3 options for long-term care planning

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Discussions about long-term care planning can be uncomfortable, but they are necessary to protect your clients during unexpected life and health events. (Photo: iStock)

Over the years, I have employed a financial-planning pyramid diagram to help my clients visualize potential threats to their long-term financial goals. The higher we go up the pyramid, the higher the risk and the higher the opportunity for reward.

Risk management makes up the foundation of the pyramid, because we cannot talk about investing and wealth gain until these risks are accounted for and strategies are put in place to counter them. You cannot build a house with a shoddy foundation, and you cannot build your financial plan without a solid base that accounts for personal risks.

There are four building blocks that make the foundation of our financial-planning pyramid: health, disability, life and long-term care. Each of these must be addressed before moving up the pyramid and working to build wealth. Long-Term Care Awareness Month offers an opportunity to think especially about the long-term care portion of the financial foundation.

A real risk

According to the U.S. Department of Health and Human Services, one of every two individuals turning age 65 today will need the coverage of a long-term care solution during their lifetime. Lincoln Financial Group's Cost of Care website indicates current national averages for full-time long-term care services, which can range from $2,860 per month to more than $14,000, depending on a number of factors, including level of care required and state of residency.

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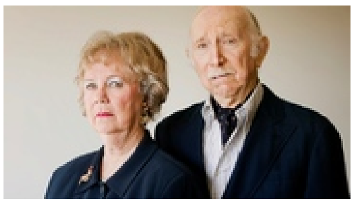

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Making a plan

When it comes to planning for long-term care, there are three basic options.

The first is to self-insure by putting aside money in specific accounts for this purpose. This method is really only appropriate for clients with a very large net worth.

Purchasing a standalone long-term care policy is the second option. While this route guarantees coverage if anything were to happen, the client pays premiums for the rest of his or her life, and if the coverage is not used, the money spent is simply gone.

The third option, a linked-benefit plan, acts as a combination of options one and two. The linked-benefit strategy has been around since the early 2000s. With this method, clients put aside their own assets and then provide those assets to an insurance company that covers for long-term care with a life insurance policy or annuity contract. This gives clients the flexibility to determine how much benefit they want and how soon they need to start putting money away for that benefit.

The appropriate strategy will depend on the client's individual circumstances and goals. The most important thing is that clients have a plan in place, whatever that unique plan may look like.

Unfortunately, nearly all advisors have a heartwrenching story or two about an unexpected life or health event that underscored the need to have these often uncomfortable long-term care planning conversations with clients. Insurance and long-term care may not be pleasant conversations to have when things are on track, but they can be life-changing conversations when the unexpected happens and clients and their families need a little financial security. Having the conversation in good times not only builds trust with clients, it provides them with peace of mind that you are looking out for their best interests.

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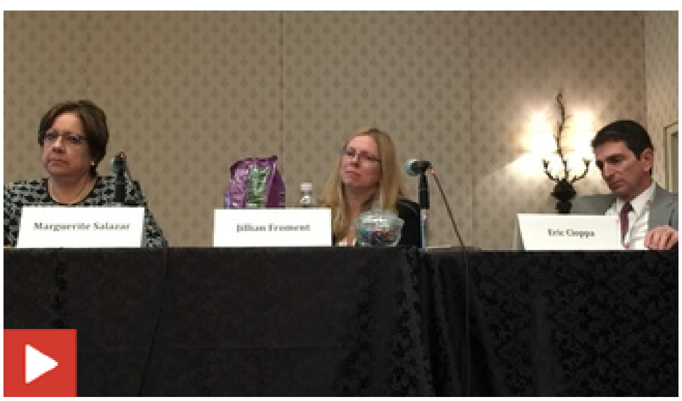

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