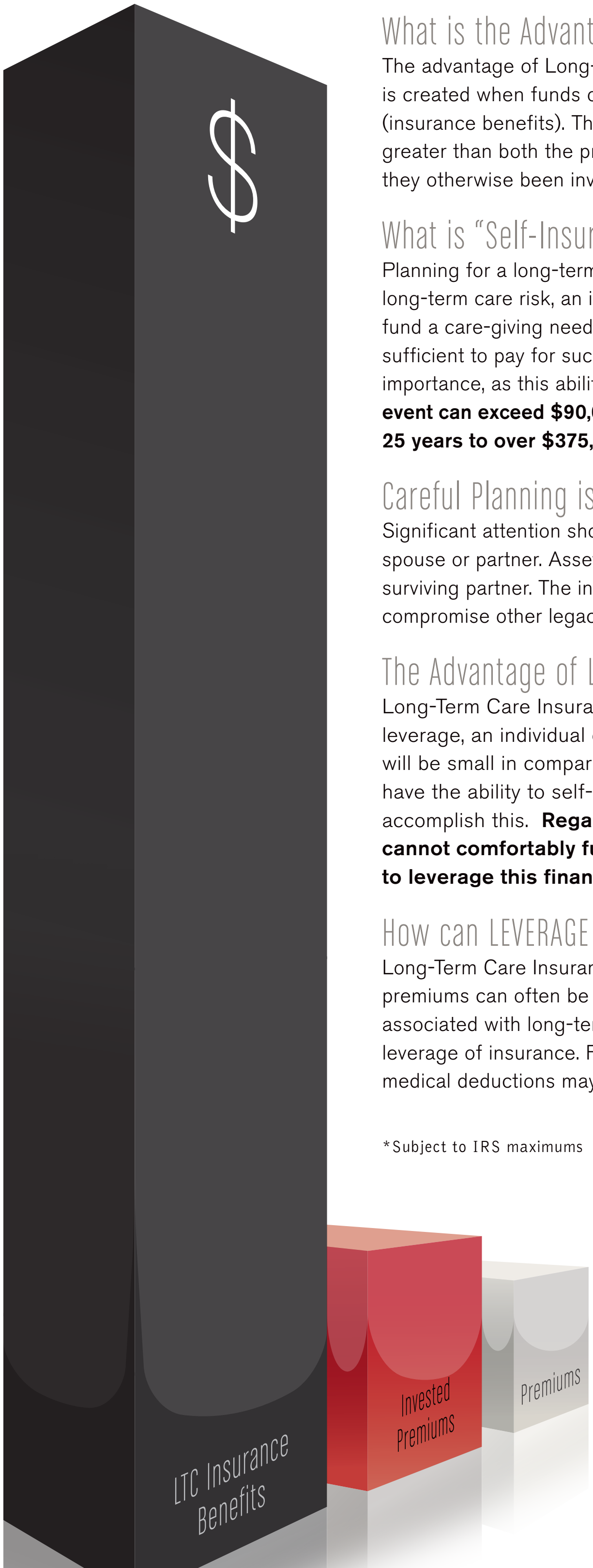
The Advantage of Leverage

The Role of Long-Term Care Insurance in a Financial Plan



What is the Advantage of Long-Term Care Insurance in a Financial Plan?

The advantage of Long-Term Care Insurance can be summed up in one word: LEVERAGE. Simply put, leverage is created when funds of a smaller amount (premiums) can be used to potentially gain funds of a larger amount (insurance benefits). The benefits that a long-term care insurance policy has to offer should be exponentially greater than both the premiums ***and*** the lost earning capacity that those premiums could have represented, had they otherwise been invested.

What is "Self-Insuring"?

Planning for a long-term care event without leverage is referred to as "self-insuring." By "self-insuring" the long-term care risk, an individual or couple chooses to use their own assets (if sufficient assets are available) to fund a care-giving need. This can be accomplished by liquidating assets or investments or by generating income sufficient to pay for such a care event. Careful assessment of an individual's ability to self-insure is of paramount importance, as this ability is frequently misevaluated, even by professionals. **Currently, financing a full-time care event can exceed $90,000 a year on a national average, and these costs are expected to increase in the next 25 years to over $375,000 a year. Potential costs over a five year care period could exceed $1.7 million.**

Careful Planning is Critical

Significant attention should be given to ensure that self-insuring does not compromise the lifestyle of a surviving spouse or partner. Assets are frequently expended on a care event that will be needed to produce income for a surviving partner. The individual planning for long-term care should also consider whether he or she is willing to compromise other legacy planning (inheritance or charitable) goals in order to take the risk of self-insuring.

The Advantage of Leverage

Long-Term Care Insurance leverages the financial risk of a care event. Instead of retaining the risk without leverage, an individual can shift all or part of that risk to an insurance company. The premiums for the policy will be small in comparison to the actual potential benefits offered by the insurance. Many find they do not have the ability to self-insure or they may have to significantly reduce retirement lifestyle goals in order to accomplish this. **Regardless of the result of this exploration, both those who can and those who cannot comfortably fund these costs without significant risks to their loved ones will often choose to leverage this financial risk.**

How can LEVERAGE be LEVERAGED?

Long-Term Care Insurance is the most tax-leveraged benefit available. In addition to offering tax-free benefits*, premiums can often be paid with pre-taxed dollars. Many individuals also have the ability to deduct premiums associated with long-term care insurance as a business expense. This double tax benefit enhances the natural leverage of insurance. For those who do not have the ability to deduct premiums through a business, itemized medical deductions may also be available..

*Subject to IRS maximums

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