Episode 128 Long-Term Care Planning (Part 12) The Different Features of Long-Term Care Planning

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SPEAKERS
Bob French, Wade Pfau, Alex Murguia

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. Well, we've been talking about long term care for the long term now. Okay, that was pretty bad, but just wait for what Alex and Wade have in store for you. Hey,

Wade Pfau 00:51
everyone, welcome to retire with style. I'm Wade, and I'm here with my trusty co host, Alex, and we are at the final episode in the arc on Long Term Care Insurance. Today, we'll be talking specifically about the different features of long term care insurance. And I may have said Long Term Care Insurance is the arc, but that's only been one part of the broader arc on long term care planning. So I may have misspoken a bit there, but no

Alex Murguia 01:17
worries, Wade, I'm doing good. You know what? I've realized why you're doing that intro, it's very possible that when we started this arc, some of our listeners did not need long term care now, but now, at the end of it, they're in that zone.

Wade Pfau 01:32
Years later,

Alex Murguia 01:34
progressed to the point, yes, years later, no, no, but yeah, well, I mean, look, it's part of our style in terms of how long is the arc, as long as they need to be for us to cover the important information. I mean, that really is what it is. We're not. I think people get the joke already from our podcast. We're not gonna deal with topics lightly. I don't take myself too seriously. But I, you know, when it comes to the topics, we drill down. I mean, we had the annuities, the investment arc, we, you know, Social Security arc, etc, etc, so they're as long as they need to be, because

we realize that a lot of this is evergreen, and you could always go back to it. And we want to make sure that, you know, we provide the depth that the topic matter necessitates, and with that, no one's happier than me that this is the last episode of this arc, but that's fine. What are we going to talk about today? Way to tie a bow on this thing?

Wade Pfau 02:35
Yeah, so it is where the last episode we went into detail about long term care insurance, but we didn't really talk about how the benefits work in terms of how long until the benefits start. How long do they last? Is it paid per day or per month? Is it paid in cash, or do you have to submit receipts? All kinds of issues related to inflation adjustments, is another thing. So we just want to break down all the different features you need to be thinking about if you are going in the direction of long term care insurance. And this discussion applies to both traditional long term care insurance and then the hybrid life insurance. So Long Term Care,

Alex Murguia 03:14
is it fair to say that there's four basic things to cover and beyond which is, and you can, you know, you can listen to us, and it's very natural to have these questions asked, which is, how much time passes before the benefits start? You know how much and benefits are provided per paper, per period? How long are the benefits provided? Any other question I'm missing anyway,

Wade Pfau 03:39
yeah, what is the total benefit pool available.

Alex Murguia 03:42
Ah, yes, it was on the tip of my tongue. Thank you. Thank you for batting cleanup. Thank you for batting cleanup. Wade, all right, and so with that, why don't we talk a little bit about, you know, the benefit periods and all of that, with talking about elimination or waiting period.

Wade Pfau 04:02
And so that's just the issue of how long do you have to wait? Once it's been determined that you have a long term care need, which we've discussed before, generally, you'd need help with at least two of the six broad activities of daily living. So it's been certified you have this need, how long do the benefits do you have to wait before benefits kick in to start making payments or providing those benefits? And that's the elimination or waiting period. And it can vary. It could be a month, it could be two months, could be three months, 90 days, could be a year. This is where you have some flexibility. And naturally, the longer the waiting period, the less expensive the insurance. So long term care insurance can be costly if you're trying to find compromise, having a longer waiting period could be an option if you feel like you could self fund the first 90 days of care and have the long term care kick in at that. Point, that would be a cheaper policy, and it could be significantly cheaper than if you only had a 30 day waiting period. At the extreme, if you could have a one year waiting period, well, that would dramatically lower the cost of insurance, though you would need quite a nest egg prepared to cover the one year of care. But that's the idea here. That's the trade offs. You can think of the waiting period as a kind of deductible, and so the longer the waiting period, the higher the deductible, and so the lower the cost for the insurance,

Alex Murguia 05:33

okay? And so with regards to the elimination period, which, you know, I've been accused of being soft mark in my humor, which I'm holding back,

Wade Pfau 05:46
huh? I'm gonna accuse you of being soft marking. Yes,

Alex Murguia 05:50
none of those words, but yeah, with regards to the determining the date and things like that, you maybe want to describe the difference between calendar days and service days, right? In the grand scheme of things? Yeah, it's another

Wade Pfau 06:06
important distinction. So suppose you choose a policy with a 90 day waiting period. Well, how's the day defined? Is the next issue? So if you choose calendar days, it's pretty much discounting, okay? It's been determined you have a need. 90 days later, your benefits will begin. That would be the calendar day version. The alternative is a service day provision, which is it's been determined you have the need. Now, if you're only getting care three days a week, we're counting that as three service days for the week, so only three of the seven days and that week would count, and so to build up 90 days as a waiting period, that would be 90 days where care is received. So of course, if you're not receiving care on a daily basis, it's going to take longer to qualify with a service day provision than it is with a calendar day provision. Naturally, that should make the service day version of the insurance cheaper than the calendar day version. But that's the distinction. Am I counting up 90 days? That's the the calendar days, or am I actually having to count out? These are the 90 days where I received care. It could take 180 days, 200 days to do that. But is that how? How it's defined in the contract?

