

“If I'd known how old I was going to be I'd have taken better care of myself”
Adolph Zukor, on approaching his 100th birthday

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This humorous quote seems like a nice way of leading into the difficult topic of aging. How long we live—as well as where and how we live—are a big part of planning. Much of our work is focused on helping clients plan for a purposeful and comfortable retirement—trying to make sure long term spending needs will be met without running out of money. This process requires carefully setting retirement age and spending targets, determining available resources (Social Security, pension benefits, retirement plans, investments, and even post-retirement earnings), and running long term projections based on realistic assumptions. And plans must be reviewed periodically to determine whether any “mid-course corrections” are needed.

Once we have a workable plan in place it is important to think about what might cause the plan to fail—what could go wrong. We “stress-test” plans using Monte Carlo simulations to help understand the impact of more or less favorable investment experience. We recommend that clients maintain adequate health insurance to protect against major medical expenses—and plenty of liability insurance to protect assets against loss or lawsuits. And most clients have the ability to make spending changes over time if conditions require them. But there is another significant risk which could dramatically increase spending that many people ignore—the need for long term care.

Long term care refers to a wide range of medical, personal, and social services. You may need this type of care if you have a prolonged illness or disability. Care may include help with what experts call “activities of daily living” such as dressing, bathing, eating, toileting, getting in and out of a bed or chair, and walking. Care may include home health care, adult day care, nursing home care, or care in a group living facility.

Talking about this issue can be uncomfortable. Most of us find it difficult to think about getting old—and we often assume that needing help is something that happens to someone else. The fact is that medical advances have extended how long we live—leaving more of us needing help dealing with the activities of daily living along the way. No one can be sure whether they will need long-term care—and if they do need care how much it will cost or how long it will be needed. But most of us have dealt with long-term care needs of someone we know—perhaps a parent, grandparent, or friend—so this is not just a theory but a real part of life. Maybe “grandma” fell and broke her hip—her health started declining and she needed to go into assisted living and then into a nursing home. Or “grandpa” started having memory lapses and needed increasing levels of care as Alzheimer’s or dementia got worse. President Reagan made his battle with Alzheimer’s public to increase our awareness of this part of life. It is estimated that about 70% of people over age 65 will need some kind of long term care during their lifetime—and that 40% will need care in a nursing home for some period of time—so we think it’s important to address this issue head-on.

Early planning can pay off—so have a meaningful conversation about this difficult topic now. Talk about what might happen, discuss preferences, and involve others (family members, doctor, trusted advisers, and clergy) in the conversation. Care can be provided in many ways—and choices are expanding—making it important to talk about your wishes. Experienced professionals can be extremely important in assessing needs and helping determine the best options. But don’t wait until care is needed and decisions may have to be made quickly—make sure you learn and discuss things now.

Home health care is by far the top choice—allowing you to stay in your home while bringing help in. This might involve only limited needs for assistance initially with growing requirements over time that could evolve to 24/7 care. Maybe your spouse or the kids can provide the care—but this can be a tough job that not many want or are able to take on—so be honest about whether this is a realistic option. If so, they will still need help—or just “time off”—and paid care may still be needed. Finding the right caregivers for part or full time care needs can be challenging—and a backup plan is always important in case the caregiver is sick, doesn’t show up, or quits. Service providers can help.

Maybe the care plan involves living with the kids—and having them arrange for home care or even dropping you off at an “adult day care” facility. Assisted living facilities are another popular choice, providing apartment living with needed support services. Sometimes 24/7 skilled nursing is the best or only option.

Continuing Care Retirement Communities (CCRC’s) offer the full range of care from independent living, home health care, assisted living and skilled nursing care. Many CCRC’s are enhancing the quality and range of services to meet the preferences of upscale baby boomers who want more amenities and choices—with several restaurants, exercise facilities, swimming pools, meeting rooms, and even concierge services. Financing options for CCRC’s range from “pay-as-you go” to plans requiring very large (\$800,000+) lump sum buy-ins with lifetime care guarantees and low monthly costs. Plans vary and care should be taken to carefully understand the options as well as the financial integrity of the organization for options requiring a large up-front investment.

Care choices should also consider the social side of life. Most of us want and need to be around other people and to remain active. While staying in your own home can be a good choice, it also can lead to isolation. Some folks are good about getting out and spending time with family and friends—but others are not. Community care facilities offer a wide range of individual and group activities plus simple things like being able to enjoy a meal with others—something that can make life more enjoyable. We all want choices and variety—so these issues are important to consider.

So, how much might long-term care cost if it is needed? Costs can vary depending on where you live, the kind of care needed, and the quality of care provided. Here is a summary of costs from the US Department of Health and Human Services website for Washington State.

Washington	Avg. Daily Nursing Home Rate : Private	Avg. Daily Nursing Home Rate : Semi-Private	Avg. Monthly Cost in Assisted Living Facility	Home Health Aide Average Hourly Rate	Homemaker Services Average Hourly Rate	Adult Day Services Daily Rate
Seattle	281.00	247.00	3,053.00	23.00	22.00	72.00
Spokane	243.00	224.00	2,635.00	21.00	21.00	54.00
Rest of State	231.00	215.00	2,887.00	22.00	20.00	91.00
State Average	246.00	225.00	2,870.00	22.00	21.00	69.00

Source: 2009 MetLife Market Survey of Long-Term Care Costs

Costs can really add up. Based on these survey results, nursing home bills could total \$90,000 per year or more—and assisted living costs would total over \$36,000 per year. A home health aide working 40 hours/week (with the family providing care other hours) would have a total annual cost of almost \$50,000—and costs for full time care could easily be double this amount. Keep in mind these expenses are on top of regular living costs. Women tend to need care longer (3.7 years on average) than men (2.2 years on average)—but care might be needed only a few weeks or could extend for many years. It is not uncommon for care needs to change over time—often starting small and increasing as physical/mental abilities decline.

