# Why Wealthy People Should Consider Buying Long-Term Care Insurance

## *(And why agents should be selling it to them)*

*by Dave Donchey, CLU*

Often I am asked, "What is the typical financial profile of a long-term care insurance prospect? Is it someone with $100,000 in assets? $500,000? $1,000,000? Or more?" Most insurance companies and many long-term care insurance trainers encourage agents to target prospects with estate values ranging from $75,000 to $750,000—any less and they claim the prospect probably can't afford to buy the insurance, any more and they suggest that the prospect can most likely self-insure.

Although there are a number of important objective standards in measuring the financial suitability of a potential buyer of long-term care insurance; (LTCI), it is still rather subjective and open to individual agent interpretation and buyer demand. For example, adult children may want to purchase LTCI on a parent who, without the financial aid of their children, might not be able to afford the insurance otherwise. That purchase and the issue of suitability may be less about asset protection and more about self-reliance, dignity, avoiding Medicaid, and the shifting of caregiver responsibilities. Conversely, someone with a $5,000,000 estate would probably not need to buy LTCI insurance, but may want to buy it because of a variety of personal, financial, and logical factors.

Most agents are surprised when I respond to that opening question with, "Anyone who can afford the premiums should consider buying LTCI." Anyone? Including affluent people? Absolutely. On the surface, this appears to be incongruous with traditional LTCI sales training tips. Most agents believe the mantra that people with large estates should "self-insure" the costs of long-term care (LTC), and "don't need to throw their money away on LTCI." (This author defines a large estate as one with assets over $2 million dollars.) Granted, if you blindly (without a logical presentation) propose LTCI to a couple worth, say five or ten million dollars, strictly because you've been taught asset protection will benefit them, you may as well leave your briefcase in the car because you won't be needing an application. Those 'prospects' believe they could buy their own nursing facility if necessary.

Perhaps wealthy people don't need LTCI, but when presented with facts and creative ideas, they might want it because it seems logical and makes common sense. Before YOU decide that your affluent prospects and successful clients don't need to purchase LTCI because their assets exceed artificial barometers, consider the following points:

* Averages Don't Apply to Above-Average Wealth- Although average annual long-term care (LTC) costs hover around $45,000, agents should be cautious about discussing 'averages' with affluent prospects. Wealthy people are generally accustomed to having higher standards of living, better lifestyles, and access to finer things—including better health care. They are likely to spend whatever it takes to get the best and most appropriate care possible. Most LTCI policies provide the insured with freedom of choice when it comes to determining who the providers are and how much to pay them-hence, the ability to hire the best care providers. Discussing "average daily" or "average annual" LTC costs may be counterproductive and probably won't get their attention. Focus your discussion on high-end costs, which commonly run $100,000 to $200,000 per year. Full-time, 'round-the-clock' unskilled care can cost $15.00 per hour (or more)—or around $360.00 per day. Add to that the cost of physical and speech therapy, and you can easily reach those numbers. Those are real dollars that will increase your chances of getting and keeping your prospect's attention.

- They Worked Hard For The Money-Wealthy people generally don't end up wealthy by accident. Wealth accumulation is usually a result of a lifetime of hard work, good decisions, and perhaps a little luck. And, as people age, they tend to become more financially conservative. Achieving and maintaining financial success includes taking advantage of leverage opportunities, something that LTCI policies offer. Poor financial decision-making is generally not in the fabric of successful people, and a well-thought out plan for LTC needs should be no different. "You worked very hard to achieve the level of success you have today, mostly because of good decisions. Managing LTC risks should be no different-and you already insure practically every other significant risk you're faced with (they would never think of dropping their health insurance). You can transfer the majority of this risk out of your estate, and I can show you how to do it using interest from your investments instead of your principal. "
- There's no place like...YOUR home—The relatively recent development of LTCI policies in California includes many consumer protection features, and policies will pay outstanding benefits for home care that better allow people to remain in their own home in the event they need care. No one wants to be institutionalized, but it takes money, sometimes a lot of it, to pay for full-time care at home. Liquid resources (like LTCI) provide markedly increased leverage opportunities, regardless of net worth. Center your discussion on home care and how your affluent prospects can use someone else's money to pay for it.
- Asset Protection Does Matter—Current LTCI policies can provide significant asset protection to even affluent people. Most plans offer a Lifetime (unlimited) benefit period and many offer daily benefits of up to $300 to $500 per day. That's $109,500 to $182,500 of benefits per year in today's dollars! Add in a 5% compound inflation rider and those insurance

benefits will double by the end of the 15th policy year. Conversely, choosing to self-insure can end up being a financially painful and wasteful mistake for the high net worth couple. In the event that one or both of them need care, it can become a drain on the estate that will get everyone's attention-including their financial advisors' (can you say E&O?). It's just not a smart use of their money when a charity or their heirs would have been better off, not to mention the peace of mind they would have had, had they bought the insurance. Since people tend to think in terms of "today's dollars," be sure to factor in the ongoing rising costs of LTC (averaging about 7% per year over the past 15 years). Your wealthy prospects may recognize LTCI is a simple estate preservation technique that is part of the legacy you are already helping them create. It can also help them avoid having to one-day say, "If only we would have..."

