PBS Episode 131 Long Term Care Considerations

Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have $20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today's series is part of the #AskPattiBrennan series. It is about long-term care, and yet it's not. It's also about short-term care, because here's the thing - one of the things that I've learned over 30 years, and it really doesn't have to do with the fact that I used to be a nurse, is that eventually we're all going to need help.

I've recently decided to set up a separate resource center here at Key Financial so that our clients know they can come to us with whatever might be happening in their physical or financial lives, and we're here to help. We're going to have this resource center to help guide them in terms of what the options are.

The reason I'm doing that is because in our own life, my husband just had foot surgery. He didn't need long-term care, we needed short-term care. I'm a little embarrassed to tell you this, but we were not ready. It's not one of those things you want to think about.

Yet, when he had his surgery, he came home and I'm thinking, "We don't have a ramp. How's he going to get into the house?" I had to call two neighbors. We managed to get him up the two steps, because he wasn't allowed to bear weight.

" How's he going to get a shower? We had to get those grab bars. The suction grab bars, do they even work? He's a big guy. He's going to pull it right off." There are things to think about that frankly, we didn't think about.

Learn from my mistakes and go to our resource center. Bottom line is, I just want to be able to have the answers that you need.

It's not something that you want to think about in advance, but it is important because you don't want to be scrambling if something unforeseen happens, a car accident, for example. It doesn't have to be a long-term illness- especially for the elderly. Things do happen. Let's be ready.

We think about long-term care, and of course, a lot of people come to us and say, "What about long-term care insurance?" Or "Does Medicare cover this stuff?" The answer to that is no. Medicare doesn't cover most long-term care needs.

There is insurance. The question is, first, do you need it? How much does it cost? Can you self-insure? What are our options? Is there an intermediate step? For example, is it black and white, whether you have it or you don't?

Maybe you have certain types of insurance that you don't really need anymore, so you can do something called a 1035 exchange and move it from, for example, a life insurance policy and instead convert it to a long-term care policy, tax free.

There are options. It's just important for you to know what they are, and what to look out for. Whether it be short-term need or long-term need, let's understand in advance what your options could be. Whether it be in the community that doesn't necessarily have to cost you a lot of money or something where insurance could kick in for you.

The only other thing that I'm going to add to this is that this is an area that's constantly changing. That's why it's so difficult for so many people because there's always something new that's popping up.

That's why I made the decision to create this resource center, because we've got to stay on our game. We stay on our game in so many other areas. Why not in this area too?

We're staying on top of tax laws. We're staying on top of portfolios and the economy and the newest and latest great retirement planning options to create streams of income that people will never outlive. We're doing that stuff anyway. Why not do this? Now we are.

In the meantime, the first thing is, do you need it? As I said before, a lot of people can self-insure because insurance costs money. This is one of those things where you might want to say, "I'll cross that bridge if and when I come to it. We'll use our existing money to pay for it." I have told this story before. You've probably heard it.

I had a wonderful client many years ago who had a long-term care policy. We were doing her initial financial plan, and I said to her, "Cathy, you've got this long-term care insurance. You've accrued assets to the point where you probably don't need it. If you needed care, you have plenty of money to be able to pay for it."

She said something I'll never forget. She said, "Patti, I really appreciate that, but here's the way I look at it. If I can afford the cost of the assisted living facility or the long-term care facility, I can also afford the insurance.

" If I did need the care, I would much rather have John Hancock pay for it instead of my kids, because I want my kids to get whatever's left." I thought that was a brilliant insight.

She decided to do the risk transfer thing, which frankly is all insurance is. Instead of assuming all the risk herself, she's going to transfer it to an insurance company. If it happens, they must cover it, not her.

The first question is, can you self-insure? If it happened, would it put you and/or your spouse in financial jeopardy? That's important to know. It doesn't mean that you're going to go out and get insurance… it's just means that you get an understanding of the impact of that, especially as we cover the different options that might be available.

