Episode 127 Long-Term Care Planning (Part 11) Traditional Long-Term Care Insurance Policies

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long term care, policies, premiums, insurance, benefits, people, wade, talk, hybrid, medicaid, point, pay, premium hikes, death benefit, coordinator, life insurance, good, traditional, cash, care

SPEAKERS

Alex Murguia, Wade Pfau, Bob French

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. In yet another win for people who like using car analogies for retirement planning. Hybrid policies are becoming more and more popular.

Alex Murguia 00:49
Hi everyone. This is Alex, and I'd like to welcome you to retire with style with Wade Pfau. How's that? Hey

Wade Pfau 01:00
everyone.

Alex Murguia 01:02
And today we're going to be talking about, again, long term care, insurance, traditional and hybrid policies. So it's a barn burner, right? Wade,

Wade Pfau 01:14
that's right. We did make sure we're better prepared than we may have been with the Medicaid last week. But

Alex Murguia 01:21
why? Why are you saying that?

Wade Pfau 01:25
Well, Medicaid just so complicated with the different states, it's hard to really know what to say, but we've got some clear things to say today.

Alex Murguia 01:32
Wade, there's an old rule in the in the entertainment industry, let me bring you in on No, it never, ever, ever, let the audience know how unprepared you are.

Wade Pfau 01:44
So we're not unprepared today. We were just unprepared in the past.

Alex Murguia 01:48
Are you bringing me into this the we? What part of we? What part of We Are you referring to? Are you referring to the royal we?

Wade Pfau 01:59
That's right. Wade,

Alex Murguia 02:01
if you don't know, the last week's episode, and this week, we're recording and literally back to back, like, you know, we just,

Wade Pfau 02:07
we had to operate to make sure we were ready for this one.

Alex Murguia 02:10
Yeah, again, Wade don't bring me down. I do not, I do not subscribe to your statement. But that being the case, I even put on a fresh shirt.

Wade Pfau 02:23
Yes, it changed clothes to maintain the illusion of the

Alex Murguia 02:28
Grand Illusion, the grand illusion, or just the normal, yeah, this

Wade Pfau 02:32
one's an illusion, not an illusion. Okay? No,

Alex Murguia 02:34
it's because of the because of YouTube. How we're on YouTube and check us out on YouTube. Yeah, and everybody can

Wade Pfau 02:41
just say, I wear the same clothes every day. So it's, well, there

Alex Murguia 02:45
was one episode I think we I think there was one day we did, like, three in a row. And then I noticed on YouTube, it's like, man, I've got the same shirt, like, back to back to back, Triple Shot Thursday, get the lead up, kind of thing. So yeah, I changed. I was telling my wife I in between shows, I was like, I gotta change another podcast to do my clothes. Yeah, exactly, kinda. That's why I gotta buy shirts. Christy, I need more shirts.

Wade Pfau 03:15
So never we have more than 100 episodes. Now you should have at least 100 different clothing items.

Alex Murguia 03:21
Well, I can't, you know, I'm a man of the people. I'm a man of the people way. So if I have that many shirts, it's not, it's not on brand for me. You know what I mean? Well, I just on the everyday I represent the everyday man on this podcast. Thank you, the People's champion. I think was it Hunter, Hunter pistol. I think he sort of said that kiddingly. First, I don't know, some silly thing. I said he was like, Oh yeah, the People's champion, of course. I think he meant that ironically, I'm more of a misanthrope, you know, but that's fine. Champ is here, yeah, the champ is here. Ding, ding. Ring the bell. All right, so traditional long term care, fire away. Wade and I'll fill in the gaps, especially the areas that

Wade Pfau 04:13
you get wrong. Yeah, pop in. I'll make sure to pop it. You didn't have to worry about preparing. You just have me monolog. But my God, what is this? What is this? What is this? Well, do you have any questions for me about long term care insurance?

Alex Murguia 04:27
I'm doing my best here. Wade, I'm doing my best. I'm just one man here. Wait now, so go

Wade Pfau 04:32
ahead, yeah, in this episode, we'll talk about traditional Long Term Care Insurance first, then hybrid policies. But really, to be clear, the direction or the momentum is really shifting towards the hybrid policies. The statistic is that less than 6% of Americans age 50 and older, and even less for younger ages, have traditional long term care insurance policies. So

Alex Murguia 04:55
are you saying what we're going to talk about for the next 15 or so minutes? Is, so please listen to this at three times and that the normal one and a half times Wade's voice will be even, even higher pitched,

Wade Pfau 05:13
relevant you may have, especially sometimes with employers. One of the benefits is you probably not paid for you, but you may have access to a group Long Term Care Insurance Plan, something to look at, but yeah, at the end of the day, this was we'll talk about the reasons why. But traditional long term care insurance is becoming less popular. Hybrid policies, life insurance, primarily life insurance, with long term care is becoming more popular, but we to understand why it's becoming more popular. We have to understand why traditional policies are becoming less popular. So there's, there's the hook.

