



Long Term Care University

Long Term Care University – Question of the Month

By Aaron Skloff, AIF, CFA, MBA

08/15/09

Q: Some of the long term care insurance policies I am researching allow for a shared care benefit. Can you explain what that means and what advantages it may provide?

The Problem – You or Your Partner Need More Care than Your Individual Policy Covers

Most long term care insurance policies are designed as individual policies that insure one person, ignoring the pool of benefits inside your spouse's or partner's policy. Unfortunately, you may need more care than your individual policy covers.

For example, you and your spouse or partner each have a long term care (LTC) insurance policy with a \$300 daily benefit and a five year benefit period, obligating the insurance company to pay \$300 per day for five years. If you only need \$150 worth of care, or half the \$300 daily benefit, the insurance company is obligated to pay \$150 per day for 10 years, or twice as long.

If you need the full \$300 worth of care, or the full daily benefit, you will exhaust the policy benefits in five years. Unfortunately, you may need more than five years of care. In the event you need an additional two years of care at \$300 per day, it will cost you \$219,000 out of pocket. This example ignores the income taxes and early withdrawal penalties associated with the withdrawal of many retirement assets. It also ignores the devastating effects of inflation, which can wreak havoc on a lifetime of savings if your LTC insurance policy does not have inflation protection.

The Solution – Shared Care Benefit Policy

The shared benefit policy provides you the ability to utilize your spouse's or partner's benefits when your own policy benefits have been exhausted. In the example above, you can use the benefits of your spouse's or partner's policy and avoid a \$219,000 expenditure. The mere avoidance of this expenditure can mean the difference between a secure and an insecure retirement.

All those assumptions are based on current dollars. If this example were 28 years in the future and the cost of care (along with your policy's inflation protection) rose at 5% per year, the shared benefit policy would save you over \$876,000 in expenditures.

Shared Benefit Policy with Survivor Benefits

Some policies have a provision to protect the surviving spouse or partner. If one of you dies, the **survivor's benefits will increase** by the deceased spouse's or partner's remaining benefit dollars. For example, if you each have a policy that covers \$300 per day for five years and one of you die, the survivor will now have a policy that covers \$300 per day for 10 years – **doubling the benefit period**.

Shared Benefit Policy with Replenish Provision

Some policies have a provision to protect the spouse or partner whose policy has been depleted by the person receiving care. Once your spouse or partner has depleted your benefits, you have the option to purchase a new policy **without medical underwriting**.

Imagine your spouse or partner depletes their own policy and then depletes your policy. Unfortunately, you now suffer from a number of health conditions. With the replenish provision you can purchase a new LTC policy without any medical underwriting whatsoever. Despite the deterioration in your health the insurance company is legally obligated to issue you a new policy based on your original health – **even if your current health would normally qualify you under a poor health rating or entirely disqualify you from obtaining a policy**.

Action Step – Protect Yourself with a Shared Benefit Policy

When you purchase a shared benefit LTC policy with survivor benefits you protect yourself and your spouse or partner from greater than expected expenses and avoid the risk of seeing a deceased spouse's or partner's unused benefits evaporate.

Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA), is the Chief Executive Officer of Skloff Financial Group, a NJ based Registered Investment Advisory firm. The firm specializes in financial planning and investment management services for high net worth individuals and benefits for small to middle sized companies. He can be contacted at www.skloff.com or 908-464-3060.