Having 'The Talk' About Long Term Care Planning

How Financial Advisors Can Protect Generations

by Susan W. Aumiller, CLTC
Secured Retirement Strategies Group, LLC

For many financial advisors and their clients, having 'the talk' about long term care planning is the most challenging conversation they will have. The reason is simple, most of us would rather remain in denial than talk about the realities of growing old. Unfortunately, without a fully funded plan for long term care, your clients run the risk of drawing down on their retirement savings at rates 2-3 times faster than anticipated[i]. Left unchecked, long term care expenses have the capacity to deplete a family's financial resources and place generations at risk. According to a Department of Health and Human Services (HHS) survey, fewer than 20 percent of clients had discussed LTC with their advisor.

So what are some of the obstacles that financial advisors face with their clients when discussing long term care (LTC)? In a 2014 survey conducted by Lincoln Financial Group and Hanover Research, four reasons were given by consumers:

1. Few believed they would need LTC and they underestimated the costs
2. They expected to rely on savings, healthcare insurance, Medicare/Medicaid to cover expenses
3. Fewer than one in four were confident they had financial resources to pay for LTC
4. While they recognize the importance of insuring against LTC risk, solutions were considered too expensive

Unless your client has provided extended care for an aging parent or child, most are unfamiliar with the actual services that fall under the category of LTC. This contributes to the misconception that the odds of not needing LTC is in their favor. Long term care is a custodial level of care that people need when they can no longer perform the tasks of living independently or have a cognitive impairment that requires observation for their safety or the safety of others. The tasks are simple when we're young, but become near impossible as we age. These tasks include:

- **Activities of Daily Living (ADLs**): 1) Bathing, 2) Dressing, 3) Using the toilet, 4) Transferring to or from a bed or chair, 5) Caring for incontinence, 6) Eating
- **Instrumental Activities of Daily Living (IADLs**): 1) Housework, 2) Managing money, 3) Taking medications, 4) Meal preparation, 5) Shopping, 6) Using the telephone or other communication devices, 7) Caring for pets,
  8) Responding to emergency alerts such as fire alarms

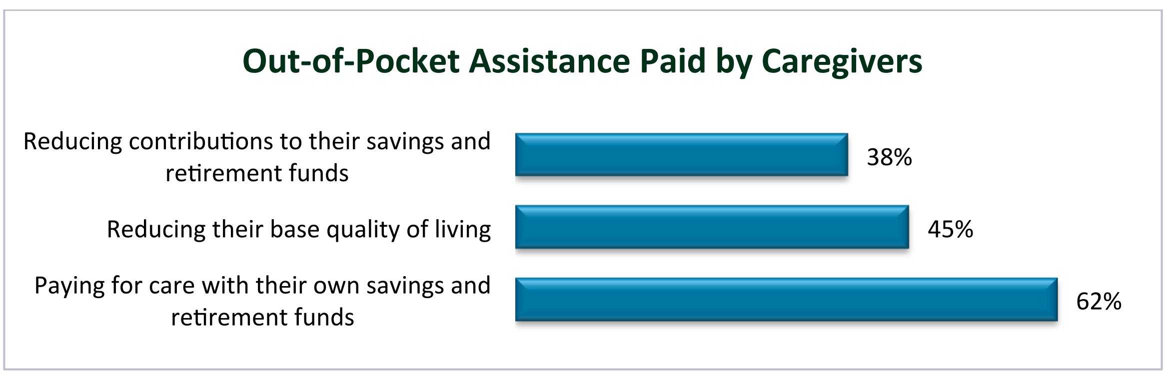
The actual statistics on who may need LTC tends to shock most people. According to the Centers for Medicare and Medicaid Services, at least 70% of people over 65 will need LTC services and support at some point. A 2015 report by Genworth showed that a smaller percentage of recipients need care because of an illness while an increasing percentage require care because of an accident.[ii] Regardless of whether aging, illness or accidents create the need for LTC, they represent an adverse financial risk with a simple solution.

Your clients most likely assume that the "simple solution" to pay for LTC is through healthcare insurance, Medicare or Medicaid. Let me quickly dispel that myth. Neither healthcare insurance nor Medicare pays for the custodial services described above. While Medicaid does pay for these services, the income qualifications are not typically within the scope of your client base.