Alex Murguia 07:20
And you know, question that somebody could be asking is, so which one do I get? Or which one do you suggest? It's kind of an unmanable Really, but what are, what are some trade offs to be thinking about?

Wade Pfau 07:32
Well, calendar day would certainly be a lot easier on whoever's been tasked with having to keep track of this, because you have to provide receipts and evidence and proof about service days. So all else being the same, I would lean towards the calendar days. And then the trade off would be just having a longer waiting period before the benefits begin, versus, say, having a 60 service day waiting period, 90 day calendar day waiting period, whatever the case may be, I think it's easier to manage the calendar days and the service days, but just know this distinction is there, and be careful about which one you're choosing.

Alex Murguia 08:10
Okay, and then when you're you're talking about days in the like for for accessing something that I started thinking about, that we have on our list to discuss, is the benefit amounts. When there's a monthly amount or daily amount, which will, you know, there's a maximum daily amount or maximum or maximum monthly amount, maybe you want to talk about that a little bit so folks can can realize, Oh, yes, we could get more complicated, yeah,

Wade Pfau 08:35

yeah, there's a couple of different details here. But most policies will either pay they'll have, like, a pool of benefits per day or per month, and we'll talk about this can make a difference. We'll give an example a little bit later on. But then the period of coverage, how long do those benefits last? And then what's the total benefit pool in most policies if you're using less than the allowed coverage per day, and that would be more with a reimbursement policy where you're you may have $300 of coverage for the day, but you only spent $200 you turn in the receipts, you reimburse $200 your your total benefit pool would extend the length of coverage until you had access to all the available benefits. So the total benefit pool becomes important if you have, for example, a daily policy, $150 a day, five years of coverage, and the total benefit pool, you'd calculate out you have 150 times 365 times five do that, in my head, that's $273,750 that would be your total benefit pool. And so you'd be able to spend up to that amount, but tracked out on a daily basis. Suppose instead you had a policy that covered $4,500 a month for three years. Well, your total benefit pool would be 4500 times. 30, 662,000

Alex Murguia 09:55
Oh, good.

Wade Pfau 09:57
Yeah, you're got that one. So 106

Alex Murguia 10:00
I'm an excellent driver, I'm an excellent driver, I'm an excellent driver,

Wade Pfau 10:04
yeah, but then you'd have a total benefit pool of 162,000 and then again, if it's this, would be more relevant for a reimbursement policy, and we'll talk about that specifically later on. That's where, if I had $4,500 a month, but I'm only spending $4,000 a month, I could extend that out if it was 36 months of coverage, well, I'd get to keep going for additional months until I hit that total benefit pool limit that would have been calculated based on using the full coverage per period for the number of periods that the

Alex Murguia 10:36
policy shows. So the Quicken. So the quick and dirty is, if you go over your daily amount, you're going to get cut off. But if off. But if you go under your daily amount, it'll just ex they'll keep track of that piggy bank, if you will, and you'll be able to use the full amount of the coverage eventually,

Wade Pfau 10:52
right? And that's true with the monthly version too. Yes, if you spend more than the limit, you you're you have to cover the excess out of pocket. If you spend under the limit, it will extend the terms of the policy until you've been able to so it's

Alex Murguia 11:06
not a use it or lose it kind of thing, right? In that regard, it's not,

Wade Pfau 11:11
yeah, it's not on a daily basis, use it or lose it.

Alex Murguia 11:15
Okay? No, no, that's good, all right? And then when it comes to these expenses and the like. Do you want to talk about inflation?

Wade Pfau 11:26
So inflation is important. It's important because, well, we know normal consumer price inflation can be relatively higher than we're used to in the past. So, but even if, yeah, but

Alex Murguia 11:38
when you're thinking about like, this isn't, you know, long term care, let's say you do it at my age, 2030, years before you use it. It's hard to conceptualize the numbers, right? Yeah, yeah. So this becomes front and center. And you said in the last, our last pot, the last podcast, you kind of assume a 50% inflate, not a 50% inflate a premium. You just naturally bake in your premiums will go up by 50% just to be on the conservative side,

