



LONG TERM CARE: SELF-FUNDING VS PURCHASING AN INSURANCE POLICY

THE ISSUE

What happens when you don't die? You live. And what happens when you live? You grow old? And what happens when you grow old? You get sick. And what happens when you get sick? You need care. How are you going to pay for that care?

THE SCENARIO

Meet the clients, Sam and Maggie Malone:

- ★ Both 52 years old
- ★ Live in Maryland
- ★ Two children

They think they have done a very good job with their financial planning including their assets they have accumulated as well as the products they have put in to place to protect them. Their kids have graduated college and are living on their own. They seem to be on the right track.

Luckily, they sat down with their insurance agent, John Smith, and he helped them realize that they had one potential pitfall in all the planning they had done; what happens if they live a long life, get sick, and need care? Their options are Medicare, Medicaid, self-fund the care or buy a Long Term Care Insurance policy. John did some analysis for the Smith's to help them decide what the best way to pay for this potentially huge bill in the future would be.

The average cost of care is \$200/day in their area, which is where Sam and Maggie Malone plan to retire.

THE SOLUTION

John explained that Medicare is a great program, but is only designed for short term, skilled care and pays for a maximum of 100 days and only while showing improvement. He also explained that Medicaid is a very good program as well, but requires the Malone's to

spend down pretty much all of their assets before being able to take advantage of the program's benefits and at that point they lose their ability to make decisions on their own. That leaves self funding vs leveraging the risk by buying a Long Term Care insurance policy.

Assumptions:

1. Sam and Maggie will both have a need in 25 years at age 77, for 4 years a piece
2. They will earn 6% on their money between now and age 77
3. Their tax bracket is 28%.
4. The premium for a LTCi policy with a 90 day Elimination period, 5 year benefit period, \$200/day benefit amount and 5% compound inflation protection with shared care has an annual premium of \$4,417.74

THE RESULT

As you can see on the following page, by using his LTCI Matrix, John shows the Malone's that they would have to put \$43,941.46 per year aside to create the tax-equivalent pot of money needed to cover their claim. It is clear that it is more than advantageous to transfer the risk to the insurance company for the annual premium of \$4,417.74. They can now sleep well at night knowing they have created an asset overnight that is preserving everything they have worked hard for all their lives.

LTCI MATRIX

This LTCI Matrix is available exclusively to agents contracted with Freedom Broker Services. As you can see in the example of Sam and Maggie Malone, this matrix is a powerful illustration of how much money would need to be invested in order to create an asset large enough to cover the cost of long term care.

Freedom Broker Services Long Term Care Insurance Matrix *Purchasing Insurance vs. Alternative Investment*

The blue cells indicate a field where YOU input the data
The white cells indicate a field that is calculated for you
The red cells are the output fields

Age	52
Long Term Care Insurance Details	
Daily benefit amount	\$200
Number of insured's	2
Total daily benefit amount	\$400
Benefit period (years)	5
Pool of benefits	\$730,000
Inflation protection option	5% Compound
Number of years policy in force before claim	25
Future annual pool of benefits	\$470,864.59
Claim time (years)	4
Future value of insurance claim	\$1,883,458.37
Alternative Investment	
Future value	\$1,883,458.37
Tax bracket	28%
Tax Equivalent future value	\$2,410,826.71
Investment rate of return	6%
Number of years to invest	25
How much would I have to invest each year to attain my Tax Equivalent future value?	\$43,941.46

If you would like to receive your own interactive electronic copy of the FBS LTCI Matrix, please contact Freedom Broker Services at (703) 287-7130.

