WHY CLIENTS SHOULD CONSIDER LONG-TERM CARE INSURANCE

David Wm. Brown and Sarah Brown / March 6, 2015

CLIENT FRIENDLY

The January Cover of this magazine featured a spry Fauja Singh, the first centenarian to finish a marathon. Most elderly clients, however, aren't able to finish a marathon. Of the five million Canadians older than 65 in 2012, about 400,000 (8%) live in collectives or special care facilities; 130,000 (2.6%) in residences for senior citizens; and 225,000 (4.5%) in nursing homes, chronic-care facilities or long-term care hospitals.

Given medical advances and the demographic shift, it's likely these numbers will increase. Life expectancy for a 65-year-old female in 1979 was 84; for a male, 80. In 2012, life expectancy increased to 87 and 84, respectively. That's good news if your client is a healthy senior who's planned her retirement dollars to stretch the extra distance. But, for those who may require living assistance, or who did not plan to live those extra years, the news is sobering and frightening.

OPTIONS FOR ILL SENIORS

In Ontario, the government funds all personal and nursing care that's provided by long-term care homes. The resident must pay the cost of room and board, however, and the government sets those rates. Basic room and board is $1,731 monthly, semi-private costs $2,066 monthly, and private will set you back $2,438 monthly.

More expensive facilities can cost as much as $7,000 to $10,000 a month for private rooms and suite arrangements. Most people prefer to remain in their homes to receive care. In Ontario, in-home meal preparation can cost between $13 and $30 an hour, personal care $13 to $30 an hour, and skilled nursing $23 to $70 an hour.

> 25% of 65-year-old women and 17% of 65-year-old men will live past age 95.
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> Source: Canadian Institute of Actuaries, 2014

Clients can fund these costs by using investment proceeds or personal savings, selling their homes, purchasing annuities, withdrawing money accumulated in life insurance contracts, or taking out long-term care insurance.

Long-term care plans provide weekly or monthly cash benefits. With these plans, clients can determine the amount of the benefit, the length of benefit payments and when payments begin. Once issued, the contract's provisions and renewability are guaranteed. Most companies reserve the right to increase or decrease the premiums, but they can only do this in certain circumstances (e.g., if the insurer experienced higher-than-expected claims for men aged 60 to 70, all men aged 60 to 70 would see their premiums rise).

The policyholder qualifies for monthly benefits when he can no longer perform two out of six activities of daily living (ADLs), or he has a cognitive impairment. The six ADLs are feeding, bathing, dressing, transferring, toileting and incontinence.

More people tend to get approved for long-term care than critical illness, disability or life insurance, because the underwriting is less stringent.

THE COST OF LONG-TERM CARE

The cost of a contract is based on the plan's terms, and the age and gender of the insured. A contract for a woman is more costly because of longer life expectancy. Some contracts include an inflation protector, which increases monthly premiums. A $3,000 monthly benefit with a 90-day waiting period, a lifetime benefit period and lifetime payment period for a 65-year-old male would cost $285.80 monthly. The same contract for a 65-year-old woman would cost $397.28 monthly.

GEN Y: THE NEXT MARKET?

Statistics Canada tells us that, in 2007, people aged 45 to 64 paid for 75% of elder care. And now Gen Y is realizing that, when their parents need long-term care, they'll be called upon to fund it.

There might even be a legal requirement for adult children to take care of their parents' long-term care expenses. Twenty-nine U.S. states have laws that can hold adult children financially responsible for their parents' necessities of life when the parents cannot pay. Moreover, Section 32 of the Family Law Act of Ontario states, "Children have to support their parents if they are in need and/or if their parents supported them earlier in life."

Although these laws have rarely been enforced, a Pennsylvania court ruling in 2012 proved they could be. The state's Superior Court upheld a lower court decision, which made an adult son responsible for his mother's $93,000 nursing home bill. The court ruled the State did not have to consider the woman's other possible sources of payment, including her husband and two other adult children.

While this ruling probably won't lead to adult children being sued to pay for parental nursing care, most children consider it a moral obligation to help their parents with long-term care when required, so they'll need to find the money. Children could encourage their parents to purchase annuities; or, if a child can afford to pay the premiums for his parents' long-term care insurance, he could do so in the hopes that it'll be cheaper than covering their future bills. If a 65-year-old male, paying $285 monthly, makes a claim for care at age 80, he will have paid about $51,300 in premiums. Without the policy, $51,300 would pay for 17 months' worth of care at $3,000 per month. With the policy, $3,000 will be provided monthly for the rest of his life. Assuming the man lives longer than another 1.5 years, the insurance will have been worth it. It's critical for families to sit down and speak about the positive and negative effects of longevity, before it triggers a family dispute.

NEW ACTUARIAL TABLES

In 2017, the government will adopt the CIA 86-92 actuarial table, and the annuity table will be increased from 1971 to 2000. This will affect companies that sell life insurance and annuities. Products may not become more expensive, but some strategies using permanent life insurance may not be as effective. For instance, using back-to-back annuities combines an annuity with a permanent life insurance contract, producing a higher rate of return than what's available on passive investments like GICs. The new mortality tables will result in a lower return on the annuity, resulting in a lower overall return to the strategy.

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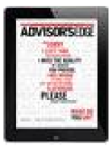

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