Wade Pfau 12:03
on the traditional policies, yes, on the traditional Yeah, that would just be for the premium. So we're talking now about the benefits, or that's right, that's right. My bad. My bad. Yeah, the benefits inflation adjusted consumer price inflation, if it averages two or 3% usually long term care inflation, is higher than the overall consumer price inflation. So if you're thinking two or 3% might be okay for overall consumer prices, you might be looking at five or 6% as the potential inflation rate on long term care, and right if you don't need that care for 30 years, five or 6% inflation can have a huge impact that if you're just, if you don't have any inflation adjustments in the policy, $150 a day per day today may not amount a whole lot 30 years from now. And so you may want to look at building an inflation protection into the policy now. That's going to be an expensive benefit, to have those benefits track to some sort of inflation rate. But you might look at, say, a three to 5% inflation rate, and then you also have to keep track of, is it a simple rate or a compounded rate? The simple rate is just based on the initial benefit. It increases 3% of that initial value each year on an ongoing basis, compounded gives you the growth on growth, so a year later, it grows by 3% the year after that, the previous year's benefit grows by 3% so you're getting that growth on growth, so you're going to get more of that exponential curve, rather than a straight line with the growth on the benefit. And over a long enough holding period, the compounded rates can catch up so that it does take more than 30 years, but a 3% compounded inflation rate will eventually give you a bigger benefit than a 5% simple inflation rate. So you've got those options. Of course, the higher the inflation rate, the more expensive the insurance and compounded is going to be a lot more expensive than simple for the given a given inflation rate. But this is a way to protect the value of those benefits if you're not using this insurance until the distant future. And

Alex Murguia 14:15
I'm just thinking, there is no there is no gotcha, there's no pricing in accuracy, that the insurance companies aren't going. I mean, you just have to think, right, the insurance companies aren't going to sort of embed something with a huge inflation rate and charge the same you know you're paying for the benefit. So it's just your mental trade off on on how you want to play this. Yeah,

Wade Pfau 14:36

it's doing those actuarial calculations on when, as an individual, most likely to need the long term care, how far into the future is that? And so how much inflation growth would there be on those benefits, and accounting that into the pricing of what do the premiums need to be to afford those inflation adjustments

Alex Murguia 14:56
got you and so while you were. Speaking about how things were priced. It made me think, when we were discussing the annuities, how, you know, annuities are priced fairly. And these are the components of how you price annuities. You know, you got to take the mortality to this, that, etc. How is that done with long term care? Because you started talking about, you know, if you choose inflation, you're going to have this kind of it's going to be higher price. It price, etc, etc. What are some methods that sort of, you know, you can point to that will indicate you know how they're determined and paid.

Wade Pfau 15:31
You're asking how the actuaries price out their long term care insurance,

Alex Murguia 15:36
no no more like, how benefit amounts are determined and paid, like, in a general manner. Oh,

Wade Pfau 15:43
just like, how do the inflation adjustments work? Yeah, yeah, yeah. And that's relevant to our last point too. So every year, if the if you have a daily or monthly amount, that would increase by the inflation rate embedded into the policy, and then your remaining benefit pool would be increased so that this was at issue of if you weren't using the full allowed amount, you're going to extend the length of those benefits. So remaining benefit pool, and then the daily or monthly amounts, are going to be adjusted each year to reflect the inflation rate embedded in the policy. And I don't think there's really any policies that would link to an actual like inflation rate, in the manner like a tips yield works is really is going to be a fixed cost of living adjustment or fixed benefit adjustment, again, commonly either 3% or 5% simple or compounded, although 5% compounded would be An incredibly expensive provision to include in the insurance Gotcha? Yeah. And so another kind of angle of and we're touching upon this a little bit, but how are the benefits paid? So, and Rob cordo was talking about this. He was talking about the reimbursement method. There's three general options. There's the reimbursement method, the indemnity method and the cash method, the reimbursement method, everything else, being the same, would be the cheapest, because it requires submitting receipts and being reimbursed for the benefits used. Now, at some level, that's what you want, because you don't really want to pay for insurance that would pay you more than you actually spend to give you some sort of windfall. I mean,

Alex Murguia 17:29
sorry, you've paid up front for that. Yeah, you're paid.

Wade Pfau 17:34
You've already paid up front. So at some level, the reimbursement method may be the cleanest. However, requires a lot more effort because, and usually when we talked about this in a past episode, when we say you, you as the one receiving Long Term Care, may not be the one collecting your receipts and submitting them to the insurance company, but somebody needs to

be collecting those receipts and submitting to them, them to the insurance company and getting reimbursed up to the daily or monthly limits for the expenses. Now, the indemnity method would pay you that that fixed amount, whether it's on a daily basis or a monthly basis. If you receive care, probably these are going to be more common with daily methods, because it's okay if you just demonstrate I received paid care on a particular date, and I have $150 per day, say as the benefit, why submit that I received that care, I'll get the $150 it doesn't matter if I only spent $10 on the care, but I'd get that daily payment any day I received care. And then the cash method is more generous, the most generous in the sense of paying the most benefits, though, again, it's going to be more expensive. It's not a free lunch, by any means, but the cat cash method is just going to pay you that daily or monthly amount once it's been determined that you qualify for benefits. Now the value of that, potentially, is if you do have an unpaid caregiver, family or friends, you would not have any receipts to submit, and so an unpaid caregiver is not going to get reimbursed under the reimbursement method, but if you had the cash method, you'd be able to pay your your family member or friend who's otherwise not employed or not working in this regard, they're just helping you out. You could actually pay them something for their efforts, or for the time they're away from work and so forth, if you have a policy that pays with the cash method, so its benefit is being able to pay volunteers or unpaid caregivers, I guess then they are being paid. But it's more informal there. There's no, I don't know if you have to submit a 1099, or not, something along those lines. Versus the reimbursement method, more effort will lead to cheaper. Insurance actually reimburses for paid expenses. Curious,

Bob French 19:56
if you should be looking at a Roth conversion or what? A Roth conversion even is head over to McLean. Am comm slash Roth to get McLean's free ebook is a Roth conversion, right for you, and learn about when you might want to do a Roth conversion and when you might not just head over to McLean. Am calm slash Roth to download your free ebook today.