Alex Murguia 05:47
Thank you. Thank you. He brought it back. You brought it back? Yeah, one of the things that, as I was looking through this and we were discussing, we thought a good question here would be the calisthenics of how the payments work, such as, you know you're paying premiums when you stop paying premiums, or what happens when you get you know when you need to, when

you need to access long term care. And then what happens? Let's say, if you do get out of it and you're fine two years later, a year later, you know, some certain time period you've recovered, you went to Lourdes and you poured holy water or something like that, and you've recovered. Now, what happens after Do you pay? Do you continue to pay premiums again? How does that work? Wade, yeah, so

Wade Pfau 06:30
we can never speak in absolutes. It's important to make sure you read the specific details of the policy. But generally speaking, whenever you qualify for long term care benefits, premiums would stop. Now you're talking about this scenario where then you recover, no longer need the benefits, probably, but there could be exceptions. You can go back on policies, start paying the premiums again. You would not have the whole benefit pool available, but whatever was left in terms of available benefits, you could then subsequently have access to for a second, potential long term care event in the future.

Alex Murguia 07:09
But, okay, but one thing that I want to make sure they didn't miss that you said, is you're paying premiums. Could you pay premiums for like, a year, and then all of a sudden, bam, you need to access it, you stop paying premiums and you just receive benefits,

Wade Pfau 07:23
yeah, just like with life insurance, the sooner you need benefits, the higher the internal rate of return on your premiums, because you didn't have to pay premiums for as long. Not that you want that to happen, but, but yes, are

Alex Murguia 07:37
you suggesting they drive without a seat belt as soon as they pay for long term care insurance, that

Wade Pfau 07:41
would be the moral hazard. But look at that now. That's a term for if you're insured, you start behaving in more risky ways, because you'll have those benefits available. The risk there is. You need the life insurance rather than the long term care insurance. You

Alex Murguia 08:00
sound like the Fed. That's what they when they always go into monetary policy. That's, that's, oh yeah, that's bingo card. Words, moral hazard, yeah, right. Federal

Wade Pfau 08:08
Deposit Insurance, you no longer worry about your bank deposits. Same idea,

Alex Murguia 08:13
yeah. Okay. And so there. And then there's some policies. Obviously results better read the directions, but if you do recover, there's some policies that you just resume business as usual, like before.

Wade Pfau 08:28
Yeah, correct, yeah, although this, this is a more minor detail, but yes, generally speaking, I

Alex Murguia 08:34
was always curious.

Wade Pfau 08:36
That's great question.

Alex Murguia 08:38
Oh, thank you. Thank you. It's the quality of the questions that's important in life,

Wade Pfau 08:45
and these are not chatgpt generated.

Alex Murguia 08:49
And then another piece that was interesting, and we spoke about it in a previous episode, and you thought this is a good point to bring out. What? When you get these policies, they you know, there's, talk about a care coordinator. And that's not necessarily a throwaway line in the policy. That's actually quite important. Can you delve into that?

Wade Pfau 09:09
Yeah. So when you get to the stage in life where you need help and you need to find either in home care or a facility assisted living nursing home, that can be a very stressful time, and so a care coordinator is a professional who's who knows the options in your community and who can help you find the right care. You could pay for that just if you're self funding for long term care, you could find a care coordinator and pay for that service. But many long term care insurance policies do include a care coordinator as part of the package. So if your policy has a care coordinator, it's definitely something you want to take advantage of, and can be very helpful to get you situated and get you the care that you need.

Alex Murguia 09:50
Okay? And then I'd like to play off this other thing that you said. I don't know how you knew this by memory, because I know you're not reading from the slides, and if you don't believe me, look at the YouTube. To follow track. His eyes

Wade Pfau 10:01
darting over to the left. What was that phrase?

Alex Murguia 10:04
There's a there's a quote in Scarface. It's in the eyes. One all over. I gotta look it up. It's in the eyes. Chico,

Wade Pfau 10:10
you can Scarface yet some point. Oliver,

Alex Murguia 10:15
I want to say Oliver Stone wrote that of all people. And it's a Brian De Palma film. He's good. Brian debal has done a lot of good, the untouchables, things like that. He's good, but it's more less than 6% of the population, age 50 or older, have a policy. Have a long term care policy

now. No, no, no, pay attention. I'm going somewhere with this. Throw you a softball down the middle for Come on, man. Now I don't want people to read that, hear that from you, and think, Oh, they're underserved or not. There's a certain subsection of people that it may not actually be a financially relevant thing to do. You see where I'm going with

Wade Pfau 11:00
this. Now, wait, yeah, that's a good

Alex Murguia 11:02
little bit of patience. Wade, is all I'm asking. Why is that way? Yes, thank you. Thank you. Well,

