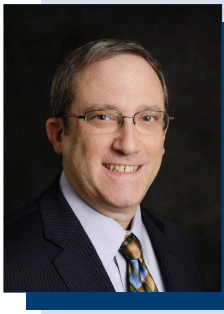
BROKER WORLD



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It Is About The Problem, Not The Product!

For many of us, the purchase of our homes and the financing of our children's college education will constitute the largest expenditures of our lives. In both of these cases, we typically use financial leverage, i.e., debt, to attain these objectives. Why? Because it is largely financially impossible to save enough to purchase our homes outright, we will leverage our assets, earning power, and equity by obtaining a mortgage and use outside assets to achieve immediate needs. Similarly, many parents and students will use financial leverage to achieve the requisite college education in the form of student loans—an investment in their future earnings.

Another available form of leverage is insurance. Whether it is to protect against the untimely death of the principal breadwinner or to guard against the loss of a home or a business, we will resort to *paying an insurance premium* to guard against an undesired outcome.

For our parents and grandparents, the old 40-40-40-40 Rule was very applicable. It was quite common for members of their generations to work 40 hours a week, at the same company for 40 years, to receive a $40 gold watch upon retirement, and to then live in retirement on 40 percent of what they had previously earned. Those days are long gone, as today's worker will often have employment at eight different companies, and the best that one can hope for today is some form of defined contribution plan with a level of matching funds from the employer as the employee largely funds their own retirement.

Today we are being bombarded with bad news about most American's retirement savings situation. Some focus on how ill-prepared we all are, while others focus on the level of anxiety many experience in the face of rising costs and diminished retirement assets. Others will put forth discouraging reports about how retirement for many in the future is either a fantasy or distortion of reality. For most of us, retirement security comes down to two major needs: Having enough money to cover our living expenses **and** post-retirement healthcare costs **inclusive** of long term care expenses.

Fortunately, the federal government assists with some of the medical costs through Medicare, VA and ancillary programs for eligible recipients. Unfortunately, there is limited to no assistance with long term care (LTC) expenses and this situation will only worsen as the red ink of Medicaid strains every state's budget.

Trying to save enough to cover living expenses and post-retirement healthcare expenses is an extremely challenging and daunting goal for most of us. For this reason, insurance leverage on the future health and long term care expenses is something most should explore while healthy enough to qualify for coverage and young enough to garner overall lower and discounted premiums.

That being said, please do not misconstrue the message of this piece; this is not a call to action directing people that they must purchase LTCI. Rather, it is intended as encouragement to start the conversation about how to cover these potentially overwhelming costs *before* they happen.

Many employers educated their workforce about LTCI in the past, but, since it has become more expensive and guaranteed issue is gone, it seems the conversation has stopped right when the baby-boomers, Gen-Xers and millennials need more than ever to understand the situation!

Most employers freely admit that financial wellness and retirement security is an issue and/or even a priority for them as they experience declining employee attendance and productivity due to the burdens associated with employees being forced into the role of caregiver for spouses, parents, or other family members. For this reason alone, now is **not** the time to ignore the conversation on how to handle what some say is the largest "unfunded" risk facing the baby-boomers—namely long term care expenses.

"Employers should help facilitate this discussion because their workforce will not start it on their own."

Today's COVID-19 environment with its ancillary employment and insurance issues makes it the perfect time to conduct the broader retirement financial wellness discussion. The topic is not, and should not be, about, "We are offering a new product and you should buy it to solve this issue." This is not a single product discussion like LTCI was in the past. Rather, the financial advisor/benefits broker and human resource executive should be conversant with the broad spectrum of products that are available to meet the wants, needs, and desires of their client or employee. There are multiple new products that can assist the professional in identifying the proper solution for the client and in meeting their different needs.

Employers should help facilitate this discussion because their workforce will not start it on their own. In most cases, the employer can today have an array of products that could be put forth to help address this massive unfunded liability. This would be similar to how high deductible plans helped many employers see much more value in critical illness and accident plans to supplement those high deductible costs that are being shifted onto the workforce. Today's long term care financing crisis can help make a variety of old and new funding options more valuable and necessary.

In 1935, when President Roosevelt introduced Social Security benefits to retiring workers at age 65 as a *supplement* to their employer funded pensions, the average life expectancy was only 63! Social Security was never intended as the be-all-end-all retirement vehicle for citizens of this country.

