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White paper

Unraveling the "self-insure" myth

Why the affluent need LTC coverage

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Key highlights

- Affluent clients are more likely to need long-term care services[1]
- Affluent clients are likely to pay more for their LTC services[2]
- Position insuring the portfolio instead of the person
- Discuss "self-assuring" instead of self-insuring

Many clients — and some advisors — think that insuring for long-term care (LTC) is something that is primarily needed by the middle class and that more affluent clients can afford to "self-insure. In truth, affluent clients should consider purchasing LTC coverage as well. For purposes of this paper, "affluent clients" will be considered singles with a net worth of $1.5 million to $4 million, and couples with a net worth of $3 million to $8 million.

This client group, who can generally afford better health care, 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] thus in reality, the good health these clients enjoy may bring a greater chance of needing LTC in the future.

Affluent clients may pay more for LTC

In addition, LTC services are likely to cost more for affluent people. According to LTC industry expert Claude Thau, one might take the position that affluent clients are not only more likely than a middle class American to need LTC services in their lifetime, but the cost of their care may be more expensive.[2] The reasons for this assumption are:

a) The affluent tend to want better quality LTC, which will be more expensive.
b) The affluent are more likely to stay at home regardless of the cost to do so.
c) Affluent people entering a facility are more likely to live in a more costly private room.
d) The affluent are more likely to select an upscale facility or one in a more expensive area of town.
e) Affluent people 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.

Many of these clients hope they will never need care, but believe if they do, they can afford to pay for care out of their own pocket. Thus, a "traditional" LTC discussion centered around the risk of needing long-term care — and the need to insure that risk — may

not go very far with affluent clients. Remember, because they are "healthy and in good shape" they are more prone to denying that LTC will be part of their future. What is more likely to have impact is discussing the consequences to the client's portfolio if a LTC event comes at an inopportune time to market performance. In other words, concentrate the discussion on *insuring the portfolio,* not the person!

Insuring the portfolio against an unexpected LTC event

These clients have 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 Friday" on Oct. 19, 1987. Ask your client if they believe the market could take yet another tumble.

With a likely answer of "yes", your affluent client may better respond to a discussion about *"insuring the portfolio against an unexpected extended health care (LTC) event at a time when the market and account values are down."*

And while one cannot 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 value back up when you are withdrawing substantial amounts of money from your account to pay for the type of care you want and need."*

These people can likely afford to self-insure their potential LTC expenses, yet *"there is no guarantee such an event will come at a time that is convenient to market performance and your portfolio."*

Remind the client that... *"it's my job to discuss ways help protect and grow your assets, not watch them decline."*

Affluent clients may find a discussion centered around protecting the portfolio to be of more interest. It all comes down to how to "self-insure".

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 would like to show them a more cost efficient way to do it. Have your affluent client think in terms of "SELF-ASSURE" instead of "self-insure".

LTC solutions will be dictated by assets or income the client may have available and/or other financial needs the client should address.

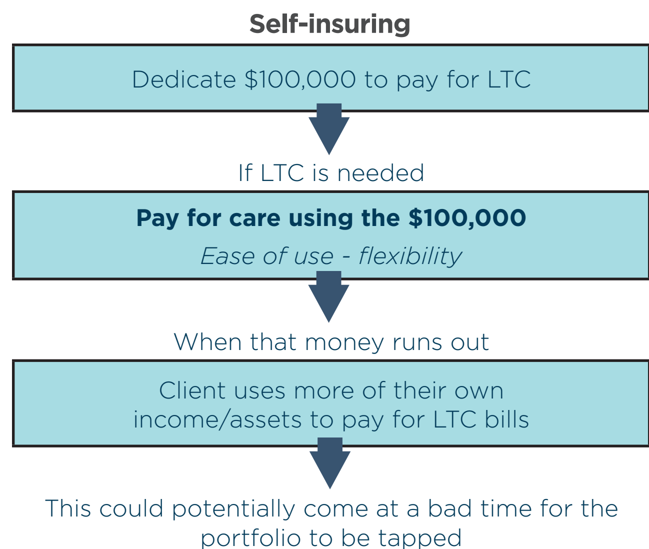
The client may have more need of life insurance coverage now with a need for LTC funding later. For those clients, a LTC Rider on a life insurance policy may provide the life insurance protection they need now with the opportunity to transition the policy to LTC protection when that becomes the more prevalent need.

Or the client may be in a position where LTC specific coverage may be more appropriate. For those clients, a linked benefit LTC policy can provide benefit choices more in line with traditional LTC policies, but with the assurance that there will be no "use it or lose it" risk. 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.

The following 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]

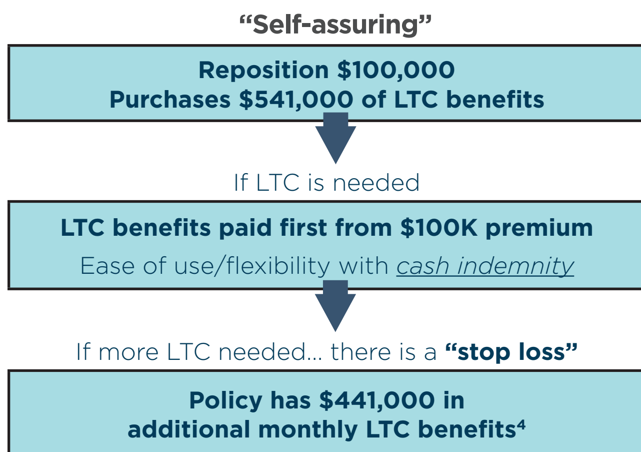
Self-insuring

A person intending to self-insure might consider placing $100,000 in a secure Money Market Account or other liquid investment. Upon needing LTC, 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 for any other needs they may have. If still alive and needing care when that $100,000 (plus interest) of savings is gone, this individual would have to tap their accounts and other personal resources to continue paying LTC bills. And the need for these funds could come at a time with other account values have suffered downturns.



Self-assuring

However, purchasing a cash indemnity policy with no restrictions on how LTC benefits can be used will produce a different outcome. This same person places $100,000 into such a policy purchasing a LTC benefit pool of $541,000. Upon needing care, the first $100,000 of benefits would essentially be coming from their own premium dollars. But once that $100,000 is used up, the policy offers $441,000 in additional benefits available to pay for LTC expenses.[4] And since the policy pays benefits by cash indemnity, the individual will maintain the flexibility of care choices. By self-assuring, a "stop loss" is created for $441,000, where the self- insure plan would have no such insurance protection.



Summary

When discussing long-term care with affluent clients, the key to a successful conversation ending with your client taking action may be to center the discussion on portfolio success and the use of insurance that can protect the portfolio with a "stop loss" against some LTC expense. By doing so, you can help lead them through the back door to purchasing LTC coverage.

[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.

[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 Nationwide YourLife CareMatters linked benefit LTC policy.

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