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BEYOND THE NUMBERS

ASSISTING CLIENTS WITH LTC CONCERNS

Statistics and average costs can help paint a picture, but to effectively strategize clients' long-term care needs, planners need to take an individualized approach

By Danielle Andrus

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As lifespans grow ever longer, some of the variables that planners are helping their clients solve for get bigger. The number of years that retirement savings must last gets bigger. Healthcare needs and their associated costs compound, and the probability of needing long-term care increases. There are a number of products that planners can incorporate in their clients' plans, but the question is not always whether to insure or not to insure—wealthy clients may reasonably self-fund long-term care. Regardless of wealth, all clients face a potentially frightening question: who will take care of me when I can't take care of myself?

Pondering this question forces clients into a vulnerable position. Even if they don't have to worry about paying for an in-home nurse to deliver care, are they prepared to talk about who will hire that nurse?

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Margie Barrie, a long-term care insurance specialist with ACSIA Partner, believes that whether you buy an insurance policy or not, everyone needs to have a plan for long-term care. A client may not get cancer, but they will get older, which will eventually impact what they're able to do.

"Aging is inevitable and needing long-term care is pretty much inevitable," she says.

The specific tools used to address this risk are not as important as having a plan and being prepared.

"When you're in the middle of a long-term care crisis, that is not the time to start working with a financial planner to figure out which assets to liquidate," Barrie says. "If the stocks are doing well, you're not going to want to liquidate; if they're not doing well, you're not going to want to liquidate."

Reevaluating LTC Risk

There are a lot of statistics that planners can employ to illustrate the risk that their clients will face regarding future care needs. A common one is that 70 percent of people who live to age 65 will need paid long-term care at some point.[1] Bill Comfort, owner of Comfort Long-Term Care and director of training for the Certification in Long-Term Care (CLTC) designation and continuing education program, believes this overstates the true risk of needing care.

"The 70 percent number includes impairments, limitations that would not rise to the level of being benefit eligible with long-term care insurance," Comfort says. This statistic is a relic of research from the 2000s, he stresses. "To be in the 70 percent, you only had to need help with one ADL or at least four IADLs, which are things like cooking, cleaning, laundry, transportation, bill paying."

More recent research from the Urban Institute, funded by the Department of Health and Human Services, measures the risk of needing care using the HIPAA level of impairment and estimates around 56 percent of people over age 65 will need help with at least two activities of daily living or supervision due to severe cognitive impairment.[2]

Over half is still a significant risk to prepare for, but Comfort believes the numbers don't matter all that much.

"I don't think statistics move the marketplace. If somebody wants to believe that's never going to happen to them, it doesn't matter what stats you hit

them over the head with. They're not going to come to the table," he says.

Planning for long-term care needs to take into account the client's unique financial situation, desired lifestyle, health history, and geographic location. He encourages planners to think of it like a Monte Carlo simulation.

"You have to run the numbers on several different possible scenarios. You're not going to run 10,000, but you probably need to run three or four," he says.

Comfort is an ardent proponent of taking a detailed accounting of each clients' situation and resisting the temptation to rely on industry averages.

"I would go so far as to say that is malpractice without an individualized analysis of what care would cost that client, what their cash flow, their income is, and what are the ongoing expenses and lifestyle that they would want to maintain, particularly for a still-independent spouse," he says.

Cash Flow Management and LTC

Comfort urges planners to think of long-term care planning as a cash flow problem to be solved.

"In some ways, insurance is best used not for the expected risk, but the small-percentage, high-consequence risk. A very wealthy person might say, 'I can afford two to three years, but what scares me is if it's eight to 10.'"

However, he warns, "it's not about how much a client has in assets. It's a factor of what is their income and expenses, the cash flow issue of how will you pay for care?"

The benefit of this cash-flow approach is clear when comparing planning for a couple to planning for a single client.

"If one spouse or partner needs care while both are still alive, that's where the greatest financial pressure is for couples," Comfort says.

Genworth's *Cost of Care* survey found that the average cost of an in-home caregiver working 40 hours per week was $5,720 monthly in 2023. The first step in planning for a couple's long-term care needs is determining where that extra expense is going to come from. Even if the client has sufficient assets to pay out of pocket, it could be detrimental to their spouse.

"You can't invade assets because those assets have to remain in place to produce the income and protect the ongoing financial security of the surviving spouse," Comfort stresses to planners.

Mitigating long-term care costs is a different endeavor when considering a couple or a single client. When both members of a couple are alive, one

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spouse will typically be considered part of the care plan. They may be the primary caregiver, or they might coordinate care between skilled providers.

"Most people, if possible, for as long as possible, would say they want to stay at home. For couples, however they're coupled, there's that built-in care manager with the other spouse. So for single people, it's much harder for them to stay at home unless there's a significant, geographically close set of family or loved ones who can play that role," Comfort points out.

Self-funding, while not necessarily out of the question for couples, becomes much easier when there's only one person's needs to consider.