- Do The Math—A $13,000 combined annual premium for two 65 year olds represents approximately only 1/4 of 1% of their $5,000,000 estate-a small price to pay in order for each of them to protect $109,500 ($300 daily benefit) per year, compounding for the rest of their lives. "I can show you how to plan for LTC risks by only using about 1/4 of 1% of your estate...but in return you'll get 100% peace of mind."
- Who's On First?—In addition to the asset protection afforded by an LTCI policy, most good policies have features that offer services that are important to anyone—rich or otherwise—faced with a long-term care situation. Becoming chronically ill or disabled at any age is a real crisis for a family, and most people wouldn't know the first thing to do or who to call to help orchestrate the problems involved with of a catastrophic illness. Aquality LTCI policy from a reputable company often includes care coordination services that provide appropriate levels of support and assistance anyone, including affluent people, need in a crisis situation. Care Coordinators gather, and recommend many of the services that chronically ill people require. These LTCI policy benefits help family members concentrate their efforts and energy on making sure their loved one(s) are as comfortable as possible, as opposed to having to be the ones to navigate the labyrinth of issues involved in drafting and implementing a long-term care plan.
- Tell Me, What's Your Plan?—A long-term care insurance policy is, in fact, part of a bona-fide plan. Ask your wealthy prospects to share with you their written plan in case of a stroke, accident, Alzheimer's diagnosis, severe arthritis, or some other chronic ailment. It shouldn't surprise you that most of them won't have one. Most all people who decide not to purchase LTCI subsequently fail to design or create an alternative written plan that defines a course of action in case of catastrophic illness or injury. "This high-quality LTCI policy will be a significant part of the solution of your not having a written plan in case you have a stroke or develop another disease or injury that makes it difficult for you to function independently. You can combine the policy with a professionally drafted, written document that clearly expresses the location (your home) where you want your care received. Without it, you (and your family) will most likely be dealing with a personal crisis in a way that may contradict what you want and thought would probably happen. The bottom line? You can pay a relatively small cost for a policy and written plan now, or you can wait and end up paying a potentially substantial financial and emotional cost later on."
- It's Tax Deductible—Many successful people have corporations or other business entities that can pay the premium on their (and their spouse's) individually owned qualified LTCI policies. Based on current tax law, a business may take advantage of a full or partial tax deduction of the premium, and policy benefits are still received income tax free. "If I could show you a way to fund your future LTC needs with tax deductible dollars, not have to declare the premiums paid on your behalf as income, and receive the benefits income tax free, would you be interested?"
- Become A Resource—CPAs, business managers, and attorneys are often concerned about protecting their high profile clients' financial interests, especially when tax-deductible dollars can be used. (In fact, many highly successful clients often show an interest in purchasing LTCI on their parents' lives once they are aware of the potential benefits available.) These 'centers' are interested in learning more about LTC issues and are typically good listeners when it comes to LTCI information. Become a resource to them by illustrating the practical leverage these tax-deductible policies have to offer and the valuable application they may have in a large estate.
- Why Pay Premiums Forever?—Since affluent people generally have the money, inform them that the premiums on a LTCI policy can be paid for in shorter periods of time. Examples of accelerated payment options include single-payments, 10-payments, and payments made to age 65. Once the policyowner pays their respective final payment, the policy typically becomes "paid-up" and is guaranteed against any future premium increases that may be applied to that particular block of business. When a business entity (primarily a C-corporation) is available to pay the premiums as cited above, the tax deductions further reduce the insured's cost and make the concept even more appealing. "I can show you how your company can pay the premiums on your LTCI policy, and when you retire, you'll leave with a fully paid-up policy that essentially cost you nothing."
- "I Remember When..."—Many people with large estate values experienced a significant portion of growth over the past 20 years, due in part to the increasing value of stock portfolios and real estate holdings. These same people tend to remember the days when money was an object, and may have had to deal with parents or other family members who had a chronic illness. Just because they're financially successful today doesn't mean they've forgotten what it was like on the way up.

There is no 'typical' high-end financial profile of an LICI prospect. They can' and do include high net worth people, especially once they or their advisors recognize the value these products have to offer. As LTCI products evolve and continue to offer extensive benefits including, but not limited to, asset protection, your market for selling these profitable plans should continue to expand. Use these ideas to develop the confidence that this insurance may have its place in an estate plan. Although annual premiums may range from $5,000.00 to $20,000.00 per person, don't be afraid to design and propose a high-quality policy to your affluent prospects and clients. They just may think it's a bargain! ❑

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