Alex Murguia 20:21
Yeah, and to me, that's more of a one on one. It's kind of like the pay as you go, seems just cleaner, to be honest, a lot of less uncontrollables. But is there a dynamic between the benefit period, when it's daily or monthly, that if the daily amounts are different, that may benefit one better than the other.

Wade Pfau 20:43
Yeah, and let's, let's create a little example here, because it will show how really a monthly benefit can be more flexible than a daily benefit. So suppose we're just comparing two policies. One, it's going to pay $150 a day on days that you receive care. So it is more of this like indemnity method, $150 a day for days you receive care, versus $4,500 a month if you received care in that month. I'm sorry, it's not that it's indemnity. I need to start this example over. It's a reimbursement method. So you have to submit receipts, either $150 a day or $4,500 a month. So if it's a 30 day month, and you received care every day, they'd be the same. But suppose the scenario is this is reimbursement. You have to submit receipts 20 days in the month. You spend $200 for care per day, so you're spending a total of $4,000 in that month. If you had the daily method, you can only submit up to $150 of expenses per day. So for those 20 days that you received care, you can get reimbursed $150 you'll not get reimbursed for the full $200 of expenses from that day. So you for that month, you would receive $150 per day, times 20 days, $3,000 would be reimbursed. Whereas, with the monthly policy, you can be reimbursed for up to $4,500 for the month. So you submit your receipts $200 a day for 20 days in that month, that

would be $4,000 so the monthly policy would reimburse you $4,000 the daily policy would reimburse you $3,000 and that was just flexibility with the monthly

Alex Murguia 22:36
makes sense for me. If you have, again, making this up. But if you had, like, every three weeks, you had, like, a big ticket item as part of your health care, that is, I don't know, whatever exceeds the daily limit, then the monthly would be the way to go. That way, you're always kind of, you know, sneaking in under that, yeah, the other piece. And I don't know if you know the answer to this, wait, but the administration, the administrative part of this sounds quite onerous, especially in consideration that this is long term care, and the person activating it is probably not in the best mind and body kind of capacity to Be able to all of a sudden become a personal controller for themselves, right? You know, and so obviously, you can have a loved one that can do it. I'll be calling you to handle my, my, my receipts. Yes, yes. But What? What? What? What's what devices do folks like that have available to help them with this? Well,

Wade Pfau 23:45
the family or friends kind of your who's got the power of attorney

Alex Murguia 23:50
caretaker, because you had said, you know, there's a, there's a there's someone that helps organize.

Wade Pfau 23:54
You know that? Yeah, there's the care coordinator, but I don't think they would think so either.

Alex Murguia 23:59
Yeah, there are, like, man, there's a lot. If I didn't do daily receipts, I mean, I might as well just,

Wade Pfau 24:08
well, there are professional money managers so that this would be where the person with power of attorney who's like, the adult child who's helping out with this, if it's too much for them to handle on their own. They could outsource, outsource to a money manager, personal money manager person. I

Alex Murguia 24:28
guess you're right, but it that little different. When the money manager starts having check writing privileges, it's, it's very specific, you know, with regards to now being a custodian, perhaps from an SEC standpoint. So that could be tricky, but it's just a passing thought, just listening to you thinking, wow, you know, it just really hit me, not that I didn't know before, but all of a sudden. You know, that is a lot of admin.

Wade Pfau 24:55
Yeah, it's a lot of work to submit all those and get reimbursed. Yeah. And it's, in many cases, not going to be the patient care recipient who is exactly this.

Alex Murguia 25:07
So before you need to be a nice person. So qualifying expenses, what are some of these expenses? Yeah,

Wade Pfau 25:16
so this is, and we actually talked about this point some with the last episode is just what's covered under the policy? Does it cover in home care, assisted living, nursing home care, respite care? Will it pay for the adult daycare center, like we talked about with Jackie smurka on a great episode from series, just what will the insurance cover? And make sure you fully understand those terms. And there's always the issue that new things can be invented. New care options can be invented. What will it cover? In that regard? Will it cover for dementia, that sort of thing, in addition to the activities of daily living, those are just some of the considerations to keep in mind about what's the qualifying expense that can be reimbursed or that otherwise they'll qualify as a service day or to get the indemnity payment.

