

LYNN'S TOP FIVE

By Lynn Ballou, CFP, EA

Long - Term Care Insurance:

A complex policy, a complex decision

Somehow nothing in the financial planning field seems to be straight forward these days! And probably, nothing ever was, but it's nice to pretend that it was all simpler in the past, isn't it? The longevity of the baby boomers and their parents is creating a whole new type of chats at cocktail parties, around the pool, and hopefully in offices with our respective financial advisors. It seems that even at the line in the grocery store I'm overhearing more and more conversations about how to help aging relatives, and worries about how our kids will be there to help us – hah!

So we are increasingly looking to handle the situation on our own terms. One important tool for us to use in that quest is long-term care insurance.

What is it, do you need it, can you afford it, and can you even qualify for it? Since there is a lot of information about these questions already out there for you to digest, I'm going to take a different tact, for a variety of reasons (not the least of which is space!), and say that these questions are ones you should carefully and personally explore with your advisors and qualified long-term care insurance agent specialist (in Cal-

ifornia insurance agents who provide this coverage for clients have special continuing education requirements and designations and must be certified to sell long-term care insurance).

Instead, I'd like to focus in this article on some less popular conversation points that I hope will help you in conversations you might have with your own team of advisors when you or someone you love has decided to seek a good long-term care policy.

- 1) Will you cancel? Will you keep?** Aside from the safety of the insurance company, perhaps the most important consideration in purchasing a long-term care (LTC) policy is affordability. You can design and purchase the most wonderful plan available today, but if you will cancel it before you ever collect benefits because it has become too expensive, then this policy will basically be a waste of your money and a false sense of security. Not often enough is it explained to us that premiums for long-term care insurance are not locked-in, not guaranteed, and will (in all likelihood) go up as we age! Premiums will rise with the insurance company's costs experienced by claims and inflation just like auto, homeowners, medical and other insurance plans. Be sure you design a plan that you can afford to keep! It would be a great tragedy for you to pay for your LTC insurance for many, many years, only to cancel the coverage in your later retirement years because it has become unaffordable --- never having received a benefit (if needed).
- 2) Length of benefits:** One way to handle the affordability issue may be to buy fewer years of coverage by shortening up the length of time benefits will be paid out if a claim arises (or create a smaller pool of funds). Let's say that the life-time option would be your preference, but is too costly, whereas 5 years of coverage is affordable for you. Similarly, you can lengthen the up-front elimination period and self insure, for example, for a year with your own assets before having your policy become available to you. Most agents quote the classic 90 day elimination period, but that is not necessarily your best personal choice. Quotes offered by qualified agents will also include these other options and different viewpoints on coverage and affordability. Be sure to have your agent review them with you in detail.
- 3) 10 year pay option:** Another way to confront affordability is to buy your insurance coverage while you are working, and then pay it up in full before you retire, or in your early retirement years. The most popular way is by purchasing a 10-pay rider on your plan. This is VERY costly: usually the annual premiums are 2.5 – 3 times higher than a more conventional life-time pay policy. However, if you budget this into your highest, peak earning years, you are paid up before you retire, and you are done! Using the highest quality insurance company for this type of product is key, however. Not a time to cut corners here!
- 4) Inflation protection -- don't scrimp!** A lot of riders and add-on features are available to you when designing your LTC policy. There are costs to these, so some are worth it, others not so much. Here's one to embrace: INFLATION PROTECTION! Consider buying at least 5%, buy it as a compounding benefit, be happy you have it!
- 5) Daily benefit:** It is very scary to think that if I were to need full-time care, my assets would need to produce let's say \$8000/month. But that doesn't mean I need to buy \$8000/month of coverage. If my assets were already projected to provide, let's say, \$5000/month of retirement income for me, maybe I only need to buy \$3000/month of coverage? You and your planning team can go through your own projected budget during your retirement years and figure out what you won't be doing if you were to be receiving long-term care (traveling and car payments, for example, might be substantially reduced if not just eliminated). You then can calculate how much your projected income shortfall will actually be, and just cover that. Again, this is a way to keep it real and keep it affordable. Don't forget the equity in your home in this calculation. How you will or will not use that as a potential long-term care funding source is a very personal question, but one that should not be ignored in your quest for affordable solutions.

On your journey you will find that even extremely knowledgeable agents find it tough to compare policies and insurers. Take care, take time, ask questions. The policy you buy is most likely the policy you will be keeping. As you age and your medical situation changes, you may not be able to switch policies. So be sure you do your homework up-front! It's an investment of time that you won't regret!

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