LTC takes the gambling out of your clients' retirement

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Those of us who specialize in the long-term care space are always amazed at all of the reasons a financial professional or a client avoids the topic of insurance planning for a long-term care event. Reasons include the belief that it won't happen to them, they are healthy, or they have enough to self-insure. My personal favorite is that self-insuring (properly self-funding) is really "unsuring."

When a client plans to use part of their income-generating portfolio to cover future LTC needs, the element of "unsureness" takes over — unsure of how long they will have to save, unsure of their rate of return and unsure of many other events that might come up over time.

Mitigate unwanted outcomes by using LTC coverage to "self-assure" with a guaranteed stream of leveraged benefits vs. "self-insuring" with a dollar-for-dollar reduction from their portfolio.

Heard it before

We've all heard the reasons a client might give you for why they won't need long-term care. Instead, let's focus on the consequences of not leveraging insurance to pay for a long-term care event and the potential effect on a client's income-generating portfolio — and the income stream they generate from that portfolio during retirement. This is especially impactful when you need to pull sizable amounts of income from this portfolio during a down market to pay for long-term care expenses.

Such an LTC event could impact the client's portfolio and their spouse's ability to draw the same amount of income from this portfolio going into the future. Also consider the impact on you as the client's advisor, both from a perspective of assets under management and on your ability to retain these assets within your practice when they pass on to the beneficiaries.

For example, if your client has an "unsure" plan for LTC expenses and does have the need arise, they could potentially need to withdraw significant funds from their portfolio; the national average for long-term care in 20 years is $100,000 to $218,000.* A 4-year claim could potentially remove $400,000 or more. How would this impact the ability of their spouse to maintain their standard of living? How much will this reduce your assets under management or impact your client's estate plans?

You can help your clients mitigate unwanted outcomes by showing them a plan using LTC coverage to "self-assure" with a guaranteed stream of leveraged benefits vs. "self-insuring" with a dollar-for-dollar reduction from their portfolio.

Couple with retirement nest egg of $2 million

Consider the hypothetical experience of a couple wanting to use their retirement as a source of income, but they're conservative in their investment outlook. They also want to leave behind some funds for their children and the charities they've supported their entire lives. They start out taking 4% a year against these assets. For the first 12 years, they are comfortable with the market ups and downs. When they turn 78, there are a couple of years of market downturns and, because they are spending less, they freeze their annual draw at $85,000. When the husband is 80, he has a long-term care event, limiting his abilities and requiring them to find him professional care. This costs them $120,000, which they have to pull from their portfolio because they have no other source of funds for long-term care.

That extra $480,000 of an expense has a significant impact on the portfolio. If the husband passes away at age 84, his spouse watches her portfolio dwindle to $825,996. And, if the widow has her own long-term care event a few years later, she could reduce her income substantially to $40,000 because she'll be going to a facility. The increase to pay for her care could result in her running out of money in just over 3 years. This leaves nothing for her heirs and charities, and nothing for the financial professional to continue managing.

Protecting the portfolio

Your clients may have a variety of goals that you will help them work toward over the years. Helping clients to build and grow their portfolio to meet their retirement goals will be a big part of this overall strategy. Make sure that you're having the conversation with your clients around protecting the portfolio from the financial impact of a possible LTC event so you don't find yourself explaining to their spouse why they no longer have an adequate income stream to maintain their standard of living — or to the beneficiaries why their inheritance was eroded by an "unsured" long-term care event.

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***Nationwide:** Compare Long-term Care costs from state to state