Alex Murguia 26:10
Well, what I would say too is, you know, there's a standard two out of the six standard activities, etc, but there is no uni I mean, there is, there are standards, but how did Are there differences between policies about when they qualify or not, and what should you do about it this?

Wade Pfau 26:33
You got to be careful with the contracts, because there is the general six activities of daily living, but they can be defined differently in different policies, and so you need to check that. And one example would be bathing, which is often an activity of daily living, that is one of the first that someone needs help with. But how is it defined in the particular contract? Does it you if you can't get into climb over the bathtub? Does that qualify? Or if you're able to give yourself a sponge bath, would that mean you don't yet qualify? You just want to make sure you understand exactly how those activities of daily living are defined, because this is something that, unfortunately, is not standardized across policies. And don't worry, we gotta read the fact. Wade,

Alex Murguia 27:18
I'm gonna pay it forward with you. I'm gonna put you on the driveway of my house. I'm gonna put a sprinkler that's just, that's just covering a very tight zone. I'm gonna turn on the water, and you're all set. But

Wade Pfau 27:28
you know, you've got that tub for your cold plunges that you Oh, yeah,

Alex Murguia 27:33
but yeah, but this is yeah, right, but that's a good point. Like, what is considered bathing. You know that that simple trigger could have significant ramifications. So, yeah, you know, read the fine fine print there.

Wade Pfau 27:50
Yeah. And also is cognitive impairment covered, even if the cognitive impairment does not prevent someone from doing their six activities of daily living.

Alex Murguia 28:01
Okay? And again, standard definitions do not exist, so just make sure that you're able to operationalize each of those definitions with each policy. All right. Now for couples, we're kind

of, we didn't explicitly talk about couples, and if they can pool their benefits, let's say the couples have a predefined pooled benefit. What's the what's the underlying themes or things to look out for there when it comes to this?

Wade Pfau 28:30
Yeah, so with the traditional policies, I think pooled benefits are less common as each person has their own individual long term care policy. Maybe there's a discount on the premiums if both people get it. But in the hybrid world, there could be the option where you have a pooled benefit. So instead of having each person with a separate three year policy, you could have one joint six year policy that they can both tap into, and that can be cheaper than having, say, two separate, three year policies. The only potential risk there is if one of the spouses ends up using all six years, there wouldn't be anything left for the other spouse. Now

Alex Murguia 29:12
you use the word hybrid. You mean hybrid in the way that we were using it in the previous episodes, hybrid policy, hybrid

Wade Pfau 29:19
with life insurance and or annuities, but more commonly, life insurance,

Alex Murguia 29:26
okay? And so then, if you're a spouse and you get six years, it's if that person uses the five years, you may have one left kind of thing to go back to. You know, there may be one year left for the other spouse to use. Or if that person, you know, I don't know, two years later gets sick again, he can use up that extra year he or she.

Wade Pfau 29:50
Yeah, it's just there's a total benefit pool that they can use on a first come, first serve basis, till it's gone effectively. Yeah. All right, and that can be cheaper again than having individual policies. And

Alex Murguia 30:04
I remembered you mentioned with hybrids, the underwriting, the underwriting could be a little I don't know if easier is the right word, but less demanding.

Wade Pfau 30:15
Do you want to maybe just be a questionnaire and basic blood tests, that sort of thing. Traditional Long Term Care Insurance can have a much more extensive underwriting process. Now this is where it's important to shop around some because depending on the different companies, may give you a different health classification, which could impact the premium costs. You may not qualify with a particular company, whereas you would with a different company. And Rob cordo pointed out in our episode where we talked with him, this is where a professional, long term care professional may be able to help coordinate that process, because it's not necessarily good to get a rejection that may make it harder to get accepted by another company. So if you can be pointed to steer away from, say, a company where you're more likely to be rejected. That can be helpful, but each company does its own underwriting, and they may have different systems, or they may have different like health conditions that they treat in a different manner, so you really have to strategize a little bit about that process as well. Okay?

Alex Murguia 31:22
And one of the questions that, because it is right, not everything's the same. It's uniform. So one of the questions that, or one of the potential options that I was thinking of for considerations is, effectively, I have a couple of points here, and it's we see this with our clients who some of them, you know, they they go abroad for retirement. And so if this happens, are the benefits If one chooses to live abroad? Is that a common wrinkle in these policies? Or do you have to be domiciled in the US?

Wade Pfau 31:58
I don't know how common the international benefits would be, but if that's something relevant to your case, that you definitely want to make sure the insurance you're looking at does have, if you want to receive Long Term Care abroad, that the policy allows for that. Now that's one of those situations where in many countries, care may be less expensive than in the United States, so maybe it is easier to self pay abroad, but nonetheless, good point. You really have to read the fine print about whether the policy you're looking at might pay benefits when living abroad. And

Alex Murguia 32:32
then we've discussed the issue of liquidity and death benefit, especially with hybrids and the like. Can you just, since we're doing this sort of features thing. Can you maybe unpack a little bit? Does you know the issue of this is policy? Does it have liquidity? What that means when I'm saying liquidity, and is there a death benefit option for unused coverage?

