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LTC Insurance Offers Options and Peace of Mind

By Christopher W. Beale, CFP®

"I hope I die before I get old". Roger Daltry, lead singer from the band, "The Who" sang those lyrics in the song, My Generation. My question to my (Baby Boomer) generation is…What if you don't? What if we get old and we're still alive?

I ask this question because we've had several clients who needed help from a home healthcare agency, a nursing facility or hospice. Fortunately all had long-term care policies to help pay for the cost of care. Unfortunately I have seen many people who needed care but didn't have long-term insurance. Without this insurance long-term care costs have eaten into nest eggs, retirement plans, and home equity of many retirees and even pre-retirees--one in four middle aged adults between ages 45 and 65 were limited in activities due to chronic health conditions.

The long-term-care discussion is easy to avoid. After all it's depressing to discuss aging and becoming infirmed. Continue this discussion by talking about insurance and premium payments and I'll admit to a long list of items I'd rather deal with before long-term care insurance including, income tax preparation, sweeping the garage, colonoscopies, etc. Regardless, I need to have an adult conversation with all of you, especially with my (baby boomer) generation.

Let's start by defining long-term care. It is the help you may need over an extended period of time to manage, not cure, a chronic condition. Long-term-care assistance could also help perform some daily activities such as: bathing, toileting, dressing, eating, and other mobility issues. Chronic mental impairment typically from dementia and Alzheimer's can require long-term care services for many years. These long-term care services can be provided in a variety of settings including your home, adult day care centers, nursing facilities, and residential and assisted living facilities.

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Managing Your Money

By Christopher M. Lee, CFP®

As some of you may have noticed (either in your mailbox or email box), we made several changes to your account(s) over the past several weeks. We did get some phone calls asking about the changes, which gave me an idea about what to write about in this newsletter; how we manage your hard earned money here at New England Capital.

First of all, please know that we do not take lightly the trust and confidence that you have placed with us to help you reach your life goals. We take what we do very seriously – our greatest joy is seeing you accomplish those life goals.

So how do we put together our "models" that we manage? What's our reasoning? Why do we make changes in your accounts? In taxable accounts, do we consider taxes before we sell? I will try to answer those questions for you below.

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LTC Insurance Offers Options and Peace of Mind

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The cost of long-term care, however, is typically not covered by most health insurance policies, Medicare or Medigap policies. These programs cover most acute care costs not chronic care costs. Medicaid will pay for nursing facilities and some homecare but only if you qualify. You qualify for Medicaid by being poor, and by being poor I mean you can have no more than $1,600 in total assets.

Long-term-care cost more than $200 billion per year in the US and most of that is paid by Medicaid. According to the insurance company Genworth, the national median cost of nursing home care is $230 per day in 2013. According to the Connecticut Office of Policy and Management the Connecticut statewide average cost is $381 per day. This is for a semiprivate room. A private room, a telephone, cable TV or other incidentals could increase this cost. The average nursing home stay in Connecticut is 2 ½ years. This 2 ½ year average totaling $347,662 ($381 per day times 365 days times 2 ½ years) doesn't include the fact that many people start with some form of care provided in their home by either paid caregivers or unpaid family members.

"Things may come to those who wait, but only the things left by those who hustle."

-Abraham Lincoln: 16th President of the United States

I know this is where most of you will skip down to read Chris Lee's article about how we manage your money and construct and rebalance your portfolios, which I'll admit it is certainly a much more pleasant topic. Others will completely ignore the discussion claiming they'll never need long-term care. And this is true ... for only 30% of the population over age 65. Some ask to be thrown off a tall bridge if faced with future long term care issues. But my (boomer) friends, I told you now is the time for an adult conversation!

So why don't we all have long-term care insurance policies to protect our retirement income from potential disability during retirement? I think there are several reasons. It's expensive. A couple in their 50s may pay about $3-$4,000 annually for an average policy. That cost could be $5-$6,000 for a couple in their 60s. The sweet spot for starting a long-term care insurance policy is between the mid-50s to the mid-60s. For the sake of full disclosure at age 53 (Abby is younger than me) we have not bought long-term care insurance yet. My two excuses, which are not part of the adult conversation, are within 2 years my youngest son Mike will choose a college and then I will know what my college expenses are making it easier to budget the long term care premiums. Also those two years will also give me time to lose the 25 pounds that I said I was going to lose for the last 10 years. I make this guarantee publicly today that we will purchase long-term care insurance within two years (whether I lose the 25 pounds or not)!

"Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hard-ship, support any friend, oppose any foe to assure the survival of Liberty"

-John F. Kennedy's Presidential Inaugural Address 1961

Another reason people are reluctant to purchase long-term care insurance is because they feel that money spent on premiums will be wasted if they don't need the care. I agree, but this is where peace of mind comes in. I still buy homeowners insurance annually and don't feel bad at all if my house doesn't burn down during the policy period.

Some people feel they can self-insure against this risk. I agree that if your net worth including your house is very low, don't bother buying long-term care insurance. If you need care you will qualify for Medicaid very quickly, which means you have less than $1600 in assets. On the other hand, I have clients who have a net worth of more than $50 million. They can self-insure. But for the vast majority of clients who have done a good job saving for their golden years, paid off their debt including mortgages, and don't feel comfortable covering the cost of unknowable risks, transferring this risk through insurance is a viable option.

There are many valid reasons for making long term care insurance part of the foundation of your financial plan: longevity, rising healthcare costs, the fact that 70% of those over 65 will need some form of long-term care for an average of 2.5 years (that's actually 3.7 years for women), increases in the incidence of dementia and Alzheimer's. The fact is that neither normal retirement planning nor public-policy has kept pace with these demographic and healthcare shifts.

