The Right Long-Term Care Plan Can Save You Big Money

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Ten thousand baby boomers are turning 65 every day, and they are coming face to face with serious questions:

How can I make sure that I don't run out of income in retirement? And how will I pay for long-term health care that might involve crushing medical bills, nursing home costs and other needs?

With life expectancies increasing every year, these baby boomers know that they must have a plan that includes saving for retirement and for health care. But they need a plan that suits their needs, and not just the needs of the sales agent who sold it to them.

The necessity for consumers to take charge of long-term health care is especially important because of the fragmented system of retirement and health-care planning. Most agents selling long-term care insurance plans don't handle investments, and most investment advisors don't have the expertise to handle long-term care planning. That leads to a disconnect among a consumer's investment, insurance and tax plans, which can inadvertently cost hundreds of thousands of dollars over the long term.

So what is a baby boomer to do when trying to make smart decisions about retirement and long-term health care? It pays to carefully consider the three main options: a hybrid plan combining long-term care (LTC) and life insurance policies; a hybrid plan combining LTC and annuities; and a stand-alone LTC insurance policy.

Here's an example to illustrate the pluses and minuses of each type of plan. Helen is a healthy 60-year-old woman who watched her parents blow through their entire life savings on nursing care — first for her dad, and then for her mother, once she began suffering from Alzheimer's. Helen doesn't want the same thing to happen to her. She has $100,000 to spend on a long-term care plan.

The hybrid LTC and life insurance plan

One option for Helen is to purchase a hybrid life insurance/long-term care insurance policy, where for a one-time payment of $100,000 she will get $687,000 in long-term care benefits if she needs it, a $229,000 death benefit if she doesn't, and a 100% money-back guarantee of her original premium.

Is this the best plan for Helen's LTC needs? She won't know for sure until she examines her other two options.

The hybrid LTC and annuity plan

First let's explore the hybrid LTC/annuity plan. Here's what $100,000 would buy Helen:

Company	LTC at age 85	$ back if no LTC needed	Cost	Death benefit?
Guaranty Income Life (AnnuiCare Annuity)	$542,689	$180,896	$100,000	No
Forethought (Forecare LTC annuity)	$300,000	$100,000	$100,000	No
One America (Annuity Care II)	$334,028	$116,679	$100,000	No
North American (Precision 14-LTC rider)	$321,240 ($53,540 annually starting at age 85)	$80,000-$130,000	$100,000	No

The first three LTC annuity providers, those that offer true long-term care benefits from day one and not just an LTC rider, are Guaranty Income Life, Forethought and One America. The North American policy is one in which the LTC benefit is not 100% available from day one; the $53,540 annual long-term care benefits would not start until age 85.

You can see that just as with the hybrid LTC/life insurance options, there is an immediate multiplication factor of Helen's $100,000. Instead of keeping the $100,000 in cash and spending it down until it's gone, if Helen were to put that sum into some type of LTC annuity, she would get about three times the coverage for LTC expenses, plus her money back if she didn't use it.

The stand-alone LTC plan

The third option is purchasing a stand-alone LTC plan, and then separately buying life insurance and setting up an investment plan.

I looked at stand-alone long-term care companies in the state where Helen lives and found 13 different companies with prices that ranged from $2,300 to $8,100 per year. Again, this was for immediate coverage for long-term care from day one. The downside with these kinds of traditional LTC plans is that you can pay for years and years into the plan, with the risk that you will pass away and never use the benefits.

Choosing the lowest-price option of $2,300 per year, Helen would now have $97,700 left from her original $100,000.

That just gives her LTC coverage, so Helen has to look elsewhere for the $200,000 of life insurance that she wants. We shop the market and find more than 100 companies that are willing to give her insurance coverage from $2,500 to more than $3,800 per year. We went with an A-rated company for $2,500 per year. This is a guaranteed universal life insurance policy that will stay in force till age 121. The death benefit is guaranteed, as long as Helen makes the $2,500 annual payment, and the proceeds are tax-free to her beneficiaries.

That leaves Helen with $95,200. With her LTC plan and life insurance plan in place, we'll invest the remainder of her savings into Anthony Capital's Fact Based Investment Allocation Strategy La Plata 60/40 portfolio. It's a risk-managed, moderate portfolio that has a 60% allocation to equities and a 40% allocation to fixed income. Fact Based Investment Allocation Strategy portfolios avoided the bear markets of 2000-2002 and the financial crisis of 2008. Since 2001, the La Plata portfolio has had a compound annual rate of return of 12.8%, net of all fees and expenses, with a maximum drawdown during that time period of 7.5%.

Assuming the portfolio were to average 10% over the next 25 years, and we take annual withdrawals out of the portfolio of $4,800 per year to pay for the LTC and life insurance plans, at age 85 Helen would have a little over $1.1 million.

Past performance does not predict future results, but compared to buying a hybrid LTC/life insurance policy with a LTC rider for $100,000, or a hybrid LTC/annuity plan for the same amount, a stand-alone plan comes out looking good.

Under this scenario, Helen can maximize her $100,000 and get guaranteed, inflation-adjusted LTC coverage worth $687,000 of benefits at age 85; a guaranteed $200,000 tax-free life insurance policy that would benefit her spouse and kids; and have a 100% liquid, risk-adjusted investment account that could potentially grow to over $1.1 million by age 85 and provide her with additional funds as needed. This account would get a step-up in basis at her death, and her kids and spouse could potentially inherit it tax-free.

In fact, if Helen really wanted to maximize her $100,000, instead of buying a traditional life insurance policy for $2,500 per year that provides nothing more than a death benefit, she could purchase an investment-grade variable universal life policy and use Fact Based Investment Allocation Strategy portfolios to earn additional returns on her $2,500 per year premium. Properly structured, the investment grade life insurance contract could grow to have a value of more than $225,000 at age 85, and have a $325,000 tax-free death benefit.

Evaluate the field before choosing

Helen can accomplish all of the things she needs by integrating her LTC, life insurance and investments into a comprehensive, optimized plan. This is the benefit of looking at all of your long-term care options, those offered under life insurance, annuity and stand-alone LTC insurance plans. In Helen's case, the difference over the next 25 to 30 years could be more than $1.3 million.

The lesson, as always when it comes to your finances and your health: It pays to compare. Just make sure you work with a long-term care expert who can help you price shop and compare different plans, and who has access to all of the major plans in your state.

With such an optimized plan in place, Helen can look forward to her retirement years secure in the knowledge that all needs are met, both for her and her family.