LONG TERM CARE ANALYSIS

SUMMARY RECOMMENDATIONS:

A. Long term care (LTC) insurance is available in three different design formats. The "Standard" Long Term Care policy provides for care as needed but is typically treated as a lifetime annual expense, meaning, lifetime pay. This is the most common policy purchased by the public because it requires the lowest annual outlay. Though a return-of-premium rider is available, few people purchase this rider because of its high cost. The "Standard" design format provides for care, but it is expensive and there is no assurance that the insurance coverage that you pay for, will be used to fund long term care. If no long term care is needed, the money spent for the protection will not provide a material benefit to the insured.

B. The alternative design format for providing long term care coverage is based upon extending and enhancing the Universal Life Insurance policy model. This policy will provide a material benefit through either funding long term care services, or through the death benefit insurance coverage payout. This design model is an investment that makes sense for those who have sufficient liquid assets such that payment for the insurance can be made in one lump sum. There are some drawbacks, however. For instance, this coverage is not available in a "shared care" format. It does not allow for spouses/partners to share in the available funds for long term care. On the other hand, for those persons who have accrued value in their Whole Life insurance policies, this value can be transferred by a 1035 exchange, to the MoneyGuard Universal Life LTC policy, and if the person is not too old, maintain most of the life insurance coverage while providing 4 to 5 times the accrued value for long term care.

C. A third option, which is included under the "Standard" LTC format is the 10-pay product. This allows the insured person to make a total of 10 annual payments - versus lifetime annual payments - and to receive lifetime LTC insurance coverage thereafter. Riders may be included with this format that provide inflation protection, shared care for spouses/partners, and return of premium. The caveat to this is that this kind of policy should be written at a younger age, the best age range being between the ages of 45 and 55. In addition, this policy, if purchased by a "C" corporation, is fully tax deductible, meaning that the tax savings will significantly reduce the cost of the policy.

ISSUES TO CONSIDER:

A. The issue, which those of us who have reached the retirement plateau face is, "can we afford to purchase long term care insurance?", and its corollary, "can we afford not to own long term care insurance?" The answer to the corollary question is a resounding "NO - We must own long term care insurance". If it turns out that we do need long term care of some kind, including staged nursing home care, the high cost for such care will likely dissipate or severely deplete our entire net worth at or before death. If our spouse remains after our death, how will he or she continue on, relying on severely depleted assets and reduced income after death. What will he or she do if long term care is needed before death? These are issues that must be planned for, by each of us, as we enter retirement.

B. A more forward looking approach to this problem is staged purchase of universal life/long term care. This is an alternative to waiting until the age of retirement before purchasing long term care. By purchasing the MoneyGuard Universal Life LTC insurance, beginning at age 40 and buying 10% of the planned coverage each year, the buyer can allocate $10-13,000 annually, and by age 48 (9 payments) will have approximately the same amount of monthly LTC coverage as if the full amount were purchased on day number one. With this kind of planned purchase program, the annual purchase is at a level that is not nearly as burdensome as it might be in one lump sum. However, all of the same benefits are available each year, including inflation protection and full return of premium at any time, and the additional cost to do this is calculated at an interest rate of 4 ½% today. In addition, this kind of approach is completely flexible such that annual payments can be delayed without affecting earlier investments or abrogating the owned insurance.

C. Note that the purchase of full coverage at age 40, assuming that the cash is available is the least-cost approach for Long Term Care, while creating a large amount of life insurance.

D. Defining the terms of long term care benefits that are to be part of any LTC insurance policy:

- Daily cost for nursing home care ranges from $150-400 per day.
- In New Mexico, today, the cost for nursing home care is about $175 per day.
- The purchase of monthly limits for LTC is more flexible than daily limits.
- Inflation protection at the 3% simple rate is sufficient by today's standards. However, higher rates of inflation may occur in the future.
- Most long term care takes place in the home, and is administered by family members, later to be supplemented with outside professional care.
- Generally, home care is less costly and normally part time.
- Full time in home care is more costly than nursing home care.

E. Underwriting standards vary with the type of policy and with the insurance carrier – Standard policy, Universal Life policy, John Hancock, Met Life, Guardian, GE, etc. Underwriting standards are much more onerous for the "Standard" format than for the "UL" format.

F. There is one LTC policy offered by the Berkshire Life Insurance Company that contains the best options of all industry standard policies, while offering premiums that are about 30% less than comparable coverage offered by other insurance companies. I have gone more deeply into the Berkshire LTC policy. (There will be more data coming, I think, when I get some input from a local attorney who is researching this topic for an April LTC presentation, and may have more to report when she gets closer to her presentation time.) I talked with the owner of a firm that offers this policy in the marketplace, and he referred me to his Guardian expert on the Berkshire LTC policy. After spending about an hour on the phone with him discussing the policy and the California model that it is dependent upon, my best judgment right now is that there is some risk to an investment in this policy, but that it is a risk that is acceptable, based upon the potential value received.

The caveat is that I would prefer to have a return of premium rider attached to this policy, but the added cost might be too rich for most buyers. The least expensive way to purchase the Berkshire LTC policy is to do it is in a "C" Corp because the cost is fully tax deductible for the corporation. If purchased in an "S" Corp or in an LLC, the premiums are only partially tax deductible.

One potential risk is that the 10-pay premiums may well be increased before all of the premiums are paid. The equivalent John Hancock policy, for example, is about 45% more expensive. Thus, even with significant increases, you will have a significant edge in terms of cost, against comparable policies from other companies.

The second risk is that Berkshire may well sell off the policies sometime in the future, when they become unprofitable. Berkshire is an A+ rated (A.M. Best) company, and I believe this to be a relatively small risk. A more likely scenario is that Berkshire will stop selling the policy but will keep the policies already issued and just "suck it up" by paying out the benefits, losing money as necessary.

Another risk, one that is perhaps more significant, is that during the 10-pay period, the premiums may be raised to a point where you cannot, or do not want to, pay the premium. Alternatively, during the 10-pay period, the buyer may find that he/she does not have the cash to pay the premiums. In either case, the money invested to that point would be forfeited.

G. There is no single plan that suits all needs. Choices become a matter of cost, available funds, shared care requirement, age, client expectations and optimal analysis. The final determination becomes a decision tree as to what best fits the needs of each buyer.