Long-term care

White paper

NATIONWIDE RETIREMENT INSTITUTE®

The case for affluent clients buying LTC coverage

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Many clients — and some advisors — think that insuring for long-term care (LTC) is something reserved for the middle class and that more affluent clients can afford to self-insure. In truth, affluent clients should consider purchasing LTC coverage as well. Because this client group can generally afford better health care, they are more likely to deny the need for LTC. But studies show that the longer you live, the more likely you will need LTC[1]. Therefore, the good health these clients often enjoy could increase their chance of needing LTC in the future.

Affluent clients may pay more for LTC

In addition, LTC services will most likely cost more for affluent people. According to industry expert Claude Thau, affluent clients may not only be more likely than middle class Americans to need LTC services in their lifetime, but the cost of their care may be more expensive[2]. That's because affluent people:

- Tend to want better quality LTC, which will be more expensive
- Are more likely to stay home regardless of the cost to do so
- Are more likely when entering a facility to choose a costlier private room
- Are more likely to select an upscale facility and/or location in town
- May be less likely to receive care from their children; their children often have higher profile and/or demanding jobs, and they may have relocated for career advancement

[1] Council on Aging – "Should I Buy Long Term Care Insurance?", September 2016.

[2] Affluence is a Key Variable in Long-Term Care Considerations, Claud Thau, Ingram's Magazine, August 18, 2017.

Insuring the portfolio — not the person

Many affluent clients hope they will never need care, but believe that if they do, they can afford to pay for it out of their own pocket. That's why a traditional long-term care discussion that centers on the risk of needing LTC — and the importance of insuring that risk — may not go very far. Remember that because these clients may perceive themselves to be "healthy and in good shape", they are more prone to denying that LTC will be part of their future.

It may be more impactful to discuss the consequences to the client's portfolio if a LTC event occurs at an inopportune time with regards to market performance. In other words, talk about insuring the portfolio — not the person.

Insuring the portfolio against an unexpected LTC event

These clients have most likely lived through the Dot Com crash of 2000, the 2008 crash blamed on the real estate and banking industry debacle and perhaps even the market crash referred to as Black Monday that occurred on October 19, 1987. Ask your client if they believe the market could take another tumble. Since the answer will probably be yes, you may get a better response to a discussion that includes statements like these:

"I would like to discuss insuring your portfolio against an unexpected extended health care (LTC) event at a time when the market and your account values are down."

"To do that, I would like to help you create a dedicated stream of income — one that is not tied to the market but is ready to go at a moment's notice — to help pay for any LTC expenses you may have without jeopardizing our strategy for your portfolio."

While it's not possible to predict how and when an account will recover from such events, an advisor may want to remind the client that:

"It could be hard to build your account values back up when you are withdrawing substantial amounts of money from your account to pay for the type of care you want and need."

Although these clients can probably afford to self-insure their potential LTC expenses, they should know that:

"There is no guarantee such an event will occur at a time that is convenient to market performance and your portfolio."

It helps to share this reminder:

"It's my job to discuss ways to help you protect and grow your assets."

Self-insuring vs. "self-assuring"

Affluent clients may be more interested in a discussion that centers on protecting their portfolio. It all comes down to how to self-insure. First, agree with your client that they can afford to self-insure. But then add that there is more than one way to self-insure, and you'd like to show them a way that is potentially more cost-effective. Encourage your affluent client to think in terms of self-assure rather than self-insure.

The client's assets or available income and/or other financial needs will dictate the LTC insurance solutions. There may be a greater need for life insurance coverage now and LTC funding later. Or, the client may be in a position where specific LTC coverage is more appropriate. Regardless of your client's needs, there are various solutions that can address LTC and financial strategies.

Let's look at an example using a cash indemnity linked benefit policy and how it would play out in a self-insure scenario vs. a self-assure scenario. This example uses smaller numbers for simplicity, and assumes a 55-year-old female, couples rate, non-tobacco, 6-year benefit duration and no inflation option[3].

Self-insuring

A person who intends to self-insure might place $100,000 in a secure money market account or other liquid investment. When long-term care is needed, they would spend that $100,000 (plus interest) on LTC expenses and have the total flexibility of cash to pay for any type of care they want, as well as any other needs they might have. If that person is still alive and needs care when the $100,000 (plus interest) is gone, they would have to tap into their accounts and other personal resources to continue paying LTC bills. The need for these funds could come at a time when those other account values have suffered downturns.

Dedicate $100,000 to pay for long-term care

Money is placed in a safe account with a low return

Pay for care using $100,000

Cash provides ease of use and flexibility

But if that runs out

Client uses income/assests that might not be convenient to the portfolio

Self-assuring may be more efficient

Purchasing cash indemnity LTC coverage will produce a different outcome. This same person places $100,000 into a linked benefit LTC policy, purchasing a LTC benefit pool of $541,000. When care is needed, the first $100,000 of benefits would essentially come from their own premium dollars. But once that $100,000 is used, the policy offers $441,000 in additional benefits, paid by the insurance company — not the person's assets — available to help pay for LTC expenses[4]. On the other hand, the self-insure plan would not have provided these extra dollars provided by this insurance protection. And since the policy pays benefits by cash indemnity, the individual will maintain the flexibility of care choices without restrictions from the insurance company.

Reposition $100,000

Purchases $541,000 of LTC benefits

LTC benefits paid from first $100,000 premium

Ease of use — flexibility with **cash indemnity**

If more LTC is needed, funds come from insurance, not assets.

Policy offers another $441,000 in monthly LTC benefits

The key to having a successful LTC discussion that will motivate your affluent client to take action is to center the discussion around portfolio success and how the use of insurance can help protect their portfolio by providing a hedge against LTC expenses. By doing so, you can help them understand the importance of purchasing long-term care coverage.

[3] Stated benefit amounts are based on hypothetical examples, and actual benefit amounts received will vary with changes to age and ratings.

[4] These numbers represent the approximate LTC pool benefit for a 55-year old, female, non-tobacco, and couple rate on a cash indemnity linked benefit LTC policy.

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