Don’t Go It Alone:

Why “Self-Insuring” Is A Poor Choice For A Long-Term Care Plan

For many Americans, “self-insuring” potential Long-Term Care needs was once thought to be a popular planning methodology. However, while you can “*go it alone*”, the real questions is ***why would you?*** Self-Insuring potential Long-Term Care needs essentially means you’re taking on an unlimited level of risk, and this is simply counterintuitive to prudent financial planning!! When determining whether or not to move forward and implement a Long-Term Care plan, we recommend you consider the six factors below….

Managing Expenses is NOT the same as Managing Care

While you may be able to accept the ***financial*** burden in the event of a Long-Term Care need, it’s likely you won’t have someone to manage, monitor and adjust a plan of care with your physicians and caregivers. In fact, a predetermined Long-Term Care plan provides you with access to independent health care professionals who will come to your home, assess the needs, negotiate provider discounts and coordinate the best plan of care moving forward. This can be a valuable aspect of your Long-Term Care; especially if you want to guarantee the best care possible while minimizing the emotional and physical impact on your family.

Asset Allocation Models

For the affluent, perhaps the easiest method for implementing a Long-Term Care plan is to reposition a small portion of your assets. In fact, there are a number of very effective ways to do so, even within your existing asset allocation models. In fact, today’s Long-Term Care planning options have (1) have ZERO downside market risk, (2) complete guarantee of principal and (3) provide a substantial leveraged benefit to mitigate the risk associated with future Long-Term Care needs. Quite simply, a Long-Term Care plan can be implemented with absolutely no out of pocket cost by reallocating low-yield, non-income producing or dormant assets.

Liquidity Concerns

While you may have the ***ability*** to self-fund a Long-Term Care need, do you really maintain the required liquidity to do so? It’s very important to look at the source of your assets. For business owners, or those with concentrated positions in one company, you should recognize that liquidity can be a big problem. That lack of liquidity may force the sale of a business at a highly discounted rate, or necessitate the sale of stock holdings at an inopportune time. In additional to the liquidity issue, there’s the very real possibility of facing unnecessary and substantial tax liabilities associated with asset sales.

Asset Protection

Since you likely understand risk management and the use of leverage, consider implementing a Long-Term Care plan which “***protect dollars with pennies***” to provide a finite amount of asset protection. Those in your financial position often thought it was best to consider feature-rich or “Lifetime” benefit solutions, however creating a basic pool of funds for future Long-Term Care needs is now a more effective solution. Not only are lifetime solutions prohibitively expensive (usually with “use it or less benefits”), but the need for a lifetime benefit is really overkill from a statistical perspective.

Limiting Potential Liability

You should consider Long-Term Care needs ***as a potential future liability***, so it’s important to recognize how to manage potential liabilities today. Can you afford to write a check to cover an incident in their home or some other loss? Usually yes, but you still carry property & casualty insurance to address that potential liability. With the odds of experiencing a Long-Term Care need being what they are, protecting against the liabilities associated with that need is simply a prudent measure.

Leveraging Existing Estate Planning Tools

Many wealthy individuals and couples take steps to address their Estate Planning issues. While you can address your situation in a variety of ways, you may already have an Irrevocable Life Insurance Trust (ILIT) as part of your plan. When life insurance is owned by an ILIT, the death benefits are not inside your estate upon death and those proceeds can be used to pay the estate taxes due. Most people don’t realize an ILIT can be used to implement a Long-Term Care plan as well. Assuming the proper solution is included in the ILIT, this is a very attractive way to implement a Long-Term Care plan and take advantage of existing tax laws and annual gifting in the process.

Since you understand the concepts of risk management and pro-active planning, it’s worth your time to discuss why Long-Term Care planning may be appropriate. Contact us and we can discuss how a Long-Term Care plan is really a wealth management tool - One we strongly recommend you consider in your planning.

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