

Money Matters

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Skloff Financial Group Asks Question of the Month: Should We Invest or Insure for Long-Term Care Costs?

By Aaron Skloff

Q: We are concerned about the exorbitant costs for long term care. Should we invest or insure for our long term care costs?

A: The Problem – Paying for Long Term Care. According to the U.S. Department of Health and Human Services, 7 in 10 people over the age of 65 will require long term care.

This compares to a 1 in 340 chance of a major auto accident and a 1 in 1,200 chance of a total loss from a fire. About half the people reaching the age of 65 are expected to enter a nursing home at least once in their lifetime.

If you are a 55-year-old New Jersey (and many other states around the country) resident today, expect to pay over \$300,000 for one year of nursing home care when you are likely to need it 25 years from now at the age of 80. Based on the average nursing home stay, total costs are expected to reach \$1.3 million per person — easily wiping out a lifetime of savings for many families.

The Solution – Invest or Insure for Your Future Long Term Care Costs. When preparing for your long term care costs, you should understand the advantages and disadvantages of investing versus insuring for your long term care costs.

Let's compare two 55-yearold couples: the Millers choose to invest for their long term care costs, while the Smiths choose to insure. Unfortunately, each couple will likely need long term care for 5 years in a combination of locations; including their own home and an assisted living facility. The only saving grace is that their costs may only run at \$200 per day (in current dollars).

Invest for Your Long Term Care Costs. If the Millers each invest \$1,680 for one year and earn 7% (before taxes), they will immediately have a combined \$3,360 available for long term care costs. If they each invest \$1,680 for 25 years and earn 7% per year (before taxes), they will have a combined \$212,517 available for long term care costs. Their estate would be protected by \$212,517 (before taxes) if they need long term care. **Unfortunately, investments provide a fraction of the leverage insurance provides.**

Insure for Your Long Term Care Costs. The Smiths choose to purchase a long term care insurance policy with a \$200 per day benefit; five year benefit multiplier and 5% compound inflation protection.

After the Smiths each pay \$1,680 for one year, they will immediately have a combined \$730,000 (tax free) available for long term care costs.

The Smiths gain over 217 times leverage ($217.26 \times \$3,360 = \$730,000$), with leverage defined as long term care insurance benefits divided by premiums paid. If they each pay \$1,680 for 25 years, they will have a combined \$2.4 million (tax free) available for long term care costs. **The Smiths still gain over 28 times leverage ($28.03 \times \$3,360 \times 25 = \2.4 million) after 25 years of payments.** Their estate would be protected by \$2.4 million (tax free) if they need long term care.

Partnership Programs. Through the New Jersey Long Term Care Partnership Program (and programs similar to it throughout the U.S.), long term care insurance policyholders can protect assets away from Medicaid on a Dollar for Dollar basis - for every dollar your policy pays in benefits, a dollar of your assets is ignored by Medicaid.

With a Partnership policy, The Smiths double their estate protection (\$2.4 million paid by the insurance company + \$2.4 million protected away from Medicaid). Some states, including New York, offer 100% Medicaid asset protection through Total Asset Protection – an unlimited amount of assets are ignored by Medicaid.

Action Step – Insure Instead of Invest for Your Long Term Care Costs.

Like automobile insurance or homeowners insurance (which most people would never even consider going without), long term care insurance provides significantly more benefits for the same dollars when compared to an investment portfolio. Purchase a long term care insurance policy and protect your assets and your estate.

Note. Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm based in Berkeley Heights. He can be contacted at www.skloff.com or 908-464-3060.