Wade Pfau 11:11
yeah, that gets into so you may either be you don't have enough wealth to really need to worry about long term care insurance, or, arguably, you may have too much wealth where you can just self fund and not need long term care, though, I think a case I think we've talked about in past episodes. If you have too much wealth, you might still benefit from having long term care insurance, because you feel more comfortable spending the insurance company's money you're protecting the inheritance for your children and so forth. You may have that care coordinator benefit, but the other direction here sometimes you just may not have enough wealth to really need to worry about having long term care insurance. You may not be able to afford the premiums because it can be expensive. There may be an issue. And this is kind of a tragedy of when we talk about why there's been this switch to hybrid policies with traditional long term care insurance. The Boston College Center of retirement research had a really interesting study about how people tend to lapse on the policies just before they need them, either because the policies became unaffordable or because, as people are dealing with cognitive decline, they forget to pay the premiums, these ongoing premiums with traditional long term care insurance.

Alex Murguia 12:26
I thought I correct me if I'm wrong. I thought it was brought up last time. I don't know it was with Rob or yourself. Somebody said this again. I don't quite remember, but one of the reasons these policies were unsustainable by the insurance companies is because the underwriting was done what you know, obviously, I say this with hindsight, was incorrect. And one of the reasons it was incorrect because the people that bought long term care actually held on to it, like actually paid the premiums, you know, beyond what they expected in terms of lapsation. Now, I think you're saying people laughs on it. More people laughs on it. You

Wade Pfau 13:05
remember? Well, yes,

Alex Murguia 13:09
the people,

Wade Pfau 13:12
not everyone laughs. But unfortunately, there's been many cases where people are lapsing just before they could have qualified for benefits. But overall, the insurance companies were expecting much higher lapse rates than what actually happened. Plus, people were living longer than they anticipated, and so were on claim for longer than anticipated. Plus, with interest rates having gone in so low that really wasn't part of the actuaries calculations, so they were really

just underpricing the premiums for the long term care insurance, and that's led to many companies dropping out of the that's why there's a shift away from traditional long term care insurance. Many companies have dropped out of the market. Those that have stayed in the market have had to have significant premium hikes on existing policies, and also they've really had to cut back on the benefits. There's no longer lifetime benefit provisions and so forth. It's and that's just been a part of needing to collect enough premiums to pay for the promised benefits so that they coordinate with the state insurance commissions. We've got to raise premiums, or else we can't afford to pay the benefits. And so those premium hikes have caused some people to lapse, though, I guess really, just not as many as the initial projections were expecting. Okay,

Alex Murguia 14:29
so, so then, for people listening in to me, the takeaway there's two takes away. Obviously, you know, there's a there's a low take up rate, right? What was that number less than 50% or next to 6% of the people age 50 have it. But if first world problems, if you have a high enough asset base, you know, you think enough self insuring, fine, not an issue. And I, you know, I think you're heading down that path. And I may be heading down that path, although hybrid seems to be in my future, and we get to that. Later, but it's the other side that I'm concerned with, is the folks that are on the lower end of that percentile, and they're thinking, oh, you know what I need to do? I need to fill out my financial planning checklist, check boxes. And long term care policy is something that I need, because that's what I need. That may not be actually the wisest financial move from that standpoint, because the premiums will go up and up, and then what can you really afford, as opposed to drawing it down and going into Medicaid way?

Wade Pfau 15:32
Well, yeah, and the Medicaid is the other important point there, that if you don't have a lot of assets to begin with, it may not really be necessary to have long term care insurance because you'll qualify for Medicaid. Now you may want a small policy so you can make that transition before entering Medicaid, but at the end of the day, if you don't have the assets, you may be in some way wasting money on long term care insurance premiums when you could have disqualified for Medicaid anyway. Now there are some we won't get into detail, but there are some state partnership type programs that have long term care insurance where what you put into those policies will create protected assets that you can keep and still qualify for Medicaid after the benefits end. But I want to make

Alex Murguia 16:18
sure people understand what you say, like buying a policy just for a little bit, and then transitioning into Medicaid. Weight is referring to the fact that you can use long term care to get into a program, and then once you're in that program, you know, you can get on Medicaid. And it's, it's kind of a little tougher to gap down in service from that area that you know, as opposed to if you start, if you go in with Medicaid, you may not get their quote, unquote expected level of service that you would if you didn't start with Medicaid. Now that's just more anecdotal, but that's what you're getting at when you say that, right, right? Yeah,

Wade Pfau 16:53
it is an anecdotal point, but yes, everything else being the same, there may be many cases where you have a little bit easier time getting situated with care if you're not yet on Medicaid when you first enter the care.

