Planning for care:

Bringing Long Term Care into the Financial Plan

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The retirement of the baby boomer generation has been a popular topic for the last few years, as approximately 10,000 boomers leave the workforce every day. That trend is expected to continue until around 2030, but in the short term the United States is working overtime to adjust healthcare and social security systems. The implications for retirement savings are clear, but less discussed is the growing need to be financially prepared for long term medical or personal care.

With the median age in the U.S. at 37, most families have a parent or family member in that retirement age bracket. That means young parents who are in their prime earning years are at risk of hitting a major derailment when they are faced with covering long term care for their elders. They and their parents should prepare emotionally and economically by building long term care insurance into their financial plan.

An advisor should automatically take this into consideration as one of the many “what if” factors in a client’s life. Which policy is right for a family will depend on a number of variables, including whether they want to remain in their home, how their age affects premium costs, and if they should consider self-insuring. People also need to consider the best time in their health cycle to apply. When they are healthy, it seems less urgent, but of course when health takes a turn the opportunity to prepare has passed.

A sound financial plan will help determine when to pull that trigger and what kind of impact it will have on a portfolio. Self-insuring may be an option for wealthy families, although they can also benefit from Long Term Care Insurance by using it to balance estate planning goals. A parent that wants to pass down inheritances to four or five children, for example, may want to invest in long term care to ease the risk of eroding that budget.

Here are three things to consider when weighing long term care insurance:

Longer lives, greater risk

As a nation, Americans are living longer. In fact, over the past 50 years, average life expectancy in the U.S. has increased more than eight years to 78.5 – longer for women, who live beyond 80 on average. By age 70, serious illness begins to take over, with heart disease, cancer, and chronic lower respiratory disease the top three causes of death in 2010. And women have the added concern that they are also likely to be the surviving spouse: by age 70, 17 percent of women have already been widowed.[i] That means a high likelihood of needing outside care for major health concerns.

Despite these trends, middle aged earners are often unaware of the cost of care. They insure their car against collision, buy life and disability insurance policies, but Long Term Care insurance continues to fall under the radar. Deprioritized as one premium too many to pay each month, the prospect of extended medical care remains out of sight, out of mind until a family member needs sustained medical help.

Robert Allen, a partner at Allen & Hollander LLP, a Massachusetts-based Trust & Estate law firm, agrees that even as his clientele is more in tune with the need for insurance, they do not have the information to make an educated decision. "Most of our clients don't understand the costs of Long Term Care Insurance or the potential costs of long term care overall," says Allen. "We get a lot of questions about the subject and how it should fit into their financial plan."

With good reason, as the cost of care continues to rise. According to AARP, the average cost of a nursing home stay in 2012 was about $88,000 per year and more than $100,000 in 10 states. The base rate for assisted living facilities averaged $41,000 per year in 2012, and adult day services averaged $66 per day.[ii]

Long term care options have evolved

There used to be few options to protect against the debilitating costs of long term care. In some parts of the country, long term care can run as high as $300 per day for a nursing home, $200 per day for assisted living, and in the mid $20's per hour for home care. Original Long Term Care (LTC) insurance policies from the 1970's only covered nursing homes and didn't include an inflation factor to address rising costs. The concept of assisted living facilities didn't even exist yet, and original LTC plans didn't cover in-home care.

Meredith Pensack, an LTC insurance specialist based in Newton, MA, points out that the landscape has changed significantly since then. "Long Term Care insurance has really evolved into nursing home avoidance," she says, "and the rise of assisted living and in-home care has made a better quality of life possible for people who want to age in place without going into a nursing home. But these options can be expensive and most people don't put aside enough of their retirement funds to address future care needs."

In recent years, Pensack notes, LTC insurance plans have evolved with the times. Insurance plans now include inflation protection to keep pace with the doubling of care every 15 years or so. A shared rider is also a popular addition. This rider allows a couple to buy a policy that links their benefits. In the event that one spouse does not need coverage, it provides the benefit to the partner that does need care. "It's literally double the coverage but decidedly not double the cost," she says. According to Pensack, other advances in insurance include the ability to reduce the elimination period to zero if a plan is used for home care – a major improvement over the traditional elimination period of 90 days – and the addition of an LTC insurance rider to life insurance policies.

The enhancements and increased options are good news, but buyers must be sure to understand the riders and benefits so they get the right policies. Every carrier has different guidelines; independent brokers will have access to a number of different carriers and the answers to important questions, including:

- What are the options and benefits?
- How much does it cost?
- What type of term is right for me?
- Does coverage protect my home and other assets if I go into a nursing home?
- Is there a discount for spouses on the same policy?