Wade Pfau 32:51
Yeah, so that would be relevant to the hybrids. Traditional long term care insurance generally would not have any sort of it's just, if you decide you decide you don't want the insurance anymore, you stop paying. It's kind of like term life insurance. Stop paying premiums, no longer eligible for the benefits, but with a hybrid long term care insurance policy, the cash value can earn dividends. You can tap into the cash value if you add the rather expensive Return of Premium provision, you could decide you just don't want the policy anymore and get refunded, or maybe it's a 90% return of premium. You could add features like that. They're expensive, but yeah, that would be more in the hybrid world, the ability to end the policy but still get the surrender value on the cash value, or potentially tap into the cash value, or see that cash value grow over time with dividends.

Alex Murguia 33:44
So effectively, like these things, you have to consider them as a game of chicken. Is the wrong word, but it's a game of trade offs. If you want, if your hesitation for buying it is because of some logistical reason, then to absolve yourself from that reason, you're going to have to pay for that because the insurance company is not going to carry the risk of that wrinkle, if you will, in that that's just how, that's just how that game is played. So just understand that you could be listening to wade thinking, oh yeah, I want a death benefit. Oh yeah, I want liquidity. That's fine, but it'll cost you, right? It's all.

Wade Pfau 34:20
None of these features are free. They all have a value that the actuaries are figuring out what that value is and charging accordingly. Yeah, and they might make mistakes, and that's

happened in the past with some of those past policies would have been great to get a hold of, although then premiums increase. But in general, you shouldn't expect to find mispricing from the actuaries with these policies.

Alex Murguia 34:44
No, no, I get you. And you know, for me, as I'm listening to all of these things that we've had, as we've concluded this art, it sort of made me think it's not, you know, long term care. It's not something that's top of my mind, frankly, in terms of everything going on in my personal life, but in just you. You know, taking a step to really think about this and how it works. I, you know, my takeaway is for my own self is, you know, a hybrid sort of policy that includes this piece at the end, seems very interesting to me. And, you know, things that I would be looking for myself personally as that care coordinator at the start, and and really making my life easier in terms of the receipt management I know myself, and that's something that I'm not going to be very good at, and that's not something I would want to burden my wife with if it gets to that point. So I would try to I would probably choose a benefit cycle that I would worry less about the monthly or daily, and which 1am I going to do? I'd be coming at it Wade myself, personally. Of what makes it easier from a reimbursement standpoint, because those are the daily frustrations that you start wondering. You know, what have I done here in terms of your life choices, right? So, yeah,

Wade Pfau 35:57
if you let's pick the reimbursement method, and then you don't actually submit your receipts, and I can be a lot of benefit out of that insurance.

Alex Murguia 36:07
Yeah, exactly. So know yourself, kind of you know when it comes to this, beyond just the you know your ideal self, know the real self, and what is going to be the easiest way to manage this? Because if you're going through this in life, you're probably going to want to reduce every possible stressor that you have. And so that's that key. And Wade. Are there any quick and dirty things here? Okay, we talked about things that higher, you know, raise your premiums, such as, if you want this benefit and this benefit, etc. What are ways to lower your premium?

Wade Pfau 36:37
Well, yeah. And so that's you kind of run a case, you get a quote on a policy, you have sticker shock at, oh, that premium is a lot more than I was hoping. So just to summarize our discussion, just some of the ways you can, of course, you're reducing the benefits, but a way to different ways to lower the premium. So choose a lower level of inflation protection for the benefits, reduce the amount of the periodic benefit. That's just reduce the daily amount or monthly amount. Reduce the total benefit base available. Maybe a shorter benefits are available for a shorter period, two years instead of three years, that sort of thing. Add a longer elimination period, instead of 60 days, make it 90 days or 120 days for a couple. Looking at a shared policy like a pooled policy, could help reduce the costs relative to having two separate individual policies. If you have the option starting the policy, I guess this one doesn't work, but start the policy when you're younger. It's kind of too late to do that, but if you did start at a younger age, that can be a way to lower premiums, and then also including a writer in the policy, where you may not have a lot of coverage initially, but you you pre approved that you can make future insurance purchases, you can get a writer that allows you to purchase additional insurance in the future without having to go through underwriting again. Now that writer has a cost, but it would allow you to spend less on premiums today with the option to increase that coverage in

the future. So those are some, some different ways to help lower the premium. Again, not not a free lunch. No,

Alex Murguia 38:20
it's not free lunch. But you know, if I'm looking at it for my again, I'll use my own self as an example. I would probably want to play, play around with the elimination period, simply because, to me, long term care is to avoid a catastrophic outcome, right? And if high deductible again, this could also change, who knows? Right? There could be exit, you know, exceptions to this example, but I'm willing to to bite it off at the beginning, simply because I'm assuming the initial bite from the Apple me paying out of pocket, let's say for three months. Six months isn't going to crush me. It'll be having to pay something for six years that will crush me. And so I, you know, I would err on myself personally, on the, you know, if I'm looking at all of these, the elimination period from my vantage point, what do you think way?