Alex Murguia 17:10
All right? And now, since you talk about premiums, What? What? What are you looking at in terms of increased premiums, etc? Because you were saying it may not be worth paying the premiums, but imagine if you don't have enough money you start paying the premium. The premiums, and those premiums go up unexpectedly, or, you know, Expectedly, go up unexpectedly,

Wade Pfau 17:29
known, unknown. Yeah, so in the future, hopefully the insurance companies have got things figured out better. They're not as they're assuming people are going to stay on policy. They've gotten used to the lower interest rate world, and so it can incorporate lower interest rates into their long term projections and so forth. So hopefully, we won't see as big a premium hikes in the future as we've seen in the past. That being said, though, a rule of thumb that I've seen repeated a number of times is just plan with traditional long term care insurance, a potential 50% premium hike during the life of the policy, before you are on claim. Just as a further precaution that make sure it's affordable, that you could handle a 50% premium increase and it would still be affordable, is a good rule of thumb to hopefully it's not going to come to that, because hopefully pricing is better now, but it is, and

Alex Murguia 18:23
I kind of jumped again a little bit with some other items. So just to bring it back, a hair before you get into the premiums, when what age should people start looking into this?

Wade Pfau 18:35
Well, the general rule of thumb on that is by the time you're in your 50s. Now it's not a universal thing that you just wait till your 50s, the younger the better. But often at younger ages, people have competing priorities. Long term care is not yet on the radar. Waiting until your 60s, though, can be risky, both, because if you develop health conditions, you may be disqualified from having care you. There's an extensive underwriting process for long term care insurance, and if you develop any health issues that might make it more likely you'll need care, you may not qualify for the insurance at that time. The other issue, though, and when we were talking about this in advance, is like the reverse of Social Security delay. If you wait to start long term care. You don't have to pay premiums while you're waiting. However, when you start paying premiums, the increase in the premiums starting from a later age, kind of offset what you missed out on paying in advance. So you don't really come out ahead by delaying. So it's not like, Oh, I'm going to wait until my 60s, because I don't have to pay premiums in my 50s. Now, if I start in my 60s, premiums are going to be much higher, and it's not going to be long before you break even on the idea of, well, I wish I would have started earlier so I could have been leveled into the program at a lower premium. So that's all leading to. These as the rule of thumb around, yeah. So

Alex Murguia 20:01
from a financial planning perspective, you're doing your plan this and that, look, whenever you can, if you're going down the route of long term care, I get the sense the answer is, whenever you can budget for it, you do it. You know, as like, you know you don't need to be in your 20s, obviously, but you know, when you're at that age where it's, you're thinking about it, if you can afford it, start doing it because there's, there's not really a monetary benefit from waiting,

because the the rate of increase as you get older will be faster, and it'll, it'll more than, like, cross over into, yeah, in 10 you just got into sooner. And

Wade Pfau 20:39
this came up in our episodes with Jackie smyrka and with Rob cordo That yes, as you get older, the probability of needing Long Term Care increases, but it's not zero at younger ages. And so there are people who need long term care when they're in their 30s or 40s or 50s. So if you already have coverage at that point, you can qualify for benefits at that point as well. Are you

Bob French 20:59
getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers eight tips to becoming a retirement income investor by heading over to retirement, researcher.com/eight tips again, get retirement. Researchers, eight tips, becoming a retirement income investor by going to retirement. Researcher.com/eight tips. That's the number eight tips.

Alex Murguia 21:36
Okay, and what are the overall characteristics of traditional, not hybrid. So we want to then compare later. So since it's fresh and so it's so so for it to be fresh on people's,

Wade Pfau 21:48
oh well, for this, a lot of these characteristics we'll talk about here are similar. For any either hybrid or traditional policies, it's more about what's covered with long term care insurance. So

Alex Murguia 22:02
okay, let me ask it another way. What's covered in long term care insurance?

Wade Pfau 22:07
So usually it's gonna be skilled nursing care, intermediate care that may require, you know, some more medical knowledge, but not purely skilled or custodial care, which is the unskilled considered unskilled care with help for activities of daily living. So that's bathing, addressing, feeding, that sort of thing. It's custodial care. But you should look for policies that will cover skilled care, Intermediate Care, custodial care. Usually policies will kick in with benefits if you need help with at least two of the six activities of daily living that we identified in the, I think the very first episode we did on long term care, and then also ages, ages ago at this point and cognitive decline, you want to make sure the policy can also trigger benefits in The event of cognitive decline, because sometimes cognitive decline, you might still not need technically, need help with activities of daily living, but you really do need help, and so does it have provisions for starting benefits in the event that a doctor has or professional has access us determined that this individual qualifies for benefits.