For those clients who intend to self fund LTC expense, the following cost estimates may shed new light on this decision. If, for example, your client lives in OH and plans to receive care in their home for three years, then moves to an assisted living facility for three additional years and eventually spends one year in a nursing home, the average cost for one person would be approximately $335,758. This number escalates to nearly $1.5 million dollars when care is required for 10 or more years (e.g., Alzheimer's Disease). A 55-year old female could purchase a traditional LTC policy with benefits at the outset of the policy (prior to inflation increases) of $336,000 for $4,500 per year. Or she could reallocate $161,600 of assets to create a life insurance policy with a $336,000 death benefit that guarantees a return of premium. Because it's in a whole life policy the cash surrender value grows and if she changes her mind down the road, let's say at age 75, she is guaranteed a return of $208,848. If she never needs or doesn't need all of the LTC benefits in the policy, the remaining death benefit is left tax-free to named beneficiaries. Either way, she has protected $336,000 of her assets to cover this looming expense.

The question up for discussion becomes: have adequate funds been set aside for this purpose in an advantageous tax environment or will it require tapping into retirement and legacy funds, provisions for a surviving spouse, or even selling the family-owned business?

For clients now facing the care of their parents, another issue arises. What begins as a few hours of caregiving a week, over time turns into 20-30 hours and eventually 24/7 care. If the designated caregiver is employed full time, this can easily translate into lost wages, halted career plans, and reduced contributions to college funds and IRAs. But there's more. The negative health and emotional impact on caregivers also takes its toll. Caregivers report high levels of added stress, a negative impact on family and spousal relationships, depression and mood swings, not to mention the physical toll of heavy lifting and lack of sleep.



Beyond Dollars, Genworth 2015

While most family caregivers are more than willing to provide care for a loved one, a properly funded LTC plan can remove some of the pressure and financial risk placed on families by covering certain costs (e.g., wages for family or friends who are caregivers, supplemental home health care services, respite care, home modifications). When a caregiver is simply not available within the family or the cost of insurance is prohibitive, it is not uncommon for wealthier family members to purchase LTC insurance products for their parents or siblings to help cover the cost of care.

Filial responsibility laws may also represent a risk to you and your clients. In 28 states (including Ohio) where this law is present, some children are being told they need to pay the cost of their parents' long term care expenses and as a result, are suing financial advisors for negligence or breach of fiduciary responsibility. While these laws vary from state to state, in general terms, the following criteria would need to be met in order for the filial law to apply:

- A parent is accepting financial support from the state government.
- A parent has a medical or nursing home bill, acquired in the state which has a filial responsibility law, which they cannot pay.
- A parent is considered indigent, meaning the cost of their care is exceeding their Social Security benefits.
- A parent does not qualify for Medicaid, which would typically be used to cover such expenses.
- The caregiver has reason to believe the patient's child has the money to pay the bill, and chooses to sue the child for what is owed.[iii]

Filial support laws aren't new; they have been lying dormant for decades. However, with LTC expenses rising and federal and state funding sources drying up, healthcare providers and nursing homes may have increasing incentive to apply this law to recover costs. That said, a comprehensive financial plan, with or without filial laws present, should address the threat of LTC expenses and provide adequate funding to mitigate the financial, emotional and physical exposure to the family.

Today's LTC financial products offer an array of benefits that were not available in the past. While traditional policies remain an option, your clients can leverage assets set aside for retirement by transferring risk to an individual or joint life insurance and/or annuity hybrid policy. Both spouses can draw tax-free dollars to pay for LTC expenses. Remaining funds transfer tax free as a death benefit to beneficiaries. Options are even available to continue benefits for the lifetime of both spouses.

A thorough plan for LTC starts here, but will also include legal documents (e.g., Power of Attorney, Advance Directive), care preferences (e.g., care advocate, preferred medical treatments, end-of-life plans), check lists, and a repository for resources just to name a few. While this may seem overwhelming to some advisors, doctors, lawyers, accountants and long term care specialists can assist you and your client in developing a plan that will cover costs, protect their estate, mitigate multi-level risks to family members, and provide peace of mind for the future. The conversation is challenging, but far outweighs the risks to you, your client and the generations that follow.

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[i] 2014 Survey from Advisors and Consumers by Lincoln Financial Group and Hanover Research
[ii] Beyond Dollars, Genworth 2015 Survey
[iii] Medicalalertadvice.com

About the Author:

Susan W. Aumiller, CLTC
Partner
Secured Retirement Strategies Group, LLC

Susan is committed to educating clients on the relevance of planning for long term care and addressing the magnitude of its impact on individuals, families, finances, and caregivers.
To learn more, contact Susan at susan@srsgllc.com or by phone at 614-738-4297.

Secured Retirement Strategies Group, LLC