Long-term care insurance covers six activities of daily living, bathing, dressing, transferring, eating, and continence. I've had four kids, I've already failed that last one, but too much information, I think. Anyway, not to worry, I'm not on long-term care. I'm not going for long-term care.

The second one, and the most important thing for most people, are cognitive impairments because that's a tough one to navigate. Most people don't fall off a cliff and suddenly forget everything. People tend to have good days and bad days.

I will tell you that we are often the ones that notice it first because we're getting phone calls that people are forgetting stuff. It allows us to ask the questions and determine whether they're still OK. Whether or not they can continue to care for themselves.

It's important because a lot of damage can be done. We've got activities, daily living, cognitive impairment. I think the most important thing first and foremost is, what's in the area?

What are the services that might be available in your community? Let's figure it out. Are there facilities? Are these places continuing care communities, CCRCs? The key here is to figure out what's available in your community in terms of different facilities. Continuing care communities are in every community now.

They are retirement communities also; they will take care of you and be available in the different seasons of your retirement life. They tend to be pretty expensive. Some require big lump sums up front. Others pay as you go, like rent.

I think the most important thing as it relates to those facilities is the culture. Do you have friends that have also gone into them? That's important. Is it in your community, so that you can continue to go to mass and go to your church? Those things are key here.

When it comes to different types of coverages, a question we often get is, "Well, gee, what about Medicare and Medicaid?" Medicare does not cover long-term care. That's first and foremost, after 20 days. Medicaid is interesting. A lot of people don't ever want to go into a Medicaid facility.

We get that a lot, especially from adult children who don't want to put their parents into a Medicaid facility because, again, we have an image of what that might be like. Let me be the first to tell you guys, those facilities are pretty darn good.

I will tell you right here in Chester County, we have one. They provide terrific care. Here's why they don't have the turnover that a lot of these facilities have because they're government workers. They have a pension, they've got great benefits and they tend to stay, so you've got continuity of care.

Before we go into this, assuming something, check it out. You might be pleasantly surprised. We've talked about the different options. We've talked about the resource center. What if you want to go the insurance route? There are so many things to consider with long-term care insurance.

First of all, what exactly do you want it to cover? Home care? Daycare? Assisted living? Nursing home? It's important to know the different options that might be available in your community. Do you want a reimbursement plan, or something called an indemnity plan?

A reimbursement plan is when you or someone else must submit the bills and then you get reimbursed for the cost. An indemnity plan is interesting and they're becoming more popular. I like these. There's no paperwork. It's administratively so much easier.

As long as you satisfy those two of six ADLs, you're going to get that monthly benefit to use as is needed. It could be used to do something around the house, get the grab bars, or put the ramp in. It could be used to pay a family member to come in and help you from time to time.

Indemnity plans are very interesting. Now, premiums of long-term care depending on your age, are tax-deductible. The key between the two types of plans is that there is a limit on the indemnity plans in terms of how much coverage you get to take as a tax deduction.

Right now, $420 a day would be the max that the premium can cover, or whatever you're paying. In that case, if you're audited, you'd have to prove that you deserved to take the deduction.

When it comes to long-term care, one of the things that's really caught people by surprise is many of the reimbursement plans that were put into place five years or longer, state on page 67, a little sentence that says, "… we can raise your premiums if we need to." Guess what? It almost doesn't matter who the carrier is, they all have done it. When I talk about raising the premiums, they are not increasing them by inflation.

I will tell you, Ed and I have long-term care. Even I was shocked at how much they increased our premiums, like 162 percent in one year because they were making up for lost time. Be aware of that when you go into these things.

Now, there are alternatives where they cannot change the rules of the game. They can't increase the premiums or decrease the benefits. That's what's happening with a lot of existing clients.

You might have seen this as well, where you're getting these nastygrams in the mail saying, "Oh, by the way, we are increasing your premium by 100 percent. You have a choice. You can pay this new premium, or you can cut your benefits.