Alex Murguia 23:20
It's also this point about the cognitive decline. It also to me, when the money, you said that I thought of the importance of the care, the caregiver, the caretaker coordinator, the long term care coordinator. Because, you know, you one of the issues is, yeah, dementia and so yes, because

Wade Pfau 23:41
so it's either the care coordinator or it's your your friends or family who are needing to figure this all out. In many cases, when we talk about all these things you need to do, when you're at the point where you need care, you may not really be able to make these decisions. So it's not so much you necessarily, but whoever in your sphere of orbit who's helping you out with this there, they need to be figuring these things out. Where to live and care is needed.

Alex Murguia 24:10
Wade, I'm a bit older than you, so you're going to cover for me. Yeah, so I have to

Wade Pfau 24:14
get your power of attorneys.

Alex Murguia 24:19
Hey, this is recorded

Wade Pfau 24:22
all. It all your accounts,

Alex Murguia 24:27
because the day trading,

Wade Pfau 24:31
yeah, take it to the horse tracks, right?

Alex Murguia 24:33
Yeah, keenly, all

Wade Pfau 24:36
right. But then what does the policy cover in terms of what will it pay for? You want to make sure broad range of care is covered, nursing home care, assisted living, at home care, some policies may not pay for in home care, so you want to make sure that's offered potentially also now, every policy is different, but looking at what it provides are the care, like coverage for homemaker. Services, hospice care, potentially the adult daycare centers will it? Will the benefits pay for time spent at an adult daycare center? International coverage, respite care, which is, if you have an unpaid or informal caregiver, your family member, friends, having someone temporarily help out so that that individual gets a break. That's what respite care is. Will the benefits pay for respite care? Bed reservation will hold your spot at, say, an assisted living facility or a nursing home if you are away at a hospital? Does it have the care coordinator? Benefit is caregiver training, so if you have informal caregivers? Will it pay to provide training to those individuals and also any sort of supportive medical equipment? Will that be covered as part of the policy?

Alex Murguia 25:51
I like it in here. One of the things you're saying, and it's kind of a relatively new term, is respite care. I can't stress enough how important that is, if it's available, and I'm not doing it from the long term care standpoint, but I'll talk about my sister. My sister has a niece who has significant

developmental disabilities that needs effectively, like a 24/7 supervision from my sister and and brother in law, etc, and family, and there's burnout. I mean, you know, she loves her dearly, you know that kind of thing, and she's great and everything, but it is a full time job, and luckily, they have the resources. But even having the resources isn't enough. Every once in a while, you need to hit the pause button for your own mental sanity, and I see that in my sister. So at respite care, 100% that's something that becomes available just because I've seen it personally. It's worth it simply because no matter how much you love somebody, every once in a while, you just need time for yourself to just take a breath.

Wade Pfau 26:53
Yeah, absolutely. And adult daycare centers can be more of a formal way to get respite care, but it may just be a need a day a week where someone comes to the home to help out, giving you a break. That's another type of respite care. And will the insurance pay for that? It's kind of the question here, okay?

Alex Murguia 27:12
And then, well, I want to make sure any other characteristic you want to chime in on.

Wade Pfau 27:19
No, no, that was good.

Alex Murguia 27:21
Then you're talking about pay for, I think, something that we were discussing before the podcast, that it's a semantic thing. And this is, these are one of these times where, in this industry, not everything conforms to the English language the way we know it. And so I just do that regularly myself, but you want to talk about level premiums and what that means.

Wade Pfau 27:43
Yeah, yeah. So a lot of these traditional long term care insurance policies will have what's called level premiums now in normal everyday to day English, that probably makes you think the premiums are level. They won't go up. That's not what it means in the long term care world, which is the whole issue of premium hikes. What level premiums means is, just because you get older or just because your health status changes, that won't uniquely trigger a premium increase. It doesn't mean that premiums can't increase. It does mean that if, again, if the insurance company petitions to the state insurance commissioner that they need to raise premiums to be able to pay for the promised benefits. Level premiums just means that those premium increases will be applied across the board to all the policyholders who who purchase policies at a particular time and so forth. So it's your premium hikes will be done in a level manner across everyone, not your premium stay at a level.

Alex Murguia 28:41
So the good news is we're not just raising your premium, we're raising everyone's premium. Everyone's

Wade Pfau 28:46
premiums are going up. All

Alex Murguia 28:47

right. So, so since we've been talking about movies, this is what was that quote that Joe Pesci had in leaf. You're

Wade Pfau 28:55
gonna have to wait a couple more years before I have every movie done.

Alex Murguia 28:58
NO NO NO in Lethal Weapon three. Think

Wade Pfau 29:01
the only pitching movie I've seen is home alone. You didn't see good fellas. Not yet. It's gonna have to

Alex Murguia 29:09
be seen good fellas. You really have never seen good fellas.

Wade Pfau 29:13
No, wow. Way that the one where he says, like, do I look like a clown to you? Yeah. Am

Alex Murguia 29:19
I funny? How am I funny? Yeah, no. It's like, wow, really. All right, well, this is more. This is not that movie that worse

Wade Pfau 29:29
than Bob not seeing godfather.

