06/12/06

By Gary S. Mogel
InvestmentNews.com

Out-investing LTC premiums may be risky strategy

NEW YORK - It is better to lock in long-term-care coverage at an early age rather than out-invest and gamble that the policy won't be needed until the client gets older, industry experts say.

A 55-year-old who buys a $150 daily benefit lasting three years would pay $1,659 a year, according to the 2006 LTC Insurance Price Index, released this month by the American Association for Long-Term Care Insurance in Westlake Village, Calif. Assuming a 7% annual return and a constant premium, a client investing that money would likely accumulate about $23,000 before taxes by delaying the purchase of LTC insurance by 10 years.

Among the "catches" is that the annual premium would about double at age 65, the study noted.

That increase comes at a time when the client may be retired and less able to afford the higher premium.

Like a moat

But there are other reasons for avoiding delayed purchases.

"If care is needed, you can never out-invest the benefit of having insurance protection," said Jesse Slome, executive director of the association.

"From an investment adviser's standpoint, LTC insurance is the moat that protects the client's castle. It's a prudent decision to spend about 1% of a client's portfolio to protect the other 99% of what you've helped them build," Mr. Slome said.

"I think that out-investing for LTC is a horrible idea," said Bernard A. Krooks, a partner and elder-law specialist with Littman Krooks LLP, a White Plains, N.Y., law firm. "The client might not be insurable in 10 years, and rates will go up."

The client also may miss out on tax advantages such as New York State's 20% dollar-for-dollar tax credit for LTC premiums, the possibility of taking federal itemized medical-expense deductions and deducting the entire premium if they own a C corporation.

The average annual cost of a private room in a nursing home can run up to $70,000, according to a national survey by MetLife Inc. in New York. So the premium savings wouldn't buy much care, experts say.

In a "purely mathematical argument," investing the premiums might make sense, said Chris Cooper, principal of a Toledo, Ohio, firm that bears his name and specializes in

elder-care planning. "But it doesn't take into account that the older the clients get, the less likely it is that they will be able to by LTC insurance, because of their declining health," he added.

"I tell clients to buy LTC insurance while they are in their 40s and their health is still good," said Lynn Devitt, an LTC specialist with Newman Financial Services LLC in Minneapolis.

However, that is often a tough sell, as clients that age may have kids' tuition bills with which to contend, she added.

Buying early can lock in lower premiums, though premiums can go up if the insurer raises rates for the entire class of which the client is a part, according to Mr. Cooper. However, the coverage itself is guaranteed, as the insurer can't cancel if the premiums continue to be paid, he said.

Premiums for people who bought LTC insurance 10 years ago have gone up about 25%, but for those who waited until now to buy, they are 100% higher, Mr. Cooper added.

Last-resort options

While the 65-year-olds were waiting to buy, they likely developed morbidity conditions that might not kill them but which may require extended care, Mr. Slome said.

"You can't tell me that taking some of the clients' investment return to protect everything they worked and saved for isn't worth it," he added. "And that's not even considering the value of the insurance to augment family caregivers."

Without LTC insurance, clients may be forced to consider a last-resort option such as a reverse mortgage, the experts noted.

"I would recommend that clients buy the policy at age 55, along with a 5% compound inflation rider that doubles the benefits approximately every 14 years," Mr. Krooks said.