SAGE HILL
Advisory & Management

MEMORANDUM

By: **Philip J. Toffel Jr., JD**
Re: **Long-Term Care Financial Risk Protection Options….*how to obtain maximum value***
Date: **April, 2011**

As we all are quite aware these days, as baby boomers get older, healthcare becomes more of an issue. Today, a growing number of people have been thrust in the position of caring for aging seniors or loved ones. If you are fifty-five years or older, chances are you have considered some sort of Long Term Care (LTC) insurance. With approximately 30% of people over the age of 65 needing long term care, it is a legitimate concern. The overarching concern for us as advisors (and which certainly should be for affluent families) is….*don't jeopardize your financial independence as a result of huge care costs!*

Finding the proper LTC coverage is an important family decision. The process can be overwhelming and it is important that you do your research to ensure you use a highly rated, financially sound, reputable company. It could be 30 years before a benefit is required, so it is critical that the insurance company you select has staying power. *Additionally, most, if not all, LTC insurance companies are petitioning their state governments for permission to dramatically increase premiums….for both current and new policy holders.*

As Sage Hill does not sell policies, here is what our outside expert consultants tell us as we conduct due diligence for our clients…

Some highlights of a traditional Long Term Care Policy include:

- Annual premium payments for life with no option but to use the care
- Benefits that cover average LTC facility costs of at least $3,000 a month. It is important to find a policy that solves for inflation or is adjusted accordingly.
- Establishing a benchmark benefit. For example: A person could find a facility that costs $5,400 a month and expect to stay for four years (the average stay is approximately three years). Once the benchmark is established, an annual premium expense can be created
- A "Facility Elimination Period." The time one needs to spend in a facility before the benefit kicks in, usually 90 or 100 days.
- Benefits that cover non-skilled care assistance, helping to complete everyday actives called Activities of Daily Living (ADLs). Typically, a person must be unable to do two of the six ADLs listed below to qualify for benefits:

    1. Bathing
    2. Dressing
    3. Using the toilet
    4. Transferring (to or from bed or chair)
    5. Caring for incontinence

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6. Eating

Some critical questions people should carefully consider while shopping for an LTC product are:

- What happens if I pay several thousand dollars a year in premiums for 30 years and then never need assistance?
- What if I die?
- Can my heirs get any of the money I put into this policy when I die?
- Is there a way to get some of my paid-in premiums back?

Traditional LTC coverage does not provide help with any of these concerns. All the premiums are for something that may occur. There is no life insurance component, and usually no way to get any of your premiums back. There are some policies that have return of premiums, but those are only applicable under the age of 65. For the most part, if you do not use LTC assistance or qualify with two ADLs, the funds put into the policy cannot be recouped.

In the last few years, however, there have been some extraordinary changes to the marketplace. Leading reputable life insurance carriers such as Lincoln Life and John Hancock have listened to concerns of people looking at LTC insurance, and have developed new *hybrid* LTC products.

One compelling product is a life insurance and LTC insurance hybrid that simultaneously creates a death benefit while covering typical long term care expenses. This product enables a client to recoup their full investment at any time so long as they make a one-time premium payment. It guarantees that you get at least the amount of your initial investment back. This is a very powerful tool, providing several options. Basically, there are two components, one that accounts for the Long Term Care and one for the death benefit. If a person spends a short time utilizing the LTC assistance, it incrementally decreases both sides, essentially lowering the death benefit dollar for dollar.

Here is an example of the Lincoln Money Guard policy: We have Mr. Client who is a 60 year old Colorado resident in good medical condition and wants to make sure his wife and family does not have to care for him if the need arises. After looking at several options, he decides to do a one-time premium payment into the Money Guard policy of $75,000. The premium provides the following:

- Death benefit of $128,644 reduced dollar for dollar as Long term care benefit is used
- Total Long Term Care benefit of $257,288 ($5,360 a month for 4 years)
- Residual death benefit of $12,864 (provides a guaranteed death benefit even after all long term care funds have been exhausted)
- Guaranteed return of premium rider ($75,000) that enables for the full return of premium less any indebtedness, withdrawals, or benefits used

These powerful new hybrid LTC products are a viable option for seniors and their caregivers because of the added economic flexibility they offer.