Santa Barbara Lawyer

November Is Long-Term Care Awareness Month

By Brad Tisdale

As baby boomers transition into retirement, they are trusting their financial portfolios to carry them for another 25-to-35 years based on projected life expectancies. If it is possible that they could live a relatively long life, is it also possible that, at some point, they may need care over a period of years?

The cost of care today can run between $6,000 and $16,000 per month, or more, and it will be more expensive in the future. Paying for long-term care is all about monthly cash-flow and liquidity, and it is the wildcard in financial planning. What feels like a good nest egg can be hit by astronomical care expenses. So, many people acquire long-term-care insurance as a cost-effective way to offset all or some of those potential expenses to protect their retirement assets.

What about estate planning? People put their estate plans together to determine how their various assets will be distributed at death, to whom they will be distributed, and when. When certain assets in the estate are liquidated to pay for the ongoing care of a family member, this can impact distribution and legacy plans. Addressing long-term care needs is very important when it comes to blended families. A lot of time and expense goes into drafting estate plans intended to keep family assets separate, especially when there is a disparity of assets between the spouses.

Those with larger estates have typically overlooked the need for long-term-care insurance or assume they can pay for that care when needed. However, many people who may be able to afford costly care later in their lives are now purchasing "hybrid" long-term-care contracts to protect large estates. These policies, also known as "asset-based" long-term-care policies, build long-term-care benefits into a life insurance or annuity policy. They have become very popular in the long-term-care market and provide an alternative to stand-alone, long-term-care policies. Consumers like the value of these policies, because they always pay a benefit regardless of what the future holds. If long-term-care services are needed, the policy pays for those expenses just like a traditional long-term-care policy. If no care is needed, a death benefit is paid to the estate or a named beneficiary.

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For example, I recently helped a couple acquire a hybrid long-term care policy to satisfy the terms of a prenuptial agreement. The soon-to-be husband was age 70 with grown children, and the wife was 53, single, with no children and limited assets. To protect his family's wealth should marriage end in divorce, the man wanted his fiancée to sign a prenuptial agreement. Her concern was there would be no one to take care of her when he dies. They settled on a single-premium hybrid policy that he funded with $100,000. The policy provides her with monthly long-term-care benefits for life. If she never needs care and passes away, a death benefit of $124,000 will be paid to his estate.

Hybrid long-term-care policies allow those who want to "self-insure" their long-term-care risk the ability to do so on much better terms. Hybrid policies are often funded with a single cash premium. Those with existing cash-value life insurance policies can transfer that cash, via a 1035 tax-free exchange, into a hybrid policy. It is a great option to repurpose the funds in a life insurance policy that is no longer needed into one that provides tax-free, long-term-care benefits. Premiums can also be paid over time. Regardless of how premiums are paid, consumers like the fact that the premiums on most hybrid policies are contractually guaranteed never to increase.

The issue of long-term care is not going away, nor is the cost of providing care becoming less expensive. Our reality is that 70% of those over age 65 will need some form of care due to aging and frailty; however long-term care can be needed for anyone at any age due to an accident, illness, or dementia. Medicare and health insurance do not pay for custodial care services on an ongoing basis. Only cash, Medi-Cal (Medicaid) for those who qualify, or long-term-care insurance pays for this care. ■

Brad Tisdale owns Tisdale Insurance Services. He is an independent insurance agent who works directly with individuals and business owners. Through the strategic use of life, disability, and long-term-care insurance, he helps his clients protect their families and businesses from the financial impact of life's unpleasant realities, and preserve wealth for future generations.

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