Wade Pfau 39:11
Yeah, yeah. And that is a way to kind of get yourself back into the scenario where insurance works better with low probability events. So the higher the deductible, or the longer the waiting period you are pushing it off towards. This is if I have 10 years of expenses that's incredibly expensive, the probability of that is low, and so the more I can focus on just getting that tail benefit. Yeah, by increasing That's

Alex Murguia 39:37
exactly it. I'd be looking at it to see, how can I cut off the right side of the

Wade Pfau 39:41
tail, right and increasing your deductible or increasing your waiting period is a great way the other,

Alex Murguia 39:47
the other thing that I'm doing is athletic greens. I'd be, I'd be consuming athletic greens. No, that's that thing that they pitch in the Huberman podcast. That's one of these health supplements. Oh yeah, no, no, I'm kidding, but yeah. The joke is, you know, stay healthy as much as long as possible. The reality is, as you get older, health is that much more important. So, you know, keep track of that. That's the good old fashioned way of trying to reduce your costs for long term care planning. But as we conclude this, what are some basic takeaways? What's the action plan? You know someone's listening to it. What are the Cliff Notes? Yeah,

Wade Pfau 40:29
like so let's just yeah. Good way to summarize. What are the steps towards building a long term care plan? First, you kind of want to do a tour of the community. What options are available? How much would it cost to for the different if you find an assisted living facility that you think is really nice, nursing homes, are you considering a CCRC be a good time to just collect information on CCRC options. Decide where you might want, might like to receive care, figure out how much that may cost, and then that can give you a target. Okay, how would I cover that cost? Think a little bit too about how other aspects of your budget might be offset if you do need to move into a long term care facility or receive care at home. What are the in home care options in the community that sort of thing? Just really take assessment of the available options, how much they cost. It's just a way to start thinking about, what might this long term care picture

look like. Then next you can think about, well, what is my default if I don't do anything, I have a default long term care plan? What is that going to be do I already have long term care insurance? The case with me. Where do I have a life insurance policy that might allow for that accelerated death benefit rider to pay for long term care insurance? Or do I have other policies? What family members might be able and willing to help out with a long term care need? What kind of reserves might I already have, it earmarked or set aside to cover long term care. For some people, it's just, they'll, they'll treat the home as a reserve asset that could potentially cover their long term care needs. Well, this is, this is a

Alex Murguia 42:13
good point in terms of bleeding into the next point, which is self funding estimates. Okay, once you've done the Okay, you looked at the options, the cost in your communities, you understand what the default plan of care will be. You've, you've taken contingencies into account with family members who may be willing to help out, etc. At least, you've, you've thought about it. You should talk to them, you know, etc. But if you're doing a plan, what are realistic numbers as well. So you're in the ballpark of, you know, we talked about earlier, what are the cost of funding estimates, if you will.

Wade Pfau 42:50
Yeah, yeah, just in trying to assess, how much would it cost? Can I afford that self funded? If Medicaid is an option here, like, just how much countable assets do I have before I would be eligible for Medicaid if I'm including other family members in the planning? Are they willing and able to be long term care providers, that sort of thing? How much if, and then just even if I'm if I'm self funding or not self funding. Still, how much reserves will I need for out of pocket expenses that's not covered by long term care benefits or that's not covered by Well, Medicaid, if I'm don't think on the Medicaid, how much am I setting aside reserves? Is that really limited? Well,

Alex Murguia 43:37
even if you're not going to fund 100% you want to know how much you could potentially fund simply because the elimination period decision,

Wade Pfau 43:45
Oh, yeah. Well, that's and that's part of right? If you have a lengthy elimination period, make sure you have reserves set aside that can cover that lengthy elimination period. So your long term care contingency, it's your the way we talked about like, what is the cost of long term care? If you have insurance, it's the cost of premiums. Well, it's the cost of paying for long term care, minus the benefits from any insurance policies, plus the premiums. And so if you're self funding, you take the insurance piece out it's all out of pocket. If you have insurance, there's still going to be an out of pocket component, but the overall cost will be less out of pocket since you've got the benefits covering, gotcha whatever portion of that,

Alex Murguia 44:34
and if so, transitioning from self funding to insurance funding, if you're doing the insurance, remember what we've spoken about before, which is, there's no real benefit to waiting in terms of, oh, I don't want to pay the premiums, as Wade pointed out, the the inflation, you know, adjustments and the increases and the like, don't really make it a slam dunk for you to wait. You. If anything, there could be an argument to be made for getting it as soon as practical, not

as soon as possible. But, you know, as soon as financial planning centric practical. It is another point that may not be a dollars and cents thing, but maybe just a ticket to the dance is you want to make sure your health allows you to qualify for coverage. You know, let's say you're healthy now, right? If these things, you know, if you don't get in, it's too late, then you know, if for whatever reason, you don't qualify, then it's all a moot topic, and so you want to make sure that you do it when you're young enough that you can qualify. Obviously, you know, who knows the unknowns? But, you know, people get a sense of things over time with their own selves. Wade,

