LONG-TERM CARE RIDERS

Many people work a lifetime to accumulate assets to pave the way for a comfortable retirement and to leave an inheritance for their children. The last thing anyone wants is to see their hard-earned savings depleted to pay for long-term care services.

Long-term care services, however, can quickly erode a client's assets. Almost 70 percent of people over age 65 will require chronic care later in life – for an average of three years. And, 20 percent of those individuals will need that care for longer than five years.

CASE STUDY

Nick has done well for himself and plans to use his accumulated wealth for retirement income. When he passes away, he plans to leave an inheritance for each of his three children.

At age 75, Nick become chronically ill and requires long-term care services. His remaining assets are worth $1 million. For simplicity, we'll assume that Nick's nursing home cost remains the same throughout his stay.

CONSIDER TWO DIFFERENT SCENARIOS:

SCENARIO 1

Nick purchases a life insurance policy with LTC rider

At age 50, Nick purchases a $1 million life insurance policy. He chooses to add the LTC Rider with option to accelerate the entire $1 million for long-term care services at a monthly maximum rate of 2 percent of the maximum benefit per month. This allows him to be reimbursed for up to $20,000 in long-term care expenses per month.

- When he needs long-term care services at age 75, he incurs qualifying expenses of $15,138.75 per month ($181,665 per year) for a semiprivate room in a nursing home. He resides there for four years before he passes. Over the four-year period, he is reimbursed for his four years of long-term care, which totals $726,660
- When he passes, his beneficiaries receive the remaining amount of $273,340 as a death benefit. He also still has remaining $1 million in assets. When this $1,273,340 is divided among his three children, each will receive $424,446

Nick's planned premium on his life insurance policy was approximately $11,000 per year. Even considering premiums pad, this planning strategy makes sense. If Nick had died prior to needing LTC, his beneficiaries would have received the entire $1 million death benefit.

SCENARIO 2

Nick doesn't plan ahead for long-term care expenses

At age 50, Nick chooses not to plan ahead for the possibility of a long-term care need. By not planning ahead, he ultimately makes the choice to self-insure.

- When he goes into a nursing home at age 75, he starts taking $181,665 per year from his savings to pay for a semiprivate room. He resides there for four years before he passes. Over this four-year period, he spends $726,660 for long-term care services.
- His long-term care expenses reduce his $1 million in assets down to $273,340. Each of his three children receives an inheritance of $91,000

Depending on the types of assets he had, he could end up paying unexpected capital gains tax, income and potential surrender charges generated from asset liquidation. Or, he could miss out on any returns the liquid assets were expected to generate.

SUMMARY: By choosing the LTC Rider on his life insurance plan, Nick's premium investment resulted in each of his three children ending up with significantly more inheritance than if Nick hadn't planned for long-term care expenses.