" Here's a choice. You can cut it here. You can do this. You can cut the number of years that we'll pay if you need the care. We can cut the amount. We can remove the inflation writer." They've got this myriad of options and you have to figure it out.

Most of the options are, obviously, not in your best interest, but there's typically one that does favor the client. If that's your situation, I recommend you call the person who introduced the company to you, to help figure out what's going to make sense, given your current situation.

Again, you probably got that policy 10 years ago or longer, and your financial situation may be different today. That's first and foremost. Secondly, what's the quality of the insurance company? Part of the issue that's happening is, some of these insurance companies are in trouble.

They can't just arbitrarily bump up your premiums. They have to justify it in every state in which they do business. In our example, this company had to go to the Pennsylvania Insurance Commissioner and say, "We priced Patti and Ed's policy wrong."

By the way, it's not just Patti and Ed. They have to do the same thing across all their policyholders. They can't play favorites. They had to justify that to the insurance commissioner. By the way, they did, because the insurance commissioner does not want this company to fail because then, that's a real problem.

How solid is the insurance company that you're considering? If this were a situation where you say, "I'm bagging that, I'm not doing that option, I'm going to self-insure," then the question is, how would you cover that and what is the implication for the surviving spouse?

I can tell you personally, when my dad needed long-term care, even I was surprised at how quickly my parents were running out of money. My mom was only 66 years old, and she was perfectly healthy. She ended up living until she was 83.

That was tough. To make what she had remaining last for the rest of her life, it was really tight. That was no way for my mom to have to live. I didn't want her to feel that anxiety and that worry when she was 80 years old.

Again, whatever option you choose, just try to anticipate it, run the numbers, and figure out what makes sense in your situation. We talked about some of the tax issues.

I think that the other thing is this hybrid approach. Is there kind of an intermediate step? The answer is yes. For example, there are life insurance policies that now can turn on the death benefit if you need long-term care.

That might be a great option because a lot of people don't need their life insurance when they are 80 years old, but they do need care while they're still alive. Same thing with annuities. You can get annuities that provide an option for long-term care.

Basically, all you're doing is, you're providing some leverage. You put in $100,000, it's great. It's there if you want to take it back out again and you're perfectly healthy, or if you need long-term care, you've got $300,000 of long-term care coverage. Now, that's just an example of that kind of leverage effect.

It's a nice option because, let's face it, there are basically three things that happen when you're looking into this. You live, and you want to spend it, you die, they have a death benefit that's usually more than what you put in. If you need long-term care, you've got a tax-free stream of income to cover the long-term care needs.

To me, that's heads, you win, tails, you break even. Again, to summarize, just understand that this is something you probably don't want to think about. I totally get it. You also don't want to be scrambling in the midst of a real healthcare crisis.

Let's just deal with it. Understand that there are resources in our community and know what they are. If you have the time and have the inclination, or if, God forbid, somebody does get some sort of a diagnosis, don't wait. Please, don't wait.

Talk to your advisor, talk to your doctor. Go out and figure out what your options are. Just know there are options. There are resources. As it comes to the coverage and the insurance, just be careful. Be very careful.

Understand what you're getting into and make sure that it's designed to do what you want it and need it to do. That's a little bit longer podcast about long-term care. This particular AskPattiBrennan episode was a little bit longer than normal.

I usually like to keep it 5 to 10 minutes, but as you can probably tell, there is an awful lot to this issue. It's going to be different for every single one of you. Please, reach out to us. Go to keyfinancialinc.com. Get in contact with us, ask us these questions. This is what we do.

This is why we exist, to make your life easier, to take away some of the anxiety and the uncertainty that is inherent in everyone's life because, unfortunately, we're all going to go through it at some time.

Let the people who already have gone through it help. Thank you so much for joining me today. I hope you have a great day, and you stay healthy. Take care.