Alex Murguia 29:33
It's up there. Honestly, Goodfellas, you can make the case. It's as strong of a movie as the Godfather, too. But Well, we're getting off topic here. This is like a whole podcast in and of itself that you haven't seen Goodfellas, but give

Wade Pfau 29:46
me a couple of years to catch up on your film years.

Alex Murguia 29:49
But what's gonna say here? No, it's Lethal Weapon three. Remember, he goes to the drive thru and they screw you at the drive thru. And he didn't say they screw you at the drive through. This what level premiums is? Right? That. Hey, they kind of screw everyone at the same time. Yeah, so that's my connection. There it is, adding value eight. That's

Wade Pfau 30:07
a great allusion to classic film.

Alex Murguia 30:12
Is it an analogy, illusion, metaphor? What is it

Wade Pfau 30:17
that's an illusion, right?

Alex Murguia 30:19
I'm just messing with you, all right? So that's the traditional policies, right? And so not to lose the point level premium is when they don't, they won't specifically just target you. They'll target everyone within your cohort and raise it. And they have the right to do that. Okay, well,

Wade Pfau 30:37
they have to convince the state insurance commission, but, yeah, but I'm sure there's some option, it's going bankrupt and no one getting anything.

Alex Murguia 30:45
And this is, and this goes back to the previous point you made, where you just naturally assume there's going to be a 50% increase in premiums over the course of the policy.

Wade Pfau 30:55
Yeah, that still to be. Have a conservative assumption, if you're getting a policy today, that bacon Can I still pay the premium if it was 50% higher? It's a good, good rule of thumb to keep in mind. Okay,

Alex Murguia 31:08
now this is for the Excel wonks out there. Do you suggest they put 50% when do they increase it to 50% over the course of 10 years? Over the course of five years? You know, what's the rate of that 50% because you know, we're gonna get there. So

Wade Pfau 31:23
you mean, for their financial planning projection,

Alex Murguia 31:25
for that, for that Excel tab that they're running a macro on,

Wade Pfau 31:30
I mean, the sky's the limit on what I mean maybe just to have something 10 years later, you just increase the premium 50% for the rest of the plan, something like that, but give you a good baseline to scenario test this. Okay,

Alex Murguia 31:48
thank you way. Thank you.

Wade Pfau 31:50
Who knows when the premium like will happen? It's just, I just, I was just having a lot of work to have it level up over time, just having to happen all at once at some point in the not too distant future,

Alex Murguia 32:02
all right, and there you have it, all right. So that's the traditional long term care policy. So why are these things not as favored right now?

Wade Pfau 32:13

Yeah, well, so it's this idea of you might lapse. So people are worried about lapsing. You've got the issue premium hikes that were unexpected, that people really don't like. There is this sort of it's true with any insurance, but this idea of use it or lose it, where Long Term Care Insurance can be expensive, and if you end up not needing to go on claim for benefits, you put a lot of money into something that ultimately didn't provide any benefit and so,

Alex Murguia 32:44
but, well, Wade, I don't buy that 100% maybe it's people run out of money or because you it's a high probability event that you're gonna

Wade Pfau 32:52
and that's where insurance usually works best for low probability high cost events. Because this is a high probability high cost event. You're the insurance costs a lot more, and so it's like you're kind of unlucky if you don't get to use it. But it was very so that's all a behavioral type story. It's not,

Alex Murguia 33:11
yeah, but I also think people, there's a little bit of, you know, you're paying for sins of your fathers, if you will. And the people that bought it were kind of once bidden, if you will. And so vicariously, people won't buy another one, because they're thinking, look what they did to that previous group. So maybe this is not the right way, because they still can't get their math right, I don't

Wade Pfau 33:34
know. And there are a lot fewer options. Many companies have dropped out. It's the remaining companies are fewer and the policies are not as attractive as they were in the past. You won't find any sort of lifetime benefit, unlike in the past that still existed today, you may be really capped out at maybe five years max for some sort of length of benefits. So it's not as attractive as it had been in the past.

Alex Murguia 34:01
But it's safe to say, regardless of how many angels fit on the head of a pin, if you will, hybrid policies are the Darling.