Deal with the emotional side

Families can work through financial and estate planning to prepare, but they must also address the emotions that come along with chronic or terminal illness. It is not an easy subject to discuss, but good advisors should help guide a family through issues like the family's hopes, expectations of the people involved, and the many "what if" scenarios that could come into play.

Many parents just assume their children will care for them, but sometimes the second generation cannot shoulder the financial or emotional burden, and other times parents do not want to burden their children at all. Long Term Care insurance lifts much of that weight, allowing families to help one another without deciding who becomes a caretaker or who contributes financially.

The caretaking can be arduous, with tasks like transferring parents from a chair to a bed, showering and toileting them – everything we take for granted as simple activities in our daily lives. These struggles are part and parcel with insurance coverage; as Forbes noted, "to qualify for LTC benefits you must need help with at least two of five "activities of daily living," such as getting in and out of bed, bathing, dressing, eating or going to the bathroom. What's more, you'll need it for an extended period, since policies typically don't cover the first 90 days of care."[iii]

Of course families will do whatever is necessary, but Long Term Care insurance allows them to spend more time doing the things they want to do together – instead of the things they may have to do if care is necessary.

All families hope and pray they will never have to worry about parents becoming seriously ill, but it is unfortunately an increasingly common scenario. With folks living longer and wanting to remain in their home, the care and the cost can be overwhelming. Knowing someone can provide care and companionship for loved ones eases some of the stress many will face -- along with the financial burden.

About the Authors

Michael Tucci, President and Co-Founder
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As President, CEO and co-Founder of Lexington Wealth Management, Mike Tucci is committed to offering clients a unique approach to wealth management by personally engaging with them and taking a holistic view of their needs. Mike joined forces with Kristine Porcaro to found Lexington Wealth Management in 1998, allowing him to evolve his already successful financial management and accounting career to a new level. He graduated from Bentley College with a BS in business and an MBA with a finance concentration, is a CPA, attended Wharton to become a Certified Investment Management Analyst (CIMA).

After experience at such internationally recognized firms as Deloitte & Touche and Digital Equipment Corporation, Mike founded the CPA firm of Tucci & Roselli. He worked primarily with institutional clients, which revealed to him the difficulties that many individuals encountered while trying to obtain competent, independent investment advice.

Mike is also a member of the Entrepreneurs Organization, and is involved with the Investment Management Consulting Association, The Boston Estate Planning Council, the Association for Corporate Growth, The Institute of Certified Divorce Financial Analysts, the American Institute of Certified Public Accountants, and the Massachusetts Society of Certified Public Accountants. In addition, Mike donated his time and expertise as Treasurer for the Lexington Chamber of Commerce.

Kristine Porcaro, COO and Co-Founder
Lexington Wealth Management

Kristine Porcaro has spent the past 20 years helping her clients navigate the often confusing world of financial services. In addition to keeping close client relationships, she also oversees all the day to day operations and long term strategy of the firm.

An expert at developing innovative strategies to address complex problems, Kristine thrives on challenge. She began her financial career in 1991 at Investors Capital Corporation, managing the firm's advisory branch, Eastern Point Advisors. Tired of seeing how many financial firms take advantage of their clients and driven by the desire to build a superior model, she founded Lexington Advisors in 1997 then merged the practice into Lexington Wealth Management in 1998.

At Lexington Wealth, she has applied her expertise in operations, financial markets, research, portfolio construction, and customer service to create an environment that gives clients the ability to be heard and helps them understand why they should invest properly.

A graduate of the University of Lowell, where she received a BS in Business Administration and Marketing, Kristine also participated in the Certified Financial Planning program from Northeastern University. She is a member of the Investment Management Consultants Association, the Entrepreneurs' Organization, The Institute of Certified Divorce Financial Analysts, and the Lexington Chamber of Commerce. Her passion for helping people carries into her free time as well, as she serves as a volunteer and fundraiser for such charities as Girl Scouts of America, the Appalachian Mountain Club, Autism Speaks, Lexington Education Foundation, the American Cancer Society, and the Alzheimer's Association.

Endnotes

[i] *The longevity sweepstakes*, Jennifer Abbasi, Fortune Magazine, June 19. 2012
[ii] *Long term care insurance: 2012 update*, Kathleen Ujvari , AARP, 2012
[iii] *10 Questions To Ask Before Buying Long Term Care Insurance*, Howard Gleckman, Forbes Magazine, June 27, 2012