

# Long Term Care: Crisis Looming

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It is widely acknowledged that many individuals are going to need long-term care insurance protection. Planners will disagree on how much net worth insulates you from the need, but there is a consensus that if you've accumulated \$2, \$3, \$4 or even \$5 million, you may be wise to protect those assets from the ravages of an extended stay in a nursing home or the use of an in-home caretaker. Of course, your objectives relative to how much of an estate you want to leave behind will dictate how passionate you are about seeking long-term care insurance.

So, let's assume you have decided (or have been convinced) that LTC is a critical part of your financial plan and that presently your health will allow you to qualify for coverage. You enlist the help of a professional (strongly recommended) to understand your concerns and "shop" the market for the best product for your circumstances. This kind of service can only be provided by an independent specialist in the field. Now you and your advisor have identified your needs, considered your budget and have selected a carrier. You make application and are accepted.

Here's where the situation is becoming dicey. You may have been told, but forgot, that premiums are not guaranteed. This means that virtually any carrier has the ability to increase your premium. Your instincts tell you that this is unlikely because the company wants to remain competitive. This is a rational thought but, unfortunately, may be far from reality.

The problem is that losses on long-term care insurance are causing some companies to exit the business altogether. Some carriers will take a more subtle approach and begin to raise premiums. According to an article by Jeff Benjamin on Investment News (9/5/03), carriers have underpriced their products to gain market share (i.e., growth) at the expense of profitability. Another industry consultant is quoted in the same article: "The carriers are suckers because this is the only area where they see growth in the insurance business, and so they are willing to sacrifice profitability for growth." This is akin to the old sarcastic comment: "We're losing money on every sale, but we'll make it up in volume."

The message here is threefold. First, you can expect premium increases, some of which could be sizeable. You may be forced to reconsider the effectiveness of your investment in this protection. You may need to look at how policy structure can be changed to mitigate the premium increases. Simply stated you may need to assume more of the risk associated with long-term care issues. Second, it will be more difficult to find quality products and using an experienced and independent professional will be even more important. Third, as the landscape changes and you either pay a higher

premium or assume more risk, there is an implication for your entire financial plan. The impact will be felt on how to get more out of your investable assets and how to protect your other assets.

Our mission at Clelan and Company is to help you through this maze and assist in making good, well-informed decisions. Long-term care insurance is not a product to be purchased in a vacuum, but rather should be integrated into your overall plan. After we have assessed your needs, we work with you to find the best product for your circumstances.

We can help – give us a call!

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