BAIRD Private Wealth Management

Long-Term Care Expense Planning

Four Factors to Consider

In our experience, there are four factors that must be considered to determine if long-term care insurance is an appropriate funding option for a potential long-term care event.

Insurance Services

Erica Kroll, CLU®
VP, Senior Insurance Specialist

Nina Rose
VP, Insurance & Annuity Specialist

Blake Panosh, CLU®, ChFC®
SVP, Annuity & Insurance Manager

Planning for long-term care expense has become an integral component of overall financial planning. While we advocate a consistent process with each client, our recommendations for appropriate coverage vary as each client's health, wealth, asset allocation and financial goals differ. It is only in reviewing these four factors that we are able to recommend prudent insurance solutions focused on your best interests.

1. Health

Long-term care insurance products are medically underwritten. Health history will determine carrier, product and ultimately the cost of a policy.

Determining insurability is the key to the entire process. Generally, the younger we are the healthier we are. As a result, age is also considered as we look at overall health. Some clients can pass underwriting requirements well into their seventies and occasionally mid-eighties. But as we age, insurability becomes more challenging and premiums more expensive. Ideally, applicants should be between 45 and 65 years of age.

Of the long-term care insurance (LTCi) products in the market today, traditional "pool-of-funds" products, which comprise the vast majority of products sold, have the strictest guidelines. Life insurance based products tend to be more lenient. It's common for a carrier to issue a policy to an applicant with some medical conditions and charge a higher premium. Annuity products are the most lenient because applicants are paying higher premiums for these products and offsetting the carrier's risk.

2. Wealth Level

People purchase LTCi for a variety of reasons: access to care, asset and income protection, quality of care and wealth transfer.

Motivations change with wealth levels. For example, access to care is closely aligned with lower levels of wealth. Affordability is the goal and annual income is the key. As a guideline, the National Association of Insurance Commissioners recommends that your LTCi premium should not exceed 5% of annual income.

Furthermore, insurance carriers define product suitability requirements related to assets and income. LTCi has more than a 99% persistency rate. As people age, LTCi becomes more and more important. You need to be able to afford premiums now and 20 years into the future with the potential of rate increases.

At higher levels of wealth quality of care and wealth transfer become the key motivators. Levels of coverage may vary from more coverage to mirror an above average lifestyle to less coverage as insuring against catastrophic loss becomes the objective. If you have liquid assets between $100,000 and $4 million you may want to explore LTCi as a risk management strategy.

3. Asset Allocation

You may have already set aside a rainy day fund. Understanding asset allocation can help you save premium dollars and/or minimize taxes.

The Pension Protection Act allows the opportunity to purchase certain annuities with funds in existing nonqualified deferred annuities and enjoy tax savings. Additionally, the cash value in a permanent life insurance policy can be used to fund certain hybrid LTCi products.

4. Financial Goals

What you want to achieve with your wealth also plays a part in recommending a prudent LTCi solution. Financial goals drive coverage.

If preserving assets for wealth transfer is the key objective, the amount of your coverage needs to be appropriate to protect assets. If not outliving income is the objective, then coverage that protects income producing assets becomes the focus.

It is our experience that each of the four factors must be taken into consideration to determine if LTCi is the appropriate funding option for you and to allow us to recommend an appropriate product solution. Health determines insurability, carrier and product. Wealth is one indicator of motivation and contributes to plan design. Asset allocation directs funding strategy. Financial goals confirm coverage recommendations. Together these factors provide a comprehensive approach to long-term care expense planning and appropriate insurance solutions.

For more information about long-term care expense planning, please contact your Baird Financial Advisor.