

# Controlling Risk Mandates Health Insurance Reviews

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If you're at work re-building your retirement nest egg, no doubt you are primarily concerned with controlling risk -- market risk, interest rate risk, and inflation risk. However, as you focus on risks associated with asset management, you may be overlooking potentially more devastating health risks. Especially given your depleted retirement nest egg, the cost of in-home or nursing home care could place your retirement at risk.

Ironically, as consumers' need for long-term care (LTC) insurance has increased, the recessionary environment has prompted insurance companies to re-assess their own risk levels, making the coverage more difficult and expensive to obtain. Accordingly, while an annual health insurance review is always helpful, today's risk-adverse environment makes the evaluation imperative.

Long-term care refers to the help you receive for a chronic illness, disability, or cognitive impairment that leaves you unable to care for yourself for an extended period of time. These services can be provided in a nursing home, assisted-living facility, or in your own home. Typically not covered by your health insurance, LTC can be expensive. In fact a recent study by Genworth found average costs to be \$74,208 a year, or \$203 a day. Of course, these rates vary by region of the country.

So, should you buy LTC insurance and, if so, when? Many experts use net worth as a purchasing guideline. On one end of the spectrum, individuals with lower net worth quickly will exhaust their assets when funding long-term care and qualify for Medicaid, a government program that pays the medical and long-term care expenses for those who can't pay for themselves. At the other extreme, if you have liquid assets in excess of \$1.5 million, you may be able to pay for any potential long-term care costs yourself. Of course, keep in mind that this "self-insuring" requires investing a portion of your assets in a conservative fashion.

If you fall in-between these two categories, it's worth weighing the trade-offs between the peace of mind a LTC policy might bring you and the premiums you will pay. Most experts suggest beginning this analysis around age 50. If you wait until your 70s, especially as insurance companies tighten their underwriting guidelines, it may be too late.

In fact, a recent American Association for Long-Term Care Insurance (AALTCI) report illuminates an interesting trend. Risk adverse consumers are purchasing LTC insurance sooner rather than later. Of the 400,000 individuals who purchased long-term care insurance protection in 2008, 84% were younger than age 65. In fact, 53% of individual buyers were between ages 55 and 64, compared to 50% the prior year. Another 24% were between ages 45 and 54. Less than a decade ago, in 2000, the average age of individuals buying long-term care insurance was 67.

Why the rush? The younger the applicant, the greater the chance of preferred health discounts that can reduce the cost of long-term care insurance by 10 to 20 percent each year, amounting to hundreds of dollars a year in savings for the average couple. In 2008, according to AALTCI, of the applicants between the ages 40 to 49, 63.2% were granted a preferred health discount. In the 50 to 59 age group, 51.5% qualified, compared to just 42.2% in the 60 to 69 range. Also significant are AALTCI's statistics on those who were denied coverage for individual policies; 13.9% of those aged 50 to 59 were denied, compared to 22.9% in the 60 to 69 age group, 45% of those age 70 to 79, and 70% of those over 80.

The ideal LTC policy should factor in age, health, family history, income from wages, pensions for each spouse, Social Security benefits, real estate and other assets, and your income needs. In addition to traditional pay-as-you-go policies, the industry offers whole life or annuity policies that allow you to retain the entire investment value for use in your lifetime whether you use it for LTC or not, or that will pay to your beneficiaries as a death benefit. To further complicate choosing a policy, insurance companies seem to introduce new riders on a daily basis and contract language is often ambiguous. Your financial advisor can help you design a policy that meets your unique needs and coordinate your LTC coverage with other insurance. For example, as individuals age, allocating life insurance cash values to LTC coverage versus a death benefit may provide more living benefits, versus just a death benefit.

Your comprehensive health insurance review also should address disability insurance where, similar to LTC, if you delay your purchase you'll likely pay more for less. You might also consider if you have a more economical choice for your health plan, particularly if your company offers a Consumer-Driven Health Plan (CDHP) that combines a High-Deductible Health Insurance Plan (HDHP) with a tax-advantaged Health Savings Account (HSA) that can be used to pay deductibles, out-of-pocket expenses, *and* perhaps your premiums for a tax-qualified LTC policy under certain conditions and limits.

(Note that for 2009, the maximum annual HSA contribution for an eligible individual with self-only coverage is \$3,000. For family coverage, the maximum annual HSA contribution for 2009 is \$5,950. Individuals age 55 and older can also make an additional "catch-up" contribution of \$1,000 in 2009.)

Cost has long been the reason for putting off purchasing LTC insurance until a decade or two before retirement. However, in this financial environment, the reasons for acquiring LTC coverage earlier in your adult life are compelling. What's more, if you recently experienced a large loss of principal in your retirement account, you may need to take higher risks than you are comfortable with just to try to recoup your losses for your retirement income needs. A less risky solution could be adding a LTC policy to provide inflation-adjusted, guaranteed income for your healthcare needs later in life. Guarantees are based on the claims paying ability of the issuing insurance company.

Keep in mind that evaluating LTC and disability insurance can be complicated -- and emotional. Your task will be easier if you view the products as risk management tools, as you would your homeowners or auto insurance. Above all, remember that, as with your investments, your health insurance needs are unique. Buying the policy your friend bought or a salesperson pitched can lead you to the wrong product at the wrong time in your life. Of course, if you have questions regarding whether purchasing LTC or disability insurance is a good move for you, I am here to help.

#### **About Brett Ellen and American Financial Network**

Brett Ellen, founder and president of American Financial Network, is a financial planner and investment advisor representative with Securities America Advisors who specializes in wealth management and corporate benefit planning services. Additionally, Ellen established and is an active part of the Financial Solutions Alliance, a network of financial service providers from across the country that work collaboratively to address the financial and business needs of their clients. Unprecedented in his ability to serve both individual investors and corporate planners, Ellen is recognized by Securities America as their top advisor.

As a California native, Ellen believes strongly in giving back to his community. He and his firm actively support a variety of non-profit organizations. In 2008, the Muscular Dystrophy Association awarded Ellen the prestigious Humanitarian of the Year Award for his philanthropic endeavors and dedication towards making a difference. In 2001 he and his wife, inspired by their children, formed their own non-profit. TKOHelpingHands.org (Turn Kindness On) promotes community involvement and social responsibilities in young children. Ellen also writes a finance blog for children - [www.KidsFinanceCoach.com](http://www.KidsFinanceCoach.com) - to help them understand important concepts and become financially literate and responsible adults. For more information about Brett Ellen, visit [www.afn-net.com](http://www.afn-net.com).

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