Wade Pfau 34:10
Yeah, yeah, that's these days where most of the action is okay. And there's different ways of structuring these policies that gets partly into just where they talked about in the tax code, but you have so I mean, there's annuity versions and life insurance versions, but we can cover the annuity versions with a sentence or two, because interest rates tend to be low, it's hard to really tack on any life and long term care benefits to an annuity that can still pay positive interest and afford life long term care on top of that, but there are potentially some annuity Long Term Care hybrids. That being said, I think at this point we'll just talk about the life insurance Long Term Care hybrids, which is really where more of the action is. Yeah. And then that's where they're talked about in different parts of the tax code. But the the first one is it's more to kind of summarize it. It's life insurance with a long term care overlay. The second approach is more long term care insurance with a life insurance overlay. Now some listeners may have a hybrid policy and not even realize it. It may be part of that first category. Like I do, I have a whole life policy that I got more for the life insurance side of the conversation. And then when I started

learning more about long term care, I kind of realized, reading through the policy, oh, it has this acceleration of death benefit writer, which is, if you qualify for long term care, you can start tapping into your death benefit to pay for long term care. So it's, it's a way to you've got the death benefit that can be used for long term care. And so that, I mean in terms of my long term care plan, thinking more along the lines of self funding, plus, I do have this life insurance policy that I could accelerate the death benefit on. My wife does not have a long term care policy, but I think I mentioned in a past episode, I think if she ever needed Long Term Care, she'd probably be happier getting that in Japan than in the US, and it's a lot cheaper in Japan than the US, so self funding is not going to be an issue for that. So that's my policy. And you, though are currently in the process of thinking about this, well,

Alex Murguia 36:34
I first like to point out something, wait, you've written books on on the retirement guidebook, you know this and that safety first and everything that the life insurance policy happened to have this long term care realized after you bought the policy.

Wade Pfau 36:58
Yeah, well, I bought the policy some time ago, at this point,

Alex Murguia 37:01
it had a writer that you're like, Look at this. How nice.

Wade Pfau 37:07
Yeah, it has an acceleration of death benefit. Writer, it's like,

Alex Murguia 37:12
so 2%

Wade Pfau 37:14
death benefit for per month or something. No.

Alex Murguia 37:17
But what I'm trying to point out is, you know, you're someone that's very astute with this kind of stuff, and it goes to show you the potential complications of these things, right? In terms of just Yeah, it's serendipitous, you know, in your case, but yeah, and you would have taken care of business eventually. But the point that I'm trying to make is look these things are not as cut and dry, you know, read the language on everything, because then look at your situation where, yeah, and,

Wade Pfau 37:47
and it's not like the insurance company can provide that writer for free. It really just means you're tapping into the death benefit sooner, which makes the insurance more expensive. So you are paying for that. You may not realize you have it, but you're paying for it. And so, yeah, review your if you have permanent life insurance, review whether it may be a source of potential long term care funding, yeah. And as you

Alex Murguia 38:09

were talking to me, yeah, this is something that, frankly, we're in the middle, in the midst of this episode, not this episode, but this arc. Wade and I, we've been talking, and what I've been saying point blank, Wade, you know, should I get the life insurance policy with the writer like you got, or should I get it the other way around, where it's a long term care policy that, potentially, if you don't use it, has an insurance component to it? Right Way?

Wade Pfau 38:31
Yeah, yeah. So the other version, it's it's more long term care, and it the starts the same sort of way you usually those policies. It's not going to be ongoing premiums. It's more either a single one time premium up front or maybe for 10 years. You pay premiums, build up a cash value, you have a death benefit. And then you can also choose continuation of care or continuation of benefit riders, which would allow for even more access to long term care benefits after you've used up the death benefit. And some cases, you can even still get lifetime it's going to be expensive, but a lifetime continuation of care benefit rider, and you can also have pooled policies for a couple where both members of that couple can tap into a pool of funds. So you've got a lot of flexibility there, but these can work more as high deductible policies, because first you just spend your cash value, then then the real insurance turns on, then you start tapping into the death benefit. And then if you do have a continuation of care writer, and you've already used the entire death benefit for long term care, then you start getting those additional long term care benefits beyond that as well. And in this case, it's not use it or lose it, because if you end up not needing long term care or only a portion of the long term care, the remaining death benefit is still available to your beneficiaries. And these usually. I have, yeah, yes. So the your if you end up not needing long term care, that this is where the the probability based individual says you don't want insurance, because the stock market would do so much better. Of course, not everyone just invests 100% in stocks. If you're someone who tends to hold a bunch of cash, the death benefit on these types of policies would probably be competitive with what you get on your low risk type assets, if you're especially with a big pile of cash on the sidelines, may be able to yield better. There are tax benefits from the life insurance as well the tax deferral. You're not paying taxes every year on interest the death benefit comes out income tax free. The long term care benefits come out to limit, up to limits income tax free. So on an after tax basis for money that you'd otherwise having sitting on the sidelines in cash, this might be something to look at, where it's going to do the same as cash. If you don't need long term care, it's going to do a lot better. Lot better than cash, because you're leveraging those dollars if you do need long term care, yeah, I

