Life Insurance is a Possible Solution to the Impact of a Devastating Long-Term Care Expense

By Steve Shorrock, CLTC, ChFC, FLMI

It's never too early to review long-term care options. We face a long-term care crisis in the United States, and seniors and boomers need to start creating a strategy as soon as possible. Studies show that about 70% of seniors will need some type of long-term care and most of the costs are not covered by Medicare. These costs focus on nursing home stays, home health aides and lost income of families that provide the care. Today, the average day in a nursing home costs are over $250/day, a figure that continues to rise. The average stay typically lasts about 2.5 years, so even the most financially-prepared person will be challenged by $5,000+ per month for expenses like these.

Baby boomers, a generation of Americans who are generally healthier than their parents' generation, will likely live longer and may have longer interactions with long-term care concerns. Imagine having to figure out a way to pay $5,000/month for a period of five or more years--during a time when, by definition, you will not be working. That's at least $300,000 worth of care and is a real issue for millions of boomers who are heading toward retirement at a growing pace.

Outside of traditional long-term care insurance and its many issues, there are two life insurance solutions that must be explored:

1. Living Benefits of Life Insurance!

Traditionally, life insurance paid the beneficiaries at the death of the insured. Plus it allows for the surrender of the policy for its cash value.

Life products have now emerged that pay more than just the death benefit but also provide significant living benefits to meet the needs of life changes. The ability to accelerate your death benefit if there is a chronic or long-term care need is a wonderful option within many new life policies today. More and more companies are now offering some form of chronic illness acceleration to help cover the costs of a potentially devastating long-term care need.

Accelerated benefits are now available on Term, Universal Life and Whole Life policies. If buying new insurance, the life policy needs to provide this type of living benefit.

2. Existing Life Insurance to the Rescue!

Individuals age 75 and above with life insurance can sell their policies for immediate cash which can be used to fund long-term care expenses if needed. A life settlement provider continues to pay the purchased policy premiums, collecting the full amount when the insured passes away. The amount received for a life settlement varies depending on the life expectancy of the insured at the time of sale and the ongoing premiums necessary to keep the policy in-force. A life settlement will always be less than the full value of the policy but more than the amount a policyowner would receive if he or she let the policy lapse or surrendered it to the insurance company. Often, a life settlement offers 7-8 times than surrendering the policy.

The downside to a life settlement is that the beneficiaries will not be paid a death benefit when the insured dies but many individuals who sell their policies to fund long-term care expenses make this decision because they don't want to be a burden on their children before they pass away.

In general, everyone should develop a plan to pay for potential devastating expenses related to long-term care. Utilizing life insurance is an option as it can retain quality of life during retirement and offers an option without being a burden on your family.

Should you have any questions about these two strategies for funding long-term care needs, please contact Steve Shorrock at 631-239-6655 or steve@go2veris.com

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