Surveys show that many people believe medical insurance, Medicare, Medicaid, or just “someone else” will cover long-term care costs. This is simply not the case for most people—especially the clients we serve. Medical insurance plans don’t typically pay for long-term care; Medicare provides very limited benefits after hospitalization; and you must be virtually bankrupt to qualify for Medicaid. We think increasing medical care costs, rising deficits and the reality of mushrooming entitlement programs suggest that it is unwise for successful people to hope “someone else” will pay for these costs. And remember that “hope is not a plan”.

So, how should you plan to meet these potential costs? This can be difficult since we don't know if care will be needed, what kind of care might be needed and how long care needs might last. We worry that many clients would be unable to pay long-term care costs that could run \$3,000-10,000 per month—on top of all other living expenses—for very long without threatening long term finances. Here are some ideas for meeting these potential liabilities.

- Many of our clients should be able to “self-insure” costs for a reasonable period (perhaps 3-12 months) from savings and investments. Those with very large investment portfolios might even be able to cover long-term care costs in addition to regular living expenses regardless of how long care is needed.
- Selling your home or vacation property could provide capital to help fund care costs if you move to an apartment, assisted living facility, nursing home or CCRC. You might be able to secure a mortgage, reverse mortgage, or home equity line of credit rather than selling the property.
- Old life insurance policies or annuities might help. Cash values can be borrowed or policies can be surrendered. Some policies have special provisions that might allow you to access values for end of life care. Life settlements are controversial—but could be yet another option to raise cash to cover care costs.
- Most people don't want to rely on their children, but this might be the only choice for some—and having children contribute time and/or money can lighten the load. Proximity and busy lives can make this complicated for all.
- Few people relish the idea of buying another insurance policy—and LTC insurance has its own issues as you'll learn below—but the nature of an uncertain risk with a big potential liability does suggest considering insurance.

The passage of the Health Insurance Portability and Accountability Act (HIPAA) of 1996 made buying insurance a bit easier—as legislation set important ground rules for modern Comprehensive LTC insurance plans. Before this, policies were typically restricted to providing nursing home care after a hospital stay and products did not enjoy a very good reputation. Modern LTC insurance plans feature comprehensive coverage providing benefits for care at home, adult day care, in assisted living facilities, skilled nursing and more. They even provide access to experienced professionals who can help the insured and family develop a plan of care. Policies can be tailored to reflect your financial situation, providing a wide range of choices regarding daily benefit amount, benefit period, elimination period, cost of living adjustments, and more.

Because potential claim exposure is high, policies are not cheap, and premiums can increase (subject to regulatory approval) if the insurance company's claim experience is higher than anticipated. This is happening right now as some LTC insurers are seeing much higher claims than expected—and companies are filing for rate increases with state insurance departments. One of the largest providers of LTC insurance, John Hancock, just announced that they will be raising rates on both new and existing policies—others have done so in the past and we expect to see more of this over time. Some companies have stopped selling LTC insurance altogether—with MetLife's recent announcement marking the withdrawal from the market.

We think it is prudent to expect more consolidation and price adjustments as carriers seek to find the right balance between benefits and costs. But price increases serve as a reminder about the costs of long term care as carriers are experiencing higher claims than expected—highlighting the risk to your long range planning. Here is a look at current premium costs for LTC insurance with several leading carriers:

Long Term Care (LTC) Insurance Costs*

	Guardian / Berkshire	Genworth	John Hancock	Mass Mutual	Northwestern Mutual	Prudential
Age 50	\$4,965	\$5,576	\$7,893	\$5,933	\$9,450	\$4,774
Age 60	\$6,662	\$8,040	\$9,526	\$7,822	\$10,706	\$7,198
Age 70	\$13,672	\$14,832	\$16,058	\$14,707	\$17,535	\$13,488

*Premiums for husband and wife. \$250 Daily benefit with 5% COLA / 6 Year Benefit Period /180 Day Elimination Period. Rates shown for non-smokers in good health with eligible discounts. Premiums are subject to change.

Keep in mind that each of these insurance plans is committing over \$1,000,000 in potential benefits for a married couple in return for these premium payments. Sorting through policy options can be challenging—so we can provide you with a copy of the *Consumer's Guide to Buying Long-Term Care Insurance* published by the Washington State Office of Insurance that might find helpful. And you can certainly help you through the myriad of policy choices in making an informed decision about buying LTC insurance.

Just don't wait until you or a loved one needs help—have a conversation now. Please note that we can help you with this conversation and planning. We've had a lot of experience with these issues—and can help bring in experienced resources as needed. We believe it is important to consider this issue as part of any well thought-out financial plan. This may be something you've worried about for your parents—or perhaps for yourself as you get older and topic just doesn't seem so far removed. Maybe you've thought about it—but simply put off planning for “someday”. We stand ready to discuss this important issue and your family--and to help you develop a thoughtful plan. Just let us know when you would like to have this important conversation.

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