

## **Long-Term Care Without Public Benefits: The Two Bucket Self-Insurance Tactic**

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In a recent lecture, Professor Moshe Milevsky, a renowned retirement risk analyst, noted that people tend to overestimate the chances of dying from dramatic causes, such as an airplane accident, while underestimating other risks, such as the risk of a long-term illness or disability. In his lecture, which was held at the annual Bank Insurance & Securities Association conference, Professor Milevsky commented that many retirees underestimate the cost of long-term care, since the cost is often a slow drain on a family's wealth.

As long-term care insurance products have become more expensive, many retirees have begun considering the option of self-insuring their long-term care. Self-insuring entails setting aside a separate bucket of funds to cover the specific costs of a risk, such as long-term care costs, as opposed to purchasing a long-term care insurance policy. Self-insurance is more than simply saving funds in a separate account. It means demarcating an account, the cash value of a life insurance policy, or another asset for a specific purpose; the market risk of that asset is adjusted in concert with increases or decreases in the underlying risk. Of course, one must have funds available in a different account for normal retirement expenses, hence the "two bucket" name. There are benefits to this technique; however, there are downsides as well.

### **The Upsides Of Self-Insuring Against Long-Term Care Risks**

The primary advantage of self-insuring is liquidity; funds in a self-insured care plan are more readily available to a retiree. Even when a long-term care insurance policy has a return of premium option if benefits are not utilized, from a financial perspective, the growth such funds would have achieved if invested may outweigh the funds returned from the company. Funds in a self-insurance account are readily quantifiable. Benefits purchased from a long-term care insurance company may be hard to quantify in terms of the amount of care available. Additionally, funds set aside for self-insurance are more readily available for an emergency that is not covered by long-term care. For example, if a family emergency develops, such as the divorce of a non-breadwinner child, a retirement plan can change instantly. Many middle-aged persons are faced with what economists refer to as a boomerang situation; their children still need financial assistance, but their retired parents are not fully financially independent.

## **Long-Term Care Without Public Benefits: The Two Bucket Self-Insurance Tactic – Cont'd**

Those who may face a boomerang are more likely to need rapid liquidity to pay for emergencies which dramatically affect retirement well-being.

### The Downsides Of Self-Insuring Against Long-Term Care Risks

There are many reasons so many people purchase long-term care insurance, and for some, such a purchase is a worthwhile investment. While no company can guarantee its own solvency, reputable companies are likely to be able to provide the benefits in a policy. The premiums paid for a long-term care insurance policy are partially tax-deductible as a medical expense, and thus for tax-sensitive families, a purchase may make sense. The fact that insurance premiums are "locked up" in a policy can be a financial disadvantage, as discussed above, but could be an advantage for those who lack the discipline to save for long-term care.

### The Numbers of Privately Paying For Long-Term Care

While it is hard to know how one's health will decline, one study predicts that for most Americans the period of long-term care, defined as the period after disability and prior to death, is between one to five years. While for many persons long-term care costs average \$50,000, 5% of the population experiences care costs over \$150,000. (Kemper, P., Komisar, H.I., and Alecxih, L. 2005/2006 (Winter). "Long-term care over an uncertain future: What can current retirees expect?" *Inquiry*, 42(4): 335-350.) Inflation of such care has grown roughly 4% over the last decade, so a separate "bucket" of funds for care would need to appreciate at a rate, after taxes and inflation, greater than 4% over the same time horizon. Thus, if a sixty-five year-old retired person can put aside \$75,000 into a separate pool of funds, he likely would be able to self-insure. A family history of illness, a higher income tax rate, or other factors are worth reviewing when calculating this numerical estimate.

### Conclusion

For those facing retirement, risk management is a critical matter. While long-term care insurance is a great investment for some families, self-insuring against the risk of long-term care is an important consideration for those who are able to do so. If you or a loved one have any questions about long-term care risks, or other risks associated with retirement, please feel free to contact the team at the Hook Law Center.



### **Little Understood Cats**

**Hook Law Center:** Kit Kat, what are some things people don't understand about cats?

**Kit Kat:** Cats are very interesting, but most people don't understand them. With insight given by John Bradshaw, an anthrozoologist and author of the book Cat Sense, we know a little bit more about the minds of cats. First of all, most people think all cats get along with all other cats. This couldn't be further from the truth! Just ask my mom. There are 5 cats living together at our house, and not always in a harmonious fashion. One of the female cats bullies another female cat, to the point we have installed a pet gate dividing the upstairs from the downstairs. What do I mean by bullying--hissing and cornering the one cat in a closet to the level the cat cowers in the corner of the closet continually. Now she roams the upstairs in peace, and she seems quite content.

Cats, he says, are mostly interested in security--staying dry and having a food source. They may enjoy having a feline companion if the number is limited, but they're fine on their own. They are a bit limited in the depths of emotion. They can feel basic emotions of love, anger, or anxiety, but more complex emotions (embarrassment, for example) are beyond them, according to Bradshaw. "They live in the moment," he says. I consider that a strength. After all, it may be the way they have adapted to a life that is uncertain at times. Life is unpredictable, and not caring about the future helps them survive.

(Yahoo news, 2-28-14)

## Upcoming Events

- Shannon Laymon-Pecoraro will be speaking on Estate Planning at The Talbot on Granby, 6311 Granby Street, Norfolk, VA on **March 26, 2014 at 12:00 PM**. For more information, please contact The Talbot on Granby at (757) 451-5100 or Hook Law Center.
- Andrew Hook will be presenting a live webinar on POAs, AMDs and the Ethics of It All in Charlottesville, VA on **April 10, 2014**. This webinar will be hosted by Virginia Continuing Legal Education.
- Shannon Laymon-Pecoraro, an attorney at Hook Law Center, is a member of the advisory board of the Hampton Roads Chapter of the American Parkinson Disease Association. Please visit our website if you have any questions about this event on **April 12, 2014**.
- Andrew Hook will be speaking at Westminster Canterbury, 3100 Shore Drive, Virginia Beach, VA on **April 16, 2014 at 10:00 AM**. For more information, please contact Westminster Canterbury at (757) 496-1100 or Hook Law Center at (757) 399-7506.
- Andrew Hook will be speaking at the newly renovated Parsons Residential Care Center, 1005 Deep Creek Blvd., Chesapeake, VA on **April 24, 2014 at 6:00 PM**. For more information, please contact Parsons Residential Care Center at (757) 487-0487 or Hook Law Center at (757) 399-7506.
- Shannon Laymon-Pecoraro will be attending the National Association for Medicare Set Aside (NAMSAP) Conference in Las Vegas, NV on **May 8-9, 2014**.

- Andrew Hook will be speaking at the Virginia Benefits Program Organization (BPRO) Spring Conference on **May 8, 2014** in Williamsburg, VA. Mr. Hook, Natalie Hale, CECC and Jennifer Woods-Pagano, CECC will be attending the three-day conference.
- Andrew Hook will be speaking on Financial Services Long-Term Care Insurance at the National Academy of Elder Law Attorneys (NAELA) Conference on **May 16, 2014** in Scottsdale, AZ. Mr. Hook will be attending the two-day conference.

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