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Time to Rethink Long-Term Care and Whole Life Insurance

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Now more than ever, Long Term care insurance and whole life insurance are important components of a financial plan. Though these two policies are quite different, the reason for discounting them may have been similar. While the stock market was increasing, many felt that the premium dollars would be better spent investing in the equity markets. “Self-insure” and “buy term and invest the difference” are terms that come to mind. As we have seen recently, the stock market may not be the place most investors thought it was!

Even with the stock market declines of 2008, there is still a place for equity investing. Investment allocations may be different, and it is predicted personal savings will increase. Further, it is important that individuals take a second look at long-term care and whole life insurance to round out their financial plans.

Long-term care insurance continues to be a piece of the financial puzzle often overlooked. Prior to the recent downturn, many people who understood the need for the protection often did not purchase a long-term care policy because they felt the risk could be self-insured. Even without the recent stock market decline, this belief is flawed for most. Long-term care insurance should be considered as a way to possibly fill the gap left in one’s retirement plan.

As an example, assume a retirement plan is broadly invested and valued at \$3,000,000 at the end of 2007. Let's assume the person has a 60/40 equity to bond portfolio that dropped 22%: that portfolio is now worth \$2,340,000. If it can be assumed that this individual has a reasonable chance on needing long-term care services in their lifetime and that this same person did not have long-term care insurance, self funding care is really the only option.

Based on a “safe initial withdraw rate”, this person can expect an annual income of between \$102,960 and \$128,700* after the 2008 downturn. If one spouse were to need care and with the average cost of a private nursing home room at \$77,745* per year in 2007, there would be a dramatic financial impact on the remaining spouse.

A long-term care policy purchased for \$200 a day could provide for over \$964,000 of benefits if care was needed today for a period of 10 years. (This amount also takes into consideration a 5% cost of living rider. Additionally, due to the cost of living, the benefit amount of \$964,000 would be greater if benefits are needed for 10 years but commence later in life).

To summarize, in 2008 retirement accounts decreased. Prior to that an individual was planning on self-funding his long-term care needs; now this person considers a long-term care policy to fill the gap. The result is that now the pain of 2008 has been lessened by the purchase of insurance to cover future long-term care needs.

Whole life insurance is another type of insurance that should be re-examined during these troubled financial times. Whole life insurance provides for both a guaranteed death benefit along with a guaranteed cash value as long as the stated premium is paid on time each year. If the insurance company can earn an amount greater than the anticipated return, a dividend will be paid on the policy. This dividend is not guaranteed and can fluctuate each year.

As the stock market was riding high, a common thought was that a person could buy term insurance and invest the difference in an equity portfolio. Reasoning centered on the thought that a person could earn a higher return in the stock market and that a person's need for life insurance will decrease over time.

Whole life insurance can serve many purposes in one's financial portfolio. First, a whole life policy is meant to be a permanent plan of insurance. Unlike term insurance, which will become cost prohibited later in life, whole life insurance maintains a constant premium and will be paid on death whenever that may be.

Currently, people may consider whole life insurance as an estate enhancer seeing the recent downturn. Equity portfolios, which may in part be intended for future generations, can be supplemented with a whole life policy. Again, this strategy may help soften the blow left by 2008's troubles. A whole life policy within an irrevocable insurance trust can further benefit future generations by avoiding both income and estate taxes. (Please consult your tax planning professional to learn more about life insurance within a trust.)

A second purpose of whole life insurance is the guarantees. Recently, many people overlooked the value of guarantees only now to realize their importance. Though one may always be able to find an investment with a greater return when compared to a whole life policy, not many investments will match the guarantee of death benefit and cash value found in a whole life policy.

Many of us in the financial services industry are glad to see 2008 in the rearview mirror. Year 2009 will surely bring its own challenges. In order to adapt to these tough times, people need to re-examine their financial portfolio both in terms of what has happened

and what can be done in the future. Long-term care and whole life insurance are two products that may assist to strengthen one's portfolio now and into the future.

**MetLife Mature Marketing Institute, the MetLife Survey of Nursing Home and Home Care Costs, October 2007*

For more information, contact Treloar and Heisel at 800-345-6040 or at www.th-online.net.

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