The research used as a baseline for this month’s column was derived from a series of papers presented at last fall’s SOA Conference on long term care and retirement concerns—this month the excellent work of Vickie Bajtelsmit and Anna Rappaport, “The Impact of Long Term Care on Retirement Wealth Needs.” The color commentary, extrapolations and sheer speculation are, as usual, the sole responsibility of this columnist.

Insurance is all about planning ahead. The long term care insurance (LTCI) risk conundrum is about the result of not planning at all. Is LTCI planning merely a tangential component of a larger and more comprehensive retirement readiness evaluation? Should it be tied to the overall and somewhat nebulous “health” planning exercise? Should it be first or last in the planning process? What are the critical issues indigenous to long term care risk planning? And what are the fiduciary responsibilities of professional insurance agents in the long term care planning process? Unfortunately, these outstanding, crucial questions are still blowing in the wind.

The truth is painfully obvious: There are currently insufficient, disjointed and random approaches to trying to understand