The Lifecycle of Risk Management

Considering and Insuring for Health Risks Throughout Your Lifetime

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Building wealth is a disciplined process of careful planning, saving and investing. Success is often achieved through a lifelong commitment to a diversified and comprehensive plan with wealth growing over an extended period of time.

Despite years of effort, these best-laid plans can be undermined at key points throughout a lifetime. Risks to wealth can include death, disability or even the need to step back from work to care for an aging parent. Later in life, many fail to plan for long-term care expenses despite the fact that an estimated 70% of people over the age of 65 will require some form of long-term care services and support during their lives.[1]

Planning for these unanticipated threats to your wealth will vary depending on the phase of life. We like to refer to this as the lifecycle of risk management. Below, we identify some of the unexpected challenges that can occur during one's lifetime and the steps you can take to prevent these risks from threatening your family's wealth.

The early years: post-college life into early career

For many young people just beginning their career, earnings, savings and assets are low. Most are single and childless and own few possessions. At this point, there is little wealth and low levels of risk. However, a catastrophic accident, illness or loss of life could leave family members responsible for medical bills, funeral expenses and possibly outstanding debt (including, in certain circumstances, student loans). Given that many of today's health insurance plans carry high deductibles and out-of-pocket costs, it is not uncommon for final medical expenses to reach upward of $5,000 – $10,000.

Add in an average funeral cost of roughly $10,000, and it is easy to see the wisdom in purchasing a small life insurance policy, at the very least, to safeguard against an unexpected death.

Furthermore, disability income insurance is a must to safeguard against the loss of your earning capacity should you become disabled and unable to earn an income. For many, accepting the basic coverages in both short-term and long-term disability income policies that may be offered through your employer is an excellent starting point.

As individuals move into their late 20s and early 30s, earnings begin to ramp up. For many, the most significant change will come once they start a family. At that point, life and disability income insurance becomes imperative to support your family in case of an untimely death or disability. These will likely be more substantial policies, as you now have a family that is dependent on your income and the services you provide to them. In addition, life insurance may help repay outstanding debts, provide for your children's future educational needs and support heirs with special needs. Your disability income protection will likely include a supplemental disability income policy that builds onto your group coverage through your employer. By working with your financial advisor and the numerous tools and calculators available to assist you in determining the right level of coverage, customized solutions can be tailored to meet your unique needs and objectives.

Peak earning years: mid-30s to mid-50s

Life and disability income insurance to support a family remains critically important at this phase, and it is during these peak earning years when many complete a thorough review with their financial advisor to ensure their policies are keeping pace with their changing needs. It is important to note that being unable to work during peak earning years is about more than protecting your income. A disability will likely result in retirement savings also coming to a halt at a time when most can finally afford to put significant dollars away.

This is also when you should begin to think about your parents and the future care they may need. It's important to take steps to establish an open dialogue with aging parents about their circumstances before any serious issues occur. Many may be surprised at this point to learn that their parents have not planned ahead. If parents lack long-term care insurance or enough assets to afford quality care, who will care for them? Many mistakenly assume that Medicare or Medicaid will cover long-term care needs. Medicare may only provide coverage for up to 100 days of skilled nursing care after a qualified hospital stay for an acute issue. A long-term care event requires unskilled care and may be provided in places other than a nursing home facility, such as at home, assisted living facilities or adult day cares.

Medicaid is only available to those with very low asset and income levels, and not all care facilities will accept Medicaid patients.

The costs of caring for a parent can be significant and vary substantially by home, community and facility-based care. The national median rate for home care is $20/hour while median rates for facility care range from $45,000 (assisted living facility) to $90,000 (private nursing home facility) annually.[2]

Caring for parents who haven't made their own arrangements may mean that a family member will need to provide the necessary care. If the caretaker must leave a job to do this, it not only takes away his or her income, it often takes away this income during peak earning and savings years. And the impact can be far-reaching due to the physical and emotional toll of providing care to a loved one.

Tragically the issue of caring for uninsured parents can tear a family apart – yet another unintended consequence of not planning for a long-term care event. Family members may disagree over how care will be provided, who will pay for it and from what source, or try to decide who will sacrifice their time to care for mom or dad. We strongly recommend that all adult children sit down with their parents to discuss plans well in advance of the need. Make it clear to everyone that the discussion isn't about an inheritance but rather the well-being of the entire family. Once the need is defined, sit down with a financial advisor to discuss the various planning options available to your family.

Pre-Retirement

Many people reach their peak savings and begin to think seriously about retirement in their late 50s or early 60s. This is also a good time to begin thinking about your own long-term care needs.

When is the best time to buy a policy? Underwriting for long-term care can be tricky, especially as you age. While life insurance underwrites for mortality, long-term care underwrites for morbidity – conditions that will debilitate you but still keep you alive. In general, it is best to purchase insurance when you are still young and healthy. Therefore, purchasing a policy in your early 50s or even late 40s is optimal.

The longer you wait, the more expensive long-term care insurance becomes. And while we don't hesitate to pay auto or homeowner's insurance premiums even if we never have a claim, many don't feel the same way about the use-it-or-lose-it nature of long-term care insurance. Some simply choose to forego this coverage due to its perceived steep annual costs with premiums often subject to rate increases.

There are alternatives to traditional long-term care insurance policies. Nowadays it has become commonplace for insurance companies to offer hybrid products combining the benefits and features of life insurance policies with a long-term care rider. These policies lack some of the flexibility of traditional long-term care insurance, but they provide the comfort of knowing that you or your family will receive something of value from the policy. If you die before receiving long-term care benefits from the policy, your heirs will receive the life insurance proceeds income tax-free. If you need long-term care, you will be able to draw funds from the policy income tax-free on a monthly basis to help pay for your care. Finally, some of these policies offer a return of premium option, allowing you to terminate the policy and walk away with up to 100% of your premiums paid (less any claims paid, withdrawals or other distributions from the policy). Finally, these hybrid solutions are not subject to potential rate increases provided you pay your premiums as scheduled and on time.

Retirement

Once in retirement, individuals try to maximize income and minimize expenses. For those who previously purchased cash value life insurance, a re-evaluation of their life insurance needs in retirement is a must. The possibility of converting that cash value into an income stream for retirement or taking it as a lump sum can be meaningful in accomplishing income goals in retirement, especially if the death benefit need has been reduced or eliminated. For some, transferring wealth to their heirs or their favorite charity becomes a key consideration. Being able to segment existing assets into "live-on" and "leave-on" assets will go a long way toward determining the best planning methods for effectively and efficiently transferring wealth to heirs or a charity. In many cases, life insurance can be used as a tax-efficient means to leverage existing leave-on assets into a more meaningful benefit for the named beneficiary because of the income tax-free nature of the death benefit. Furthermore, when properly structured, life insurance proceeds can also pass free of estate and transfer taxes.

Conclusion

With careful planning, a combination of life, disability and long-term care insurance can protect your family's wealth. Planning for care for yourself and your parents can be overwhelming, so it's important to start early and understand the scope of the potential need. Working with your financial advisor, consider all wealth planning protection strategies available to you and your family to gain the upper hand over the inherent risks that can significantly undermine your family's wealth.

[1] 2015 Medicare & You, National Medicare Handbook, Centers for Medicare & Medicaid Services, September 2014.

[2] Genworth 2015 Cost of Care Survey.

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