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summaries

SIGMA INVESTMENT COUNSELORS

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Plan Sooner Than Later

I recently met with a couple who were at odds regarding long-term care insurance. After a few minutes of discussion it was clear that they were basing their viewpoints on flawed information. Given this experience I thought it timely to inform our clients on how to analyze their options for long-term care.

Long-term care consists of a range of services required by a person with a chronic illness or disability over a long period of time. The care can be provided in the home, assisted living facilities, nursing home, adult day care centers, and other community settings. Most long-term care is not medical care, but assistance with activities of daily living.

According to the U.S. Department of Health and Human Services (HHS) 70% of the population over 65 can expect to use some form of long-term care during their lives. The cost of receiving long-term care varies considerably depending on the amount and type of services rendered and where you live.

Many may have read or heard about the recent upheavals in the long-term care industry. In the past year many insurers raised their rates for current policy holders, in some cases the premium more than doubled. Insurers may only raise rates for the entire class of existing policy holders and they must petition state regulators for permission. In addition to increasing rates, many insurers have stopped offering long-term care insurance.

Long-term care insurance has been around for only 25 years. Many insurance companies used incorrect assumptions when originally pricing the product. Insurers anticipated much higher lapse rates and fewer claims. Not all companies have raised rates. It is important when purchasing long-term care insurance to review an insurer's financial strength, premium adjustments, and policy provisions.

Many retirees may be worried about how they will pay for their health insurance needs in retirement. Some may be able to self-fund, but others may need to investigate other options. When considering long-term care insurance clients need to consider cost, choices, and timing:

- The annual, projected cost of long-term care services for a home health care aide increased from $34,000 per year in 2001 to $64,621 in 2011 and an estimated projected cost of $195,000 in 2030.

- For nursing home coverage the figures are even more dramatic. Based on national averages, the annual nursing home stay in 2001 cost $55,000, in 2011 it was $89,477 but will climb to $315,000 in 2030.

The question becomes, can your present income and assets pay for your long-term care expenses? The benefits of insuring all or a portion of potential expense of LTC include:

- Peace of mind
- Protection against asset depletion, preservation of assets for future generations or a spouse
- Provides friends and families "permission" to ask for help, you purchased the insurance with the intent of using it when necessary

There are many choices to consider when shopping for long-term care: exclusion period, daily/monthly cap on benefits, length of coverage, and inflation options.

- 1-20 days is covered by Medicare Part A, 21-100 days you pay $137.50 per day and Medicare pays the balance. You are responsible for everything after 100 days.
- The exclusion period can range from 6 weeks to a year and is considered the "deductible". Medicare coverage helps pay the deductible because of the benefits paid in the first 100 days. The shorter the elimination period, the higher the premiums.
- Length of coverage varies and is client driven. There are policies covering various numbers of years and joint spousal policies.
- Inflation protection allows your benefits to rise in step with inflation. Inflation protection increases the premium. However, the younger you are, the more important it is to have this type of protection.

Timing can be critical, the longer you wait the greater chance you have of developing a healthcare problem that would eliminate your ability to qualify for coverage. Age predicts premium and health buys it. The forty-year old will pay less in the long-run for premiums than the fifty-year old.

It is important when making a decision to purchase long-term care insurance that you do a cost/benefit analysis. Although it might be enticing to opt for a lower premium policy, the benefits may not be sufficient to provide for your long-term care expenses. Be mindful that when you consider a policy that there is sufficient coverage when you will likely need it. If you are buying coverage in your 40s you most likely will not apply for benefits until your 80s.

Hypothetical Example:

	Less Expensive Policy	More Expensive Policy
Age	55	55
Elimination Period (Deductible)	91st Day	91st Day
Daily Benefit	$160/day	$160/day
Inflation Protection	No	5% compounded annually
Estimated Annual Premium	$1,379	$4,741
Benefits Begin	Age 80	Age 80
Total Premiums Paid from Age 55-79	$34,480	$118,520
Projected Annual Health Care Cost 5% Compounded at age 80	$196,735	$196,735
1st Year's Annual Coverage	$160 x 365 = $60,000	$160 x 5% compounded x 365 = $196,735

The more expensive policy pays for itself in the first year by providing $136,735 in added benefits. At this point you may be wondering how you could decide whether long-term care insurance is appropriate for you and the benefit coverage you require. Helping guide you through this process is one of the many services we offer our Sigma clients. We act as your advocate and can recommend reputable companies and agents offering long-term care insurance policies.

We do not sell insurance, rather, we help our clients through the decision making process when invited to do so. We will assist you in comparing policies, determining your coverage needs, assessing coverage limitations, and developing a cost/benefit analysis. If you wish to investigate further please give us a call.

Suzanne M. Antonelli, CFP®

As a reminder, 2013 is Sigma's 40th Anniversary year. In honor of this, each month our employees are sharing personal "Sigma Stories" with you. We hope you enjoy!

A Journey of Discovery

In 2007 I decided to pursue a career in the financial services industry. I wanted to help people navigate the complicated world of savings and investments. After researching the industry and earning the required certifications, I began working at a financial services company and I found the work interesting and fulfilling.

Five years ago, I was working at Fidelity (Farmington Hills branch) and pursuing my Chartered Financial Analyst (CFA) designation. This designation is well-regarded in the investment community and I knew it would help me on my path in the industry. Curious to know how many CFA charter holders were in the Detroit area, I did an online search and found a well-regarded company headquartered locally, Sigma Investment Counselors. After reading each bio, I could see that Sigma had recruited an accomplished team with many CFAs. I was impressed.

While I was pursuing my CFA charter, I joined the CFA society of Detroit where I met Marisa, Bob, and Chris at various networking events. They struck me as very professional, intelligent, and kind people. My mentor, Bill Crost from Fidelity, also spoke highly of the Sigma team. I continued to be impressed.

After I earned my CFA charter, I started to think about my career path. I reviewed my current employer and realized that there were not any research-focused career opportunities and that is when I approached Bob about job possibilities at Sigma. This got the ball rolling and the meetings began. I was encouraged to meet with each portfolio manager to make sure that I would be a good fit and addition to the team. After extended interviews and introductions, here I am.

I have been fortunate to find a great team. Everyone here has unique skills that contribute to Sigma's success servicing our clients. I value this kind of long-term relationship that comes with working for a company like Sigma - You get to know everyone and eventually they become like family.

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