Long-term Care

No Long-Term Care Plan? Here's What to Do About It

Small-business owner Jennifer found herself in a tough caregiving situation and doesn't want to subject her family to that. What are her, and your, options?

(Image credit: Getty Images)

You might be shocked to discover that as few as 3% Americans have a fully funded plan for long-term care expenses. Although, on second thought, maybe you wouldn't be surprised at all — because you're one of them. Which means, just like for everyone else, the sooner you change that, the better.

Of course, knowing you *have* to start and knowing *where* to start with long-term care planning can be two different things. So, to help, let's consider the case of Jennifer, a 45-year-old small-business owner who lives with her husband and young son in New York.

Like many people, the busyness of life and work mean Jennifer has yet to fully lock down her long-term care preparations. However, having recently experienced the challenges of caring for a family member suffering from a serious illness, she's now keen to get a plan in place.

As she put it to me: "When you're caring for someone, it's totally all-encompassing. So, there's a real sense of guilt because you don't have enough time to focus on anything or anyone else. As for your own self-care, you just don't take a back seat, you're in the trunk! I was shocked by how quickly things can get worse, too, and how hard that is to deal with. If I need long-term care one day, I don't want my family to have to go through the same thing."

Jennifer's situation is by no means unusual. And the good news is it's not too late for her to get started. The advantages of doing so are also clear. Research shows that people with a fully funded long-term care plan tend to remain in their homes longer, get more longevity out of their retirement nest egg and benefit from the fact any payments from a properly structured plan are made tax-free.

A clear long-term care plan makes delegation easier

The value also extends beyond just economics. With a clear long-term care plan in place, it's much easier to delegate tasks that are purely medical to a professional — stuff like getting the correct medications, choosing the right kind of bed and going to the pharmacy. This leaves your loved ones free to focus on your relationship and on spending quality time with you.

Preparing for your long-term care now also means you're making decisions when life is stable. This is far more sensible than trying to do it when you're already unwell or in the midst of a crisis. Plus, it helps you set a good example to your kids about being willing to make hard decisions rather than procrastinate.

So, back to Jennifer. According to the National Association of Insurance Commissioners (NAIC), most of us can expect to spend somewhere between $250,000 and $300,000 on long-term care depending, of course, on our condition and how long we require it. Broadly speaking, she has four options for how she's going to fund that amount. (Read more about each of these options in my previous column How to Get Your Long-Term Care Planning on the Right Track.)

1. Self-fund through investments and/or sale of assets.

This option benefits from being easy to set up and flexible, as the funds can be used however you want — be that to pay for long-term care or for something else. However, it requires the most money because there's no leverage from an insurance contract. There's also the risk that your investment or asset suffers a loss in market value at the very time you need to pay for long-term care.

2. Buy a standalone long-term care insurance plan.

The good news here is that premiums can be tax-deductible as a business expense and that policies often include an inflation rider to protect against inflating healthcare costs. It also potentially qualifies you for your state's Partnership Program, which lets you shelter an amount of assets equal to the amount of care funded through the contract while still qualifying for Medicaid. However, rates can increase, and there's no accumulated cash value, which limits flexibility. Crucially, if the plan isn't used to fund long-term care, the money is lost.

NYSUT NOTE: NYSUT members have access to a team of dedicated long-term care planning specialists through the NYSUT Member Benefits Trust-endorsed New York Long-Term Care Brokers program. NYLTCB is a nationally-recognized insurance intermediary that offers access to discounted long-term care insurance plans from highly-rated insurance companies. NYSUT members can get a long-term care insurance plan designed for their specific needs at a discounted member rate. Visit the member website for more information.

3. Set up a hybrid contract (either a life insurance contract or annuity contract) that contains a long-term care rider.

The advantages of most hybrid long-term care insurance contracts are they offer flexible premium options, have no rate increases and have an accumulated cash value. They also carry a death benefit that lets you recover the cost if you don't need long-term care after all. That said, always check the details. In some instances, inflation riders might not be available while and the cash value accumulation and death benefit may not be fully guaranteed.

NYSUT NOTE: Interested in hybrid long-term care insurance? Consider the NYSUT Member Benefits Trust-endorsed WrapPlan® II Universal Life Insurance Plan underwritten by Transamerica Financial Life Insurance Company. This plan offers you a way to plan for the continuing need for life insurance coverage while taking advantage of the term life insurance that you already have. It also allows you to purchase life insurance coverage that increases as your term life coverage decreases. For more information on requirements and how it works, visit the NYSUT Member Benefits website today.

4. Rely on government Medicaid provision.

The benefit of this approach is the guaranteed access to facilities based on the payment of Medicaid premiums. However, the challenges are a loss of control over where we get old and who provides our care as well as the fact the facilities may not be of the highest quality. Note also that it requires you to prove you are “poor on paper” by moving any assets out of your name in advance.

NYSUT NOTE: Interested in qualifying for Medicaid but not sure where to start? The NYSUT Member Benefits Trust-endorsed Legal Service Plan is here to help with your Medicaid planning process. Whether it’s preparing the appropriate documentation or helping to structure your financial resources, NSYUT legal services can provide the expertise you need to ensure your loved ones get the care they need. For more information or to enroll, visit the member website.

So, taking into account Jennifer’s lifestyle and financial situation, her age and health status, her desire to have a deductible business expense for her and her spouse, her wish to have a certain benefit paid one way or the other for her invested premium and her need for flexibility in managing her care, what option should she consider?

The answer is a hybrid contract with a long-term care rider along with a self-funded account that’s conservatively invested to provide some additional flexibility and cover the elimination period, which is the amount of time you wait before the carrier begins paying out the benefit. Elimination periods vary in length and are selected by the policyholder, who is responsible for paying for services out of pocket during this time. and. To that end, a hybrid contract will allow Jennifer to pay lower premiums, partially deduct those premiums as a business expense, retain flexibility because of the multiple ways of accessing the benefit and mitigate the risk of “wasting” her premium dollars should she not ultimately need the benefit to cover long-term care.

Many people will find this combined approach is the right option for them, too. But as with Jennifer, it’s important to properly analyze your individual circumstances before making any decision, ideally with the help of a qualified financial professional. They can help you understand the options available, make the complex simple and find a way to integrate long-term care preparations into your overall financial plan without it impacting your current lifestyle.

Right now, it may feel like thinking this far ahead is just another tricky item on your already-bulging to-do list. But fast-forward a few years, and your future self and your loved ones will be very grateful that you had the courage and foresight to address this issue now.

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Stephen Dunbar, Executive VP of Equitable, has built a thriving financial services practice where he empowers others to make informed decisions and take charge of their future. He and his team advise on over $3B in AUM and $1.5B in protection coverage. As a National Director of DEI for Equitable, Stephen acts as a change agent for the organization, creating a culture of diversity and inclusion. He earned a bachelor's in Finance from Rutgers and a J.D. from Stanford.

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