THE COST OF WAITING

by John B. Linvill, Jr., CSA ~ April 2008

Often I hear clients make the following comment: "I am healthy, I am relatively young and I know that eventually I will purchase a long term care insurance policy. However, I would much prefer to purchase the policy in several years, perhaps when I am 55 or 60."

Personally, my long term care policy was purchased at age 53. Just before I filled out the application I said to myself "Jack, why spend the money now when I can wait for another 2-5 years? After all, I would much prefer not to write the check now."

I spoke to an expert who advised me that the time to buy is when you are healthy – why take on the **insurability risk** and find out later that an health event has taken me from a preferred to standard rating. Such an event could increase the resulting premium by $400 a year! Let us remember that the higher premium will be paid for many, many years. Below is the complete ***Cost of Waiting*** explanation.

<u>Key Points:</u>

- If I had become disabled during my five-ten years of waiting (procrastination), I would not qualify for the insurance. More importantly, if I were seriously disabled I would desperately want to receive the benefits from the policy I had never purchased.

- In the fall of 2002 I attended a Social Security Administration presentation and heard the following: the average age for SSA disability is 51. Of 100 20-year-olds, by retirement age 30 will become SSA (severely) disabled for some period of time. **It is a fact that 40% of long term care insurance benefit checks go to policyholders who are under 65 years of age!**

- By waiting, we are exposing ourselves to 3 concurrent forms of inflation:

    1. Cost of care is going up at 5% annually (based upon current care interviews in the Philadelphia market).

    2. Since one's age is going up each year, the insurance actuaries have determined that I must pay a higher premium each year because I am one year closer to needing the benefits.

    3. During the intervening years I am without a policy, the insurance companies will most likely increase the premiums on their new insurance products. Insurance companies are either introducing new, higher priced policies periodically or are increasing the pricing on existing policies annually. This strategy is designed to maintain a competitive product in term of features and to create additional premium revenue to help offset current and projected claim experience.

(Continued on page 2)

What does this all mean? Pay now or pay later. By delaying the purchase of the LTC insurance contract the individual will be forced to pay much higher annual premiums over many, many years. We are not talking about modest amount of additional cost.

By just waiting **5** years, new policies will about double in cost. This annual increase will be paid each year, over many years.

If an individual waits **15** years, the 3 inflation factors will create an even greater additional premium dollars that will be paid over years and years. Armed with this information, many people in their 30s are purchasing policies. The policy design (especially the daily benefit) is a critical consideration for all people. Young people are very worried about inflation because they may not need care for 50 years! Care costs growing annually at almost many inflation rate over 50 years create tremendous long term financial challenges.

Please call me so that I can explain my proprietary ***Cost of Waiting Model***. You can then plan around your needs.

Unfortunately, many advisors and writers in the financial press do not understand the above concurrent inflation themes. Thus, the public is not aware. It is hard to be motivated to plan when one just does not know what one does not know.

John B. Linvill, Jr., CSA ~ (610) 688-1587
www.jlinvillLTC.com ~ www.jlinvill.com

Inflation calculations are based upon current economic statistics and estimates for the Philadelphia area.