



Why Long-Term Care Insurance is Important to Physicians

By Ike Devji, J.D. | April 12, 2011

One commonly overlooked area a doctor's personal planning is the possibility that you or a loved one may need long-term care (LTC) as a result of age, illness, or accidents. In cases where such care is required, the financial impact can be devastating.

For help in this area I turned to two experts. The first is Jonathan Smith, a medical specialist in San Diego who knows what this type of care costs and who now provides education and coverage to physician clients and their advisors. The insurance alone is reason enough, but some coverage options have extra benefits and are also both creditor-protected by law and have a return of premium guarantee if you never need it. Interestingly, many physicians often neglect this area of their own planning despite their knowledge of the potentials costs and risks. Below are some of Dr. Smith's key caveats, tough to argue with:

1. People are living longer but are not necessarily healthier; this means more medical expenses for longer periods of time;
2. The Federal Government says "at least 70 percent of the people over age 65 will require some form of Long Term Care services at some point in their lives;"
3. The Term Long Term Care services is applied to any one of three levels of services a person receives when that person fails to perform at least two of the six Activities of Daily Living (ADL), or is mentally incompetent. As a reminder, the ADLs are defined as follows: A - ambulating, walking around; B - bathing oneself; C - continence; continent of urine and/or stool; D - dressing; E - eating; feeding oneself; T - transferring; moving between bed and chair.

"The cost of care can be catastrophically expensive, as one example, when the minimum wage in California is \$8 per hour for unskilled help, the cost of labor for skilled home-help is \$192 per day, and, if paid from a tax-deferred account, is nearly \$120,000.00 per year, assuming an overall tax rate of 40 percent", says Dr. Smith.

My second resource, Raymond Lavine, practices exclusively in the area of long-term care with affluent clients all over the United States from his offices in Washington state. "Affluent people insure their homes and their contents, vehicles, planes, and boats and buy life insurance to provide liquidity for estate taxes. Why wouldn't they spend three or four thousand dollars per year, depending on age and

health, to own LTC Insurance which also has tax advantages? Transferring the risk to an insurance company for just pennies on the dollar just makes sense. Even if you had the income to pay for long-term care services for a single person or couple...why would you want to?

“The wealthy tend to ‘self-fund’ their long-term care needs with extra assets which would otherwise be included in their estates” says Lavine. “Long-term care costs rise each year and over 70 percent of Americans 65 and older will need some sort of LTC services. Better planning is needed to protect their assets from these costs. The need for coverage also extends to younger people who become injured or ill for extended periods of time and require long term care services.”

Lavine also shared that successful people usually want access to the best home care or assisted living facilities, which can easily cost \$100,000 per year. Even with a brief, three-year stay in a nursing facility, you may be looking at a \$300,000 bill or a much higher amount in 10, 15, or 20 years. Even if your family has the economic resources, the real cost of long-term care is not just the actual cost, but the opportunity cost. In order to pay out of pocket, you will have to earmark liquid assets for this liability. These assets, which would have been used to pay for long-term care insurance years earlier, are now stuck in your estate and subject to income tax, capital gain taxes, or estate tax.

Given these issues, LTC insurance is a small affordable hedge against a bottomless pit of expenses and heartache for the families involved. Here are some third-party resources with more information:

- (1).<http://www.longtermcare.gov>
- (2) www.aarp.org/families/caregiving/state_ltc_costs.html
- (3) www.dhcs.ca.gov/services/ltc/Pages/ConsAWordfromtheDirector.aspx.

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