"If they move from their home to memory care or assisted living, they basically have traded their independent lifestyle expenses for the dependent lifestyle expenses, and no one's hurt financially," Comfort explains. "If you have a wealthier client who has $10,000 a month of income, and she goes to assisted living and it's $8,500 a month, she's self-funded. If you have a married couple and one spouse needs to go to memory care because they can't manage it at home anymore, and it's $8,500 a month, and even say their retirement income is $12,000, how is this still-independent spouse going to live basically on a third?"

LTC Funding Solutions

Although Barrie notes that having a plan is the most important way to address long-term care risk, she is an advocate for long-term care insurance. Clients' appetite for long-term care insurance is typically sharpened by three concerns, she says: the desire to remain in their homes, worries about the impact caregiving will have on their families, and questions about how they will pay for care. A long-term care insurance policy is a tool that helps planners slake each of these concerns.

"A policy does help preserve your assets, and it provides a tax-free funding strategy to pay for care," she says. "I think particularly for women, peace of mind is important because we want to have the retirement lifestyle that we want. We're probably going to outlive our husbands, and if our husbands do need care, can we lift them? Do we want to stay with them 24 hours a day?" she posits.

When the Financial Planning Association and the *Journal of Financial Planning* conducted our *Trends in Investing* survey earlier this year, there was a notable appetite for LTC products. Over 40 percent of investment professionals said they suggest linked benefit or hybrid policies in their

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life insurance recommendations to clients. In the small subsets of people who wrote in responses to certain questions, 60 percent (n = 15) said one of their top priorities when recommending a life insurance product was LTC coverage. Additionally, 22 percent (n = 9) said clients are asking about long-term care.

Hybrid life–LTCI policies are very popular right now, Barrie notes. These products provide long-term care benefits for the policyholder and a death benefit for heirs if the policyholder never requires care. Unlike traditional LTCI, premiums on these policies are generally not tax-deductible. However, the American Association of Long-Term Care Insurance (AALTCI) notes that some newer hybrid policies may offer some tax deductibility benefits, but the deduction only applies to a portion of the premium and isn't available in all states.

Comfort notes that there are still traditional long-term care insurance policies available in the marketplace in addition to hybrid policies with "probably four or five different structural designs."

"My view is none of those products, none of them, are inherently better nor worse than any of the others. They're different ways to fund, and the right product is again a client-specific recommendation," he says.

However, he pushes back against the "use it or lose it" characterization of traditional long-term care insurance. While it's true that policyholders who never need care forfeit their premiums in a traditional policy, the decision requires a more nuanced examination of the client's needs.

"Use it or lose it is how insurance is supposed to be designed," he points out. "You pay the lowest possible premium for the maximum amount of coverage if the event occurs."

Avoiding this feature of insurance can be costly. AALTCI estimates the average cost of a traditional policy with $165,000 of benefits and no inflation growth for a 55-year-old is $900 for men and $1,500 for women. A linked benefit policy with $180,000 in benefits is just shy of $4,000 for people in the same age group.

"In 2013–2014, the traditional carriers moved to gender-based pricing. Previously, the pricing was gender neutral. By then, they had accumulated considerable claims data, which clearly indicated that women used these policies more than men, and with longer stays in facilities," she explains.

"The hybrid pricing is based on a combination of morbidity and mortality, while the traditional pricing is based on morbidity," she adds.

Selecting a Policy

Ultimately, selecting the right policy for a client is highly specific to the individual's needs.

Barrie starts by submitting the client for pre-underwriting with traditional and hybrid carriers. She collects detailed information about their health, family history and situation, and financial situation. She reviews local care costs with the client and selects initial benefits and initial premium information. She then prepares a detailed analysis based on the client's specific needs and underwriting results.

After getting the client's input on the analysis, they complete an application for a policy.

"Based on their health situation, I will usually prepare a lifestyle statement. I include the pre-underwriting results that were provided by the carrier and other important health information we had discussed. After the client has reviewed and made any changes, I send it to the carrier," she adds.

The lifestyle statement acknowledges any health issues uncovered by the pre-underwriting process and explains how they're being addressed, presenting the most positive case possible.

Her team checks on the application's process three times a week so that problems can be resolved quickly.

"Frequently, the carriers need additional paperwork and information. The approval process can take from four to eight weeks or longer," she notes.

Once accepted, Barrie meets with the client to review the terms of the policy and make sure they understand the benefits.

"This is why I recommend that financial planners work with a long-term care specialist. The industry is constantly changing! I've been doing this since 1990 and still attend at least four hours of education and discussions a week," she says.

Conclusion

It's tempting to fall back on conventional wisdom and rules of thumb when facing a complex decision-making process, especially when the decision is laced with immense vulnerability. Financial planners are a critical partner to clients who are trying to plan not just for the most likely risks, but the most frightening ones. Serving them well means knowing them well, and planners who take this care with clients can make the prospect of needing long-term care more bearable. ■

Endnotes

1. Johnson, Richard. 2019. "What Is the Lifetime Risk of Needing and Receiving Long-Term Services and Supports?" Urban Institute and Department of Health and Human Services. https://aspe.hhs.gov/reports/what-lifetime-risk-needing-receiving-long-term-services-supports.
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