

Should Affluent Clients Self-Insure for Long Term Care?

C. Brant Steck, CFP®

One of the most common questions advisors ask relating to long term care insurance for affluent individuals is, “Should my client self-insure?” The question is generally directed towards clients, who have portfolios robust enough (hypothetically) to shoulder an extended stay in a high-end facility while receiving 24/7 care, without depleting their investment portfolio. Below are a number of reasons these wealthy clients may still wish to consider long term care insurance, even if a long term care event would not compromise their lifestyle in retirement:

- **Market Timing** – Accessing one’s portfolio for five-figure per month distributions during adverse market conditions can significantly deplete assets. Just as it can be difficult to predict the timing of the market, it can be equally difficult to predict the timing of an LTC event. No one wants to be forced into a withdrawal or distribution when conditions are unfavorable. A privately-owned LTC insurance policy can prevent the need to sell assets (at a potentially unfavorable time) to create liquidity to pay expenses and can protect the portfolio from further depletion in a bear market.
- **Ease the Burden on Loved Ones**– Simply put, it is quite common for the healthy spouse, who is also likely to be elderly, to attempt to provide care for as long as possible before getting help (usually when they’ve finally hit a breaking point). Family members are more likely to seek assistance for care much more quickly if there is an LTC insurance policy and the care is already perceived to be “paid for.”
- **Protecting the Inheritance** - Many couples worry about spending any excess money in retirement for fear of depleting the inheritance of future generations. Because the LTC insurance is already a purchased asset, the healthy spouse can be assured that care can be provided through insurance benefits without the worry of depleting the portfolio and, therefore, their children’s inheritance.
- **Care Coordination** – Nearly every LTC insurance carrier in the market today offers care coordination services through a concierge program. These programs remove a significant amount of burden from adult children and caregiving spouses. These programs help to put a plan in place focused on your clients’ care preferences, identify long term care facilities, file claims and coordinate benefit payments with the facilities.
- **Animosity Among Children** - Without these care coordination programs, one adult child is likely to have to be the “point person” and commit an inequitable amount of time and effort into creating a plan without (necessarily) having the background and knowledge base to make the most appropriate decisions. This can create tension between children, particularly if one or more of the children reside in an area other than the city where the client is receiving care. In situations of a blended family, it is far more palatable for the care to be funded by an insurance policy rather than to reduce inheritable assets.
- **Protecting Privacy** – The provision of care by family members can not only be awkward and potentially invasive, but it can also be disruptive to the caregivers’ health and other responsibilities. Statistics repeatedly support the notion that providing care to a loved one has major mental health, physical, and relational impacts. Owning a LTC insurance policy helps remove the burden of one’s family providing care and allows them to focus on what is most important: the relationship with their loved ones.
- **Longer Life Expectancy** – “Higher incidence of nursing home need – and higher out-of-pocket costs – are concentrated among affluent households. We know that well-to-do people are more healthy and they live longer. That means they are more likely to live to an age where nursing home use is heavy, and more likely to pay for it themselves, since few have long-term care insurance and the well-to-do are less likely to qualify for Medicaid(1).”
- **Leverage** – Those with assets can more easily foot the premium necessary to create a plan that provides immense flexibility. Those assets repositioned into a properly structured LTC plan can offer a benefit pool for long term care expenses that yield a substantial internal rate of return (that

generally pays out income tax free). If a claim is filed, it would be extremely difficult to match the return on the LTC benefit pool in any other investment. In addition, the flexibility offered in these plans provides the option to receive a return of premium, if your client chooses to surrender the plan, or a death benefit if the LTC benefits (or a portion of them) go unused prior to death. The benefit pool, the premium, the inflation protection and the return of premium options can all be guaranteed by contract in today's market.

- **Insurance (by Definition) is the Transferring of Catastrophic Risk** – The thought process to self-insure is generally supported by modeling a portfolio through a Monte Carlo simulation to determine the statistical probability of a portfolio withstanding a substantial long term care event. However, the key consideration is not necessarily the statistical ability for the portfolio to remain solvent to a specified age, but rather to ***consider the likelihood of a large financial loss among two individuals (spouses) and whether there is value in leveraging that risk on to an insurance company.*** The data supporting the likelihood of an LTC event for those over age 65 is overwhelming. If the risk is indeed both probable and large, a portfolio of any size can benefit from transferring that risk to a third party, particularly when the premium contributions will have no adverse effect on their lifestyle and a minimal impact on the portfolio.
- **Risk is Risk** – The concept of self-insuring very rarely is discussed with any other type of personal insurance. Consider other types of policies your clients might own:
 - Homeowners Insurance
 - Auto Insurance
 - Health Insurance
 - Dental/Vision
 - Excess Liability (“Umbrella”)
 - Life Insurance
 - Disability Income

A client whose portfolio assets are large enough that he/she could shoulder an extended stay in an LTC facility could also self-insure his/her home. He/she could also likely self-insure the risk of a collision in their luxury vehicle, boat or plane, but eliminating that coverage would very rarely be advisable due to the significant financial exposure of a loss. Protecting against the likelihood of an LTC event is no different.

The financial and non-financial benefits of long term care insurance for affluent individuals are considerable. Before dismissing the concept of insuring against longevity and the associated health care costs, it is good practice to educate clients on the role insurance can play for the family and the portfolio before age and/or health circumstances compromise the opportunity to obtain coverage.

- (1) Mark Miller | Sep 22, 2017. “The Sobering Realities of Paying for Long-Term Care.” *Wealth Management*, 22 Sept. 2017, www.wealthmanagement.com/retirement-planning/sobering-realities-paying-long-term-care. Hurd, Michael. “Americans' Risk of Needing Nursing Home Care Is Higher than Previously Estimated.” *ScienceDaily*, Rand Corporation 18, 18 June 2017, www.sciencedaily.com/releases/2017/08/170828164129.htm