost?

On several occasions clients have asked about Long-term Care Insurance (LTCI) specifically, is it worth the cost? This question reflects both the age (45-65yrs) of many of my clients and the confusion over necessity/benefit of long-term care. Of course there is no straightforward answer as there are a multitude of variables and conditions that can make LTCI look appealing or unappealing. However, the actual cost can be determined and from that an educated decision can be made.

The purpose of LTC insurance, like any insurance, is to cover or fill a financial need that otherwise cannot be easily met without significantly altering your life style. In the case of LTC, the typical policy parameters have both a fixed payout term and dollar benefit. So from the get go, the coverage is a 'shotgun approach', with the likelihood of your situation fitting these assumptions remote. This makes valuing the benefit very subjective.

My advise to clients is as follows: Unless you die suddenly, it is likely you will require some degree of assisted care before you pass, whether it be in home care or full nursing home care. So having a plan is prudent and a relief to your spouse and family. But a plan can be your own self-funded plan and/or LTCI.

A very basic plan for a couple could have the following assumptions:

- Duration of care: 3yrs
- Range of cost for care depending on extent of need:
\$40,000- 80,000 per yr (X2 for couple)
- Total cost for care: \$240,000-\$480,000 (today's dollars)

With this rough outline of cost, the question is how to pay for it? Should you buy insurance or should you self-fund this plan?

A self-funded plan can be accomplished by **earmarking some portion of your net worth for long-term care. The easiest asset to set aside is your home equity.** (Remember, prudent retirement planning assumes your home is paid off by retirement.) **Your home equity is an essential asset of your retirement planning and it is the last asset to tap for living. In addition, it is an effective savings/investment vehicle because it will at least keep pace with inflation.** Unlike an insurance plan, using your home equity is a more efficient use of your wealth because if it is not totally used toward long-term care expense, the value will be added to your estate.

Evaluating the appropriateness of LTC insurance should be done in the context of assessing your total financial picture and the cost of this fixed investment. How much are you paying, for how long, and what is the benefit payout? According to the American Association for Long-term Care (an unbiased research group) insurance premiums for a 55-year-old couple can range from \$1,400-\$2,600 per-year for \$340,000 of combined benefits for a 3yr period. A 60yr old couple would pay between \$2,600-\$4,900 per year. The cost of premiums will increase 4-10% a year; however the inflation benefit protection is 5% per yr. How does this compare to other investment opportunities and how does it fit into your life plan?

For more information about LTCI, a good place to start is reading the web-site of the "American Association for Long-term" care at: <http://www.aaltci.org/long-term-care-insurance/learning-center/planning-basics.php#services>.

The point of this discussion is to encourage you to be pro-active in establishing your end of life plan so that you and your family can rest assured your wishes can be met. Please contact me with questions or concerns. I would be more than happy to discuss your individual situation. (Disclaimer: I do not sell, recommend, or promote any company, policy, or agent.)

Kind Regards,
Barbara

Barbara HS Huff

CEO & President

New Albany Investment Management

614-216-6139 ~ www.newalbanyinvestment.com