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LONG TERM CARE

# Estate Planning Should Also Cover LTC

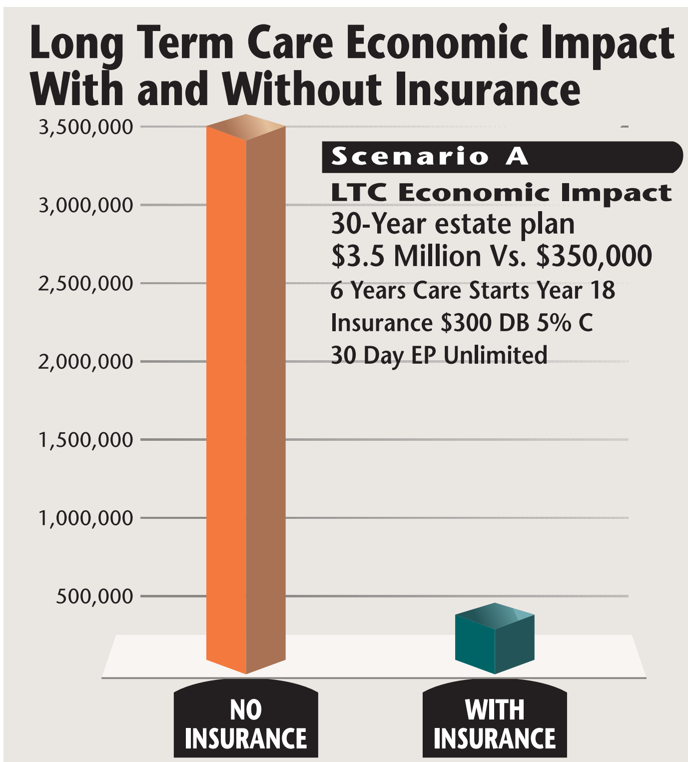
By **Ralph Leisle**

Industry and media pundits who perpetuate the idea that LTC is only a "middle class" issue are still focused on the past and miss new reality.

Emerging developments in tax law, product innovation, carrier growth, advanced planning concepts and new analytic technology have converged in the past few years. This trend has created compelling estate-planning opportunities for advisors and their clients regarding LTC.

Estate-planning techniques such as Irrevocable Long Term Care Insurance Trusts and Tax Advantaged Executive Benefits make LTC a sophisticated and important financial planning priority.

Applying estate-planning concepts that include all financial variables related to care and insurance illustrates that extended care events cause substantial asset consumption in affluent households. In addition, when care cost assumptions reflect more accurate cost of care used by the affluent, the estate impact due to LTC events becomes a multimillion-dollar wealth management decision.



Source: LTCi Decision Systems Inc., Orange County, Calif.

The average cost of private room nursing home care nationally in high cost facilities is $347 daily, according to April 2002 data from the MetLife Mature Market Institute. Further, the data show that the cost for home health aides is $27 per hour; on a 24-hour basis, such care would cost $650 daily, $236,500 annually today and, in 15 years, about $500,000 annually.

To me, the potential impact on family wealth should make LTC analysis a topic of importance to anyone offering or seeking professional financial leadership.

In the LTC scenario shown in the chart, only $300 currently is used as the daily cost rather than the $347 high cost average for nursing home care or the $650 daily cost for 24-hour care. Here, over a 30-year estate plan period, Mr. and Mrs. Client's estate will have a net cost for care of $353,000 if they have a LTC policy. If the Clients have no LTC insurance, their net cost to the estate for comparable care in this scenario soars to $3.5 million.

As I see it, the $3.5 million negative impact on lifetime estate values, attributable to receiving care, is reduced to $350,000 if the Clients purchase LTC insurance for approximately $8,000 a year.

The $3.5 million includes: care provider costs ($1.7 million); asset liquidation and tax costs ($.2 million); and loss of investment opportunity on funds liquidated to pay LTC costs ($1.6 million). The $350,000 with insurance projection includes: LTC premium ($184,000); loss of investment opportunity on premium to the breakeven point ($121,000); and future value of LTC costs not covered during the 30-day elimination period ($48,000).

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In this scenario, premium breakeven occurs on both policies when the insurance carrier has paid claims to one insured for 385 days. If only one is insured, the breakeven would occur after about 180 days of claim payments.

Now, let's look at the planning assumptions used in the chart. The Clients, age 57 and 55, are fully invested and estimate it will cost 10% to liquidate assets to pay LTC costs. The Clients estimated after-tax rate of return on investment portfolio is 6%. If care were needed today, the expected cost would be $300 daily with 5% inflation. This assumes Mr. Client will need six years of care beginning in year 18 of the 30-year plan, and that Mrs. Client survives her husband by seven years and does not need care.

In sum, the scenario shows the $3.5 million 30-year economic impact of one spouse needing six years of care. As you can see, such an impact warrants that LTC be given attention in the estate plan.

Fact-based evaluations should help eradicate "top of the head," "self-fund," or "under-insure" advice too often given to clients or media audiences. Perhaps comprehensive LTC planning will eventually become part of all initial and follow-up estate and retirement planning protocols.

Product selection should come after establishing client understanding and making primary benefit design decisions. Instead of spending hours doing spreadsheets on products, a few side-by-side scenario comparisons illustrating alternative benefit design or care assumptions may prove more valuable in motivating action and creating client value.

Assuming choice of high-quality carriers, in the big picture, benefit design is more important than premium. Amazingly, a 2002 AARP study indicates approximately 60% of LTC insurance is being sold without inflation coverage. If we change the benefit design in the above scenario to no inflation and leave all other variables identical, the Clients' out of pocket care cost skyrockets to $2.1 million versus the $48,000.

The bottom line? Clients are increasingly seeking LTC advice from LTC specialists as well as informed attorneys, CPAs, fee-based planners, investment brokers and others. Technology is now available that enables all these advisors to provide intelligent, fact-based recommendations, using various scenarios. This should help clients of these advisors understand LTC risk, how LTC insurance can factor in and the importance of effective benefit design if insurance is selected. NU


**Date Source:**
**LTC Economic Impact Planning Model™**
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