I know from firsthand experience that long-term care insurance should be part of the foundation upon which sound financial planning and strategic investment management are built. Even with good plans and creative strategies a house built on a faulty foundation is at risk.

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We have six “model portfolios” that range from Aggressive to Conservative (based on your life goals, age, income, your individual risk tolerance, and other factors). We help choose those models with you based on 1) the life goal you are saving for and 2) the answers in the risk questionnaire that you filled out. Based on that data (with some discretion) is what models we have chosen with you and the overall asset allocation (the mix between stocks, bonds, alternatives, and cash). *Please note (as per the Engagement Agreement and application(s) that you signed when you opened your account(s)) that we have discretion on your accounts, meaning that we can make changes to your investments (buys and sells) as we deem necessary.*

The best analogy to use for how we assemble the models is from our countries national pastime, baseball. I apologize for the sports analogy, but it seems to fit the best. We see ourselves as the manager of the team. Our job is to assemble an all-star lineup for you. We also decide who gets to bat where in the lineup (some positions in the lineup are more important than others). Sometimes we will release and swap a batter if they are not being productive enough (compared to their peers at that position). That was one of the changes you saw recently. We were not satisfied with *the RS Natural Resources Mutual Fund* compared to other Natural Resource funds and we replaced it with the *iShares Natural Resources Fund* which is an ETF or Exchange Traded Fund. Performance is not the only reason we make changes to our funds. One of our jobs as managers of the team is to have conference calls and have in-person meetings with the portfolio managers (the batters on the team). If we do not like the way the manager (or batter) is going, we may make a change. That is why a long term staple of your portfolio (*Pimco Total Return*) was removed from all of the portfolios. This fund accounted for a part of the fixed income part of the portfolio. In our opinion, the fund had too large a position in government bonds (treasuries) based on the current economic outlook (i.e., interest rates, economic and political).

Since we are the managers of your team, we are also looking ahead to future innings. Not only are we managing your money for today, but we are looking ahead at economic trends in the market. Please note that we are not “market timers” meaning that we will not put your accounts in cash if we think the market is going to crash and then get you back in when the market bottoms out. I feel confident in our abilities to manage money, but we are not psychics. When you try to time the market you need to be right twice, when to get out and when to get back in again. Inevitably, there will be another Dot.com bust or credit default swap that will temporarily bring the market down; we just don’t know what it is yet. So how do we protect against that? Sometimes a good defense can make a good offense. Our investment committee (that meets quarterly with other advisors associated with New England Capital) not only looks for growth in “up” markets, but is constantly looking for more ways to protect your money in down markets. We believe that downside protection is extremely important. Why is that? To put it simply, when your portfolio is down 10%, you now need to make 11.1% to get back to breakeven. When your portfolio is down 20%, you now need to make 25% to get back to breakeven, and when you are down 30%, you need to make 43% to get back to even. So, if we want to participate in the gains of an “up” market, our models will in most cases, trail the S&P 500 (500 largest US companies). That is because (while we are still invested), we are looking to protect on the downside. It is a “when” not an “if” for the next 10% market drop or 20% drop for that matter. We know that it is coming, we just don’t when.

I talked about the batters that we have hired (mutual funds and ETF’s), now I will talk about where in the lineup they go. If we feel that we have a batter that is about to heat up, we may put him/her into the fourth spot of the lineup (which is usually the power hitter or “cleanup hitter”). We may choose to overweight an asset class. For example, last year two of our largest asset class positions in several of the portfolios were Large Cap Growth and Large Cap Value companies, which did well.

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“Twenty years from now you will be more disappointed by the things that you didn’t do than by the ones you did do. So throw off the bowlines, sail away from safe harbor, catch the trade winds in your sails. Explore, Dream, Discover.”

--*Mark Twain: American author and humorist*

“If your ship doesn’t come in, swim out to meet it.”

-*Jonathan Winters Actor and Comedian*

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That works the other way as well, if we feel less confident about an asset class (but still feel it is important to own), we can weight it less in the portfolio, which is what we recently did with the Natural Resource sector. We also try to find asset classes that have a negative correlation with the market. In English, that means that we want pieces of the portfolio to "zig" when other things "zag", so just because we reduce the position doesn't mean it is not important.

Another thing that we take into account (for our non-retirement taxable accounts) is taxes. We try to be as tax efficient as possible BUT we do not let the tail (taxes) wag the dog (portfolio). For example, if we have a position that earned 40% in one year, do we not sell anything to avoid taxes? The answer is no, due to the rebalancing that we do to the portfolios once or twice a year, as needed. If we do nothing, and the fund that earned 40% goes down 20% the next year, the tax problem may take care of itself, but so will your gains.

There are many, many pieces that go into managing your money and your portfolio and I only touched on a fraction of what we do. I wrote this article as I want you to have some insight on some of the things that we do, as the more you understand, the more comfortable you will hopefully feel. We are constantly looking ahead to the next inning – so leave the worrying to us – that is what you are paying us for. In the meantime, spring will be here before you know it and it'll be time to let me root, root, root for the home team, if they don't win it's a shame!

NECFA NEWS…….

****Upcoming Seminar****

On April 22nd 2014 @ 6pm we will be hosting a Long Term Care Insurance seminar with a guest speaker from the CT Partnership for Long Term Care program which was the first partnership program in the country! So call or email Michelle (michelleacanfora@newenglandcapital.com) to reserve your spot at this educational session!! Seating will be limited.

On December 30th, 2013 my family and I were invited to participate in the Closing Bell Ceremony at the NASDAQ stock exchange in New York City. Admittedly, it was quite a thrill to see a 50 foot projection of myself on the NASDAQ Building in the middle of Time Square. I would like to thank the American Medical College for Homeopathy for the invitation.

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