Wade Pfau 45:46
yeah, yeah. So if you are thinking about insurance, right, will your health allow you to qualify how much of that long term care we're spending risk do you want to offset with insurance? Can you afford that? Or how much can you afford to offset through insurance. Then how would you pay for the insurance? Is it going to be through given investment assets? Or maybe you have other insurance policies that you can exchange, and that could be a way to get a hybrid policy. You may have life insurance that doesn't have long term care benefits. Well, you could do an exchange to get, I think 1035 exchange, I think, is the term to get that into a new policy that has life insurance with long term care benefits as well. And once that's in place, how would that impact the amount of reserves you feel you need to have set aside to self fund or to pay the portion out of pocket that's not covered by the long term care. And, and can you comfortably do that?

Alex Murguia 46:44
Okay? And so, just because we we've spoken about it a couple times, and this is the last episode in the art, can you give a quick, you know, this traditional long term care may appeal to this type of person, you know, hybrid policies may appeal to this type of person.

Wade Pfau 47:03
Yeah, so with traditional policies, you might want to look at those and a couple points. We didn't really get into detail in the episodes, because, like, taxes can get a

Alex Murguia 47:14
lot more complicated. Too late now, too late. Now you're

Wade Pfau 47:18
generally not going to get the tax deduction for premiums with hybrid policies, but that might again, consult your CPA, but you might be able to get tax deductions on premiums with some of the traditional policies, if that's a consideration. There are state partnership plans that could help protect assets for Medicaid planning with traditional insurance that you wouldn't find in the hybrid world, and just if different inflation riders might be, they might have more flexibility with the traditional long term care insurance now with the hybrid insurance, that's where what we talked about was the reason people are moving in that direction. Stability for premiums, they can't be increased on you having that backup so that you don't pay all these premiums and don't get anything if you don't have a long term care need, there will be a death benefit if you do have health issues that make it harder to qualify for traditional insurance. But they're not so bad that you are still able to qualify for a hybrid policy. And also you may have like I was just saying to an existing life insurance policy that might be easier to exchange into a hybrid policy. Could all be reasons to consider a hybrid approach.

Alex Murguia 48:30
Okay? And so then to wrap it off, that's once that's selecting the plan. Any takeaways from implementation and monitoring? What are some quick wins to give to our listeners

Wade Pfau 48:44
well, and we didn't talk much about this, but it's important, once you have your long term care plan, share it with the relevant people. If your long term care plan involves your adult children, finding your policy, applying for your benefits, keeping track of your receipts, submitting them for reimbursement. Make sure they know about this, because they have to be willing and able to do it. But even beyond that, they have to know the policy is there that they won't be able to use it if they don't know it's there. So make sure you've shared with the relevant individuals in your life, what your long term care plan is. Also, if you have long term care insurance that has that care coordinator, make sure your adult children, or whoever we're talking about here, knows about that, because that could be a very stressful time, and if they didn't even know, they could have talked to a care coordinator. Well, the care coordinator might be able to help out a lot, but those relevant family members need to know about this, because, again, when someone needs long term care, they are may they may or may not, be at a stage where they're able to share this information effectively. At that point you want to share it when you still are full of sound mind and enable them make. Sure you have these conversations with family members. Then once you have the long term care plan, of course, reviewing it over time, annual updates, making sure everything looks right, seeing if you need to make any sort of tweaks, maybe some new community opened that you want to check out, that sort of thing. And now it's already made this point. But of course, just being active, taking care of your health, working towards as best as you can, avoiding having to need long term care, is important as well.

Alex Murguia 50:33
There it is, wait, which is zip code, because I'm gonna maybe move over there, and we're gonna play pickleball every day, things like that. Where you at? Man,

Wade Pfau 50:42
yeah, the cost of care was less.

Alex Murguia 50:46
Yeah, I got you. No, listen, it's been a it's been a good arc. We kid about, you know, it's been a long one, but again, it has to be, and it's an important thought. You'd be, well, I would say you'd be surprised, but maybe not, because you guys write the questions in for us. But we've get, we've gotten a significant number of requests for this arc. I would say, when did you think wait over the last year about, hey, we're gonna talk about long term player. When are you gonna talk about long term that kind of thing? And so there it is. We told you we'd get to it, and we got to it. Anything any parting thoughts with regards to this arc right now, Wade, or are we good?

Wade Pfau 51:27
I think we're good. We've got the basis now to make sure you have long term care planning as part of your retirement plan. It's very important. So please. It's not pleasant to think about, but it's very important. So please make sure you make these decisions and share them with your family members, well in advance of the need,

Alex Murguia 51:46

and that's one to grow on everybody. Thanks for listening to this. This this week's episode of retire with style, Alex, signing off. Yeah,

Wade Pfau 51:56
we'll catch you next week on retire with style with a different topic, but

Bob French 52:01
Wade 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. You