Fifty years ago we only needed one good pension plan for our retirement, as people retired largely debt free, with mortgage-free homes. That is clearly no longer the case. Twenty years ago we only needed one good health plan for our healthcare. With the advances of pharmaceuticals, general medical treatment, and changes in lifestyle, life expectancy has continued to rise. Currently those who have reached the age of 65 can expect to live to age 86. As a result of this extended longevity, it is more likely that we will utilize multiple programs to solve for our retirement and for our healthcare. To cover high deductible costs we layer in CI, accident, cancer and HSA plans along with our own savings. For our retirement, we layer in 401k/403b, pensions, SSI, annuities, and savings. These multiple tools combine to create solutions for today's reality and our own unique individual needs. Why would long term care be any different?

Twenty years ago we could largely get by with only one good long term care plan to solve for future expenses. Because of the same list of overarching changes, today solving for our future long term care expenses will often require multiple tools and certainly different alternatives within a broad population.

Today, expecting individuals or couples to purchase $8,000/month, five percent compound inflation with 10 years of benefit may or may not be any more realistic for most of us as is expecting a health plan with a $100 deductible and $300 out of pocket maximum or expecting an 80 percent defined benefit plan with four percent cost of living adjustments. Making sure we can be cared for in the setting and manner of our choosing, while not outliving our money or impoverishing our spouse, will likely require multiple solutions that come into play at different points on our journey.

There are many solutions that we might acquire over our life's journey to help us achieve a lifetime of financial security and peace of mind. When we were younger and starting a family, we would will likely have purchased life insurance for the protections it afforded our families, but today it would make sense for it to contain a long term care rider. One might purchase $200,000 of life insurance that would provide $100,000 for long term care expenses. Clearly $100,000 will not be enough for expenses 30 years from now, but it begins to fill the bucket. Later, layering on a manageable LTCI policy for $200,000 to $300,000 of coverage can make sense. Then later, as we retire, we earmark part of an annuity payment or a fraction of our retirement savings to help with long term care. This type of layering can create an aggregate bucket that solves the majority of the challenge while simultaneously helping to solve for other needs along the way. Additionally, one product rarely works as the sole solution for the diverse populations in our workforces.

The general populace has undergone another paradigm shift in terms of where they now seek out their benefits, to include long term care planning, and that clearly has become the workplace.

Consultants and employers need to help us start the conversation in the workplace because starting to solve for this problem during our working years is when it can be solved far more practically and economically. One reason for this is that working age people are younger, more insurable, and the solutions are more affordable.

Even today, at the start of 2021, unfortunately, there remain nationally recognized radio talk show personalities recommending people do not explore long term care plans until age 60. They are wrong! You should **not** start to deal with the long term care problem at 60 if you can deal with it at 50. Obviously, they have never seen a Milliman report on LTCI medical declination rates at 60 or 65 vs. 45 or 50. They also have never tried to talk to a 65 year old that wants to solve this problem but now, because they followed their advice, cannot afford the solution. The cost of waiting to solve this problem is just like starting to solve for retirement at 60—most of us will not be able to pull it off. However, 45 and 50-year-old individuals can solve this long term care issue and, at those younger ages, it is not just the executives and "monied" few. Working age people are younger, more insurable and the solutions are more affordable. While life expectancy has continued to rise, and we are decidedly living longer, we are also dying slower! Retirement can stretch to 30-40 years rather than an historically much shorter period. Lifestyle choices, diabetes, obesity, as well as chronic and genetic predispositions often render these products as unavailable and the single largest [often disastrous] cost in waiting becomes lack of insurability.

Many employers are newly offering extensive voluntary benefits portfolios but few of those products will be in place 20-30 years from now to help with retirement healthcare needs. Most of us are self-funding our future long term care expenses and we will be using the dollars we saved for retirement living expenses which are the exact dollars all the pundits are telling us we do not have enough of and from where all the ancillary anxiety is stemming. "Save more, save more" is the mantra across the country on this topic and very few would disagree with this. However, skipping the topic of long term care in what should be a holistic discussion for the different stages of what life should be is unconscionable. Let us start the conversation about Long Term Living in our workplaces now, because it is going to take some time to develop traction on this very tough topic and help today's workers plan for a safe and secure retirement.

Just as we have been encouraged to save for retirement from our very first paychecks, so too must we be prepared to plan for our future long term care needs in retirement.