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Best Age To Buy LTC Insurance? Your Client's Current Age

By **Ralph D. Leisle**

Contrary to advice sometimes seen in the consumer media, the best age to buy or upgrade long term care insurance is one's current age.

Knowledgeable LTC insurance advisors recognize that advice to the contrary often is substantially inaccurate.

Take all generic advice with a grain of salt

For example, advice to delay purchase of the coverage to, say, age 65, or to self-insure if one is age 70, is particularly egregious.

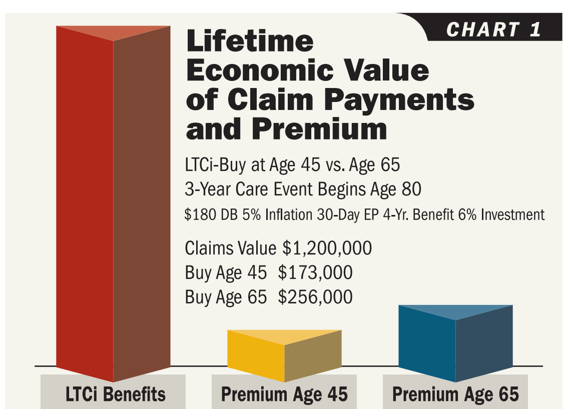
Such strategies, if they can be called that, assume that delaying purchase will save money. Or, they may be offered with the idea that premium dollars invested in a side account will earn enough to pay substantial future care costs.

As we will see, by using realistic planning assumptions, both notions can be proven false. There are inflation and investment realities that simply must be factored into the equation.

For example, a typical error in calculating cost of waiting is failing to recognize that a higher future benefit will be needed—due to inflation. At 5% inflation, a $200 daily care cost today will increase to about $400 a day over the next 15 years.

To purchase a LTC insurance policy in 15 years with comparable benefits, a $400 daily benefit will be needed, or twice the insurance, at the more expensive age based premiums.

Recently one of my national accounts wanted assistance with a bank client who asked questions related to the above discussion. The bank asked for answers to the following questions: Should we encourage age 45 employees to purchase LTC insurance? Are these employees better off waiting to buy LTC insurance? Are they better off adding to their investment portfolios and then self-funding future care costs?



Source: LTC Economic Impact Planning Model from LTCi Decision Systems Inc., Orange County, Calif.

My answer: Using a 6% after-tax rate of return, a purchase at age 45 illustration generated lower lifetime costs. It also showed that investing premium at any age will not accumulate adequate funds to finance an extensive care event.

Now, what about buying LTC insurance at age 45 or 65? Chart 1 illustrates the lifetime economic impact of such purchases.

To address the time value of money issue, which in this case is the investment opportunity cost of money spent on premium or care, the calculation added a 6% after-tax rate of return or discount rate to the projections. This responds to the common question: Assuming I won't need care until end of life, am I better off investing premium and personally paying care costs?

As you can see, the chart compares insurance benefits and premium costs of a 3-year care event, beginning at age 80. If the person has insurance rather than self-funding his or her LTC costs, the net benefit will be over $1 million, assuming the policy is purchased at age 45. If the policy is purchased at 65, this would add $83,000 to the cost of the LTC insurance ($256,000-$173,000=$83,000).

The premium breakeven occurs after 174 claim days, if the policy is purchased at age 45, and after 266 claim days if it is purchased at age 65. Plus, buying at age 45 provides 20 years additional coverage.

Let's take one more example. Let's assume the "advice" for a 70-year-old is to skip insurance due to high cost. If the person accepts that advice, this will result in an unnecessary erosion of the estate—by $285,000.

Using an age 80, 3-year care event for evaluation, we find that the claims value is $368,000. Now, if a person currently age 70

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buys comparable benefits, that person's total lifetime cost of premium, including investment opportunity, is $83,000. If this person had, instead, decided to forego the insurance and self-fund the care, the decision would be $285,000 more expensive than buying the insurance at age 70. And, the premium break-even point occurs at 283 claim days.

The point is, take all that generic advice with a grain of salt. Technology now is available that enables planners to provide clients with comprehensive, easily understood data that applies to the client's specific situation and objectives. This data will help advisors make intelligent, fact-based recommendations. It also helps clients grasp the reasons for the recommendations and make objective and effective decisions that will affect them for a long time to come.

Better yet, the analysis doesn't take a long time. For example, the projections for this article were completed in about 15 minutes. NU

Date Source:
LTC Economic Impact Planning Model™
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