Help Protect Clients’ Wealth from Healthcare Expenses

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When planning for retirement, people naturally are eager to build enough wealth to enjoy all the fun things they have planned—traveling more, pursuing hobbies and interests full time, perhaps even obtaining a second home at their favorite retreat.

What is less enjoyable to consider is the money people may need to set aside to cover a much more serious issue—healthcare. Medicare may cover acute illnesses that require doctors’ visits and hospital stays, but people often are unprepared to meet the expenses of long-term chronic illness. These expenses can pose one of the greatest threats to personal wealth.

For advisors dedicated to helping clients protect wealth, it is essential to include healthcare considerations in every retirement planning conversation. To engage in these conversations, though, advisors may first have to overcome some common misperceptions clients have and their resistance to talking about long-term healthcare needs.

Healthcare Needs Are Growing

It’s a wonderful fact that people enjoy longer life spans today. But with that comes a simple truth—the longer people live, the more likely they are to need extensive healthcare services. That need encompasses the acute care that hospitals provide and the long-term assistance that nursing homes, assisted-living facilities, and in-home care providers deliver.

According to 2013 U.S. Department of Health and Human Services data, 70 percent of people age 65 and older will need long-term care during their lifetimes. Women, because of their longer average life span, are 50 percent more likely than men to enter a nursing home at some point after age 65. Startling as it may seem, those age 85 and older are now the fastest-growing segment of the U.S. population.

Of that group, 22 percent live in nursing homes.1

Financial advisors must address the unquestionable reality that a growing number of their clients will be dealing with major medical issues. The oldest of the baby boomers started turning 65 in 2011. By 2030, after the last of the baby boomers reach age 65, the number of people age 65 and older in the United States is expected to expand to 72 million, or 20 percent of the population, up from just 40 million and 13 percent in 2010.2

Long-Term Care Is Expensive

What may be even more sobering than the growth in the need for long-term care are the costs associated with it.3 Just consider the national average costs of obtaining the following types of care:

- One year in a private room at a Medicare-certified nursing home: $95,630
- A private room in an assisted-living facility for one year: $44,328
- Assistance from a home healthcare aide: $19.36 per hour

Given that 20 percent of the population over age 65 will need long-term care for more than five years,4 a good number of your clients are at risk of having long-term care needs make a significant impact on their family’s personal wealth.

Of course, being unprepared to meet long-term care needs takes more than a financial toll. Without the proper plans in place, family members may be forced to provide care...
that professional services in the community could deliver better. When difficult decisions must be made about health care, family members may not be fully apprised of the ill person’s wishes under the circumstances. Addressing all these issues ahead of time provides financial protection and also can eliminate unnecessary emotional burdens.

**Government Benefits Are Misunderstood**
Most people understand the need for long-term care because either they or a family member have experienced it firsthand. But people have not been proactive about addressing this need, perhaps partly because there is considerable misunderstanding about how government programs might help.

- Many assume Medicare covers long-term care needs, but it does not.
- A good number believe the Affordable Care Act, popularly known as “Obamacare,” provides coverage for long-term care, but it does not.

Medicare is designed to cover only the costs of the acute care that people obtain during doctors’ visits or hospital stays. Some extended services, such as physical therapy after a fall or stroke, may be covered, but Medicare does not cover chronic healthcare needs or provide coverage for long-term assistance with daily living functions. State-run Medicaid programs do cover long-term care, but these benefits are available only to those with very low incomes.

The Affordable Care Act originally was intended to provide some coverage for long-term care, but this provision was not included when the final program was implemented.

**Awareness of Need Hasn’t Generated Action**
A significant majority of the population has done almost nothing to prepare for the possibility of needing long-term care. Surprisingly, 65 percent said they had done “only a little planning or none at all.”

This inaction comes even though a majority of Americans age 40 and older recognize that they are “at least somewhat likely to need long-term care at some point.”

**Skepticism Persists about Private Long-Term Care Policies**
Among people who are aware of the option to buy private insurance to cover long-term care needs, the following prevailing perceptions about the policies make people resist purchasing them:

- Advisors often may hear objections about long-term care policies being “use it or lose it” insurance, because people often assume that money invested in long-term care premiums will be forever lost if they do not need long-term care.
- Some long-term care policies have elimination or waiting periods, leading some to object to paying for a policy through a period when they cannot use it.

For advisors accustomed to focusing on financial issues, offering long-term care policies may feel outside their comfort zone. They may have had an awkward experience in which they had to ask a client to schedule a medical exam and then had to wait for the results before they could complete the application process.

**Solutions to Address These Issues**
The good news is that long-term care policies have evolved in recent years, and changes in policy terms and insurance underwriting practices may have rendered the objections of both the general public and financial advisors moot. For example, consider the following:

- New hybrid long-term care policies eliminate “use it or lose it.” By combining life and long-term care insurance, hybrid policies provide coverage for long-term care. But if that care is never needed, the policy owner can get back some or all of the premium or provide protection for family members with life insurance.
- Annuities are now available with long-term care riders that are a new, innovative way to meet long-term care expenses. Clients have the option of receiving coverage for long-term care expenses that would equal, at their choice, either twice or triple the amount of the premiums they’ve paid for the annuity’s long-term care rider. Also included in the coverage could be any build-up in the value of the annuity that comes from the tax-advantaged growth that annuities provide.
- Changes in underwriting practices make obtaining a policy much easier. For some insurers, the application process may not entail anything more than a phone call between the applicant and an underwriter.

For advisors armed with information about these more attractive policies, now may be an opportune time to start talking to more clients about addressing long-term care needs. The majority of people have not yet taken action, and there are signs that minds are opening up to these needs.

Long-term care and healthcare costs now rank among the public’s top financial concerns: Across income levels and age groups, a significant percentage of the population is reporting concern about long-term care needs.

Nearly half (47 percent) of the population under age 40 has created an advanced directive to alleviate the emotional burden that can fall upon family members if they have to make uninformed care decisions.

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for a loved one. An equally promising number (40 percent) said they have discussed their preferences for long-term care with family members.8 Both of these numbers suggest people are ready for their advisors to begin the work of putting more robust plans in place to cover the potential costs of long-term care and to lessen the emotional toll on them and their families if they ever do need it.

Advisors Can Address a Major Client Need and Differentiate Their Practices

Given the critical need for long-term care coverage, advisors who bring these discussions into their practices have a significant opportunity to add value for clients and differentiate their businesses from competitors. The aging of America and the surge of baby boomers entering retirement will keep this need a pressing one. Those advisors who demonstrate they have solutions to one of the greatest risks to personal wealth and quality of people’s lives will earn reputations as invaluable community resources.

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Endnotes
6. Ibid.
7. Ibid.
8. Ibid.

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