Planning Ahead Using LTC Insurance

Six Myths that Prevent Financial Professionals from Addressing Long-Term Care

By Allen Hamm

Many financial professionals avoid the issue of long-term-care (LTC) planning because of long-held myths regarding the use of LTC insurance as an option. Many of these myths surround the issue of which clients are good candidates for planning ahead with insurance. The two most prevalent myths pertain to the best age for a person to begin planning (most financial professionals believe younger clients should wait), and a person’s net worth (some professionals set an upper-end dollar net worth at which people automatically should self-insure). Once these myths are analyzed and understood, it becomes clear that every client needs to be educated about the importance of planning for a future long-term-care need. The fact that the insurance industry is the champion of the cause thus far shouldn’t get in the way of financial advisors addressing this issue from a planning standpoint.

Myth #1: If my client is wealthy enough to rely on his own assets to pay for long-term care, then that’s what he should do.

This is no different than saying that if a client can pay more taxes, he should pay more taxes. Wealthy clients are delighted when you assist them with tax planning and implement strategies to lower their tax bill. But financial professionals often fail to advise these clients that by paying insurance premiums, they potentially could avoid hundreds of thousands of dollars in long-term-care expenses. Your responsibility to each client is to understand that the acceptability of a catastrophic long-term-care risk does not depend on the size of his

![FIGURE 1: PREMIUMS (TO AGE 85) IN NOMINAL DOLLARS](image1)

![FIGURE 2: PREMIUMS (TO AGE 85) IN TODAY’S DOLLARS (3% INFLATION)](image2)

![FIGURE 3: UNDERWRITING SCREEN FAILURES](image3)
portfolio alone. Your client deserves to know how his portfolio will be impacted by a long-term-care event. Explaining this risk properly gives him the information he needs to determine whether it is an acceptable risk or to choose another option for paying for the care.

**Myth #2: My younger clients can ignore LTC planning because they will not need long-term care anytime soon.**

We normally don’t hear about young people needing long-term care or being diagnosed with a disease that eventually will require long-term care, but can it happen? While it’s true that most care takes place after age 80, it’s important to consider the fact that younger people can need care, such as in the case of Michael J. Fox or the late Christopher Reeve. Your younger clients could find themselves needing long-term care regardless of the age at which LTC insurance is purchased. Figures 1 and 2 show that at virtually all ages, even factoring in the time value of money, the younger a person is at the time of purchasing LTC insurance, the lower the premium will be on both an annual and cumulative basis.

**Myth #4: As long as they are willing to pay the higher premiums, clients can wait to purchase LTC insurance.**

While waiting until some ill-advised “perfect age” to buy, your younger client could suffer a debilitating accident or be diagnosed with a disease that makes him uninsurable. Figure 3 shows that the number of people who fail to pass LTC insurance underwriting in the 60–64 year-old age group is nearly double that of the 40–44 year-old age group.

**Myth #5: My younger clients are better off investing the money that would be used to pay for LTC insurance.**

This may be true if the client needs long-term care for only a few months. If you calculate a rate of return of 6 percent on $1,800 (average annual premium for a younger person), in 25 years her invested premium will have grown to $103,984. Unfortunately, with the cost of care in her area averaging $160 per day and increasing at an annual rate of 5 percent, she’ll only be able to afford about seven months of long-term care with the accumulated “savings.” And what if she has an accident or develops an illness that requires 10 years of long-term care, beginning shortly after she starts this investment account?

**Myth #6: I must be an LTC planning expert before I can adequately address this issue with my clients.**

Do you have to be a CPA to discuss your client’s general tax situation? Do you have to be a licensed insurance agent to recommend planning ahead with life or disability insurance? Of course not. Your clients rely on you to educate them and offer resources for dealing with all risks to their financial goals and security, and this includes the risk of long-term care, regardless of whether or not you become an expert.

**Summary**

Financial professionals, including financial planners, wealth managers, estate-planning attorneys, and CPAs, are in the best position to assist clients with initiating the development of a written plan for long-term care. You understand your clients’ financial situations, goals, and philosophies regarding risk management. You are the one they trust for advice and guidance concerning money matters of all kinds, particularly money matters that have a potentially detrimental effect on family financial security. LTC planning is an essential area of service for financial professionals because your clients trust you to thoroughly protect their assets and estates.

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