<u>Long Term Care (re-visited)</u>

Ten years ago, I wrote a newsletter that discussed the necessity of purchasing long term care insurance to protect hard earned assets and, most importantly, provide viable and flexible care options for individuals who require professional care. At that time, the long term care industry was still in its nascent stage and many aggressive insurance companies pursued this seemingly lucrative line of business. The prevalent view was that the demographics of an aging baby boomer population represented a growth opportunity in a generally stagnant insurance industry.

Unfortunately, many of the projected trends and risk assumptions used to price these products were erroneous, resulting in tumult in the industry. Many large carriers, such as CNA and Fortis, exited the business while others such as Conseco and Penn Treaty who liberalized underwriting standards to attract high risk candidates, experienced an explosion of claims. In order to cap future liabilities, the remaining carriers began to reduce or eliminate some options such as the lifetime benefit period for new policies.

A few years back, three insurance companies dominated this market – John Hancock, Genworth and MetLife. Recently, MetLife opted to exit the business. The main reasons for the continued contraction in the long term care industry are twofold – lower than expected investment income and claims that are as much as <u>four times</u> higher than anticipated. Predictably, both John Hancock and Genworth have applied for significant rate increases for existing policyholders to offset dwindling if not disappearing profit margins.

Unfortunately, the need for long term care insurance has never been greater. While inflation has been relatively benign over the past several years, medical costs, including home health care and nursing home, continue to skyrocket. In Massachusetts, the average annual cost for a stay in a quality nursing home easily exceeds $100,000.

For individuals concerned about the possible depletion of assets resulting from nursing home costs, a common strategy has been the irrevocable transfer of assets. For many years, assets transferred to another individual were subject to a 3 year look back period if an individual subsequently qualified for state assistance for the payment of nursing home costs. In this case, any assets transferred within 3 years would be subject to a lien by the state. However, in 2006, legislation was passed that extended this time frame to 5 years, placing limitations on this strategy.

These developments have created a dilemma for individuals. While new legislation places more of the burden of paying nursing home costs on the individual, rising premiums for long term care insurance make it more costly.

As often is the case during chaotic times, existing alternatives may suddenly be viewed more favorably. One attractive option may be the combined life insurance/long term care policy that can be purchased in a lump sum payment. Unlike traditional long term care policies, the premium for the long term care benefit cannot be increased. And, if an individual dies before accessing long term care benefits, the life insurance death benefit paid is considerably larger than the one time payment – and it is paid income tax free. Furthermore during their lifetime, an individual may borrow from the cash value to meet any emergency needs. Of course, any loan will reduce benefits.

In my opinion, the main factor when deciding to purchase long term care insurance is not the protection of assets. Rather, it is providing your family the tools necessary to make decisions based on quality of life issues that are not restricted by ominous financial ramifications. While the one time pay long term care policy is not a panacea, it does provide a viable method to address the needs of many who have the ability to allocate a portion of savings to resolve this pressing issue.

Best Wishes,

Clifford L. Caplan, CFP®, AIF®

In the News: A profile of me and Neponset Valley Financial Partners appeared in the Massachusetts June 27th issue of **Newsweek**. On July 15th, an Associated Press article titled "7 Tips For Rebalancing Your Portfolio Now" appeared in many newspapers including the **San Francisco Examiner** and **Chicago Sun Times**. On July 22nd, an interview about the current investment climate was published by the **Boston Business Journal** in an article titled "From Strategies To Age-Related Choices, Planners Weigh In On The Best Courses To Follow."