YOUNGER PEOPLE – WHEN SHOULD THEY CONSIDER PURCHASING LTC INSURANCE?

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

Many times I am asked the question, "When should I consider buying a long term care insurance policy?"

This question is usually asked by a person who is planning oriented. Every few years the individual wants to review his or her financial picture or plan and ask the question, "Is there anything I have left out that should be considered?"

If the person's family has been involved with a care need, the person is open to learning more on the subject of long term care.

It is a fact that 40% of LTC benefits are paid to policyholders who are under 65 years of age. Four years ago, I attended a Social Security Administration conference and learned that nationally, the average SSA disability age is 51.

In addition, the SSA presenter said that statistically, 30 out of 100 twenty year olds will become SSA disabled (full disability) for some period prior to the age 67 SSA retirement date. Drugs, AIDS, traffic accidents, sports accidents, falling off the ladder, and emotional issues help account for these statistics.

Most employees do not fully understand their disability income insurance that is offered through the workplace. These risk management programs provide a taxable benefit each month for a portion of the insured's pre-disability income. In addition, if a supplemental disability income policy has been purchased, the insured will receive benefit dollars monthly on a tax-free basis (tax-free because the individual paid the premium). The disability income policies replace income until age 65. The benefit dollars are needed for food, education and the mortgage, etc.

With a serious disability, how will the daily cost of care be handled? The healthy spouse can stay home and be the caregiver. However, this may place unbearable financial pressures on the family. Assuming the insured is eligible, the tax-qualified long term care insurance policy would pay current monthly tax-free benefit dollars. A lifetime benefit period will provide dollars for care at home or in an appropriate facility for the disabled person's remaining life.

I refer to LTC insurance as ***catastrophic insurance*** during the work years. In the retirement years, the policy will continue to provide independence, security and dignity. The cost of care in 40-50 years will be staggering.

Insurability Risk – An uninsured person has total financial and emotional exposure to a serious disability. Should they become disabled it is too late to purchase a policy. The next worst scenario is a medical event that prevents the individual form obtaining LTC insurance. Finally, we have a vary common scenario whereby an individual has a medical situation that prevents the person from obtaining a preferred (best) underwriting offer and slips to a standard or sub standard risk classification and is forced to pay a significantly

(Continued on page 2)

higher premium over many, many years.
Financial Risk - By waiting several years to buy a long term care policy, the applicant will experience a very significant increase in premium cost.

First, the cost of care at home or in a facility is growing at 5% per year. This inflation rate is very consistent. Notice that the LTC inflation rate is very different from the Consumer Price Index. This specific industry niche has its own supply and demand factors. The federal government projects that Caregiving will become one of the nation's four fastest growing job categories over the next twenty years. As the baby boomers grow older and need care, there will be enormous pressure on the demand side.

A room costing $200 today, for high-level assisted living, may reach $2,300 per day or $837,000 per year in fifty years (assuming a 5% annual compound inflation; age 35 to age 85). The projected annual cost is for one person, one year. Several years of care may very well be required.

If a 35 year old were to delay purchasing a $200 daily policy for 15 years (until age 50) the room cost at age 50 would be $415 or $12,400 monthly (assuming a continuing 5% compounded annual inflation increase on a current average $200 daily cost for high-level assisted living in the Philadelphia area). In order to maintain equal benefits to a policy purchased at age 35 (the original policy's daily benefit would be growing at 5%, annually compounded), the individual would be forced to purchase at age 50 a policy with a $415 daily benefit. Higher benefits cost more.

Second, the waiting results in an annual increase in the person's age and a resulting higher "attained age". The actuaries apply a higher annual premium with each year increase in attained age because the insured is a year closer to receiving benefits.

Third, by waiting the individual is placing him/herself at the mercy of the insurance companies actually increasing the premiums on new insurance products. The insurance companies introduce new LTC policies every 20– 24 months.

A major company recently told me that companies are under increased pressure from state insurance department regulators to adequately price the new policies. Companies have been warned by the regulators not to come back in for price increases in the future. Thus, another reason that we will see meaningful, regular price increases on new policy products.

I recognize that these inflation activities are rather complex. My Cost of Waiting Model helps to clarify the various issues.

I would be pleased to share my proprietary **comprehensive *Cost of Waiting Model***.

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

All Material, ©2008 John B. Linvill Jr., CSA
Reproduction of this article is prohibited without the express written consent of the author.
Inflation calculations are based upon current economic statistics and estimates for the Philadelphia area.