Alex Murguia 41:07
would say there's another wrinkle here, and this is the behavioral stuff, but I'm going to go to one of those secondary factors, where this provides you with true liquidity. And you're kind of saying this, but I want to make sure everyone you know, you know explicitly understands here that if you don't have a policy that potentially can turn convert to a death benefit, if you don't access it, if you don't do that, then what you're doing is you're carrying unnecessary cash, and you never know, and most likely, you're going to carry more cash than what you would need to care for yourself, especially if you're also, like taking a sustainable withdrawal rate from that portfolio for essential expenses and the like, having this in place, you know, that gives you that license to spend, or gives you the ability to invest at a greater level, why you're alive, which You know, it just, it's a better use of assets, frankly. And so it's not just that. Hey, if you didn't need it, your your kids could get it, and it would have been like a cash equivalent return. Well, the reality is, if you have that, the amount of cash that you keep on the side will be even less, and it'll be

more than, you know, the difference will be more than just what that policy costs you kind of thing, you know, it's just better use of assets.

Wade Pfau 42:29
Yeah, that's it's reducing the the contingency liability. If you do have a long term care event, you don't need as much cash on the sidelines, because you'll, you'll leverage the the dollars in the insurance policy, you'll get more benefits out of that insurance policy than just having a pile of cash to pay for your things care out of pocket.

Alex Murguia 42:51
Okay? No, no, that was all like the year. The yield is very similar to that, okay? And what other items here, since we're pushing on the magic 40, yeah,

Wade Pfau 43:04
we are these what we're talking about now, which is the long term care with the life insurance overlay. Those can be called asset based approaches. So when you see kind of the marketing from insurance companies, if they're talking about asset based Long Term Care Insurance, it's probably one of these hybrid type policies that they're talking about versus traditional Long Term Care Insurance may be called health based Long Term Care Insurance. Yeah, I think we have hit a lot of the highlights. I don't

Alex Murguia 43:39
think anyone's going to be saying, I want more long term care, more cowbell. I think there was, there was a bullet point we wanted to hit, which I believe was, newer approaches have sought to eliminate the perceived disadvantages of traditional long term care, such as premium hikes, fine at benefit period periods and the like. You want to talk about that a little bit,

Wade Pfau 44:05
yeah, yeah. And so, yeah, I guess that's a good way to summarize the discussion. So what hybrid policies have sought to do was reduce some of the concerns that existed about traditional long term care insurance, and that was hybrid policies won't have premium hikes. You're you're guaranteed the when they use the term level premiums, they can go up, but with the hybrid policies, you're guaranteed not to have premium increases. You can still find policies that give you lifetime benefits. They're rare and expensive, but they exist if you're if that's a concern with traditional insurance, which may cap you at three to five years of benefits. We didn't really talk about this, but just as a general point, the underwriting is usually a bit more relaxed. With the hybrid policies, they're still underwriting, but it may be more limited to a questionnaire. It's not as extensive as with traditional. On Long Term Care Insurance. So in some cases, you might be able to qualify for a hybrid policy, but not for a traditional policy. You can't lapse accidentally. Now you can get your funds back and Rob cordo mentioned this also some policies will have a return of premium option, although those can be incredibly expensive and you may not really want that at the end of the day, because it just raises the cost so much, but at least this is a reversible decision. You but you can't accidentally lapse. Now

Alex Murguia 45:32
you're using the word. It's just capturing my attention, and I want everyone to understand lapse, so you can lapse on purpose, but like, What do you mean by lapse, accident? Oh,

Wade Pfau 45:42
lapsing on purpose? Yeah, you can decide you don't want the policy anymore, and there may be a surrender period, but otherwise you can get your cash value back, or and, or if you did pay for the return of premium writer, you could get your entire premium back. That's

Alex Murguia 46:02
a different difference. That's all just language.

Wade Pfau 46:06
Whereas with the traditional insurance, if you forget to pay your premium, you might lapse inadvertently, or if the premium hikes are too excessive, you might find you can't afford to continue to pay the premiums. That can't really happen with the hybrid policies, and then also you do have that death benefit, so at least you'll get a cash like return out of it, even if you never need long term care. Yeah, now we will have another episode on long term care insurance, because we have to talk about all the different features of benefit pools and waiting periods, and is there an inflation rider and all that sort of thing. But that was a good intro into how these policies work, and we'll pick up there next time with more about the underlying features of the policies.

Alex Murguia 47:01
So this is your ultimate. This is the penultimate.

Wade Pfau 47:05
It is actually, yeah, our next one should be the last episode on in the long term care arc where, all right, we're getting, true

Alex Murguia 47:11
to its name. It's a long arc, but that's fine. I mean, that's what we're about here at retire with SAS. So thank you everyone for listening in today, and we'll cap off the series next time.

Wade Pfau 47:24
All right. Have a good week. Everybody. All right, everyone. Bye. Wade

Bob French 47:27
and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you. Consult your financial advisor. All investing comes with risk, including Risk of Loss past performance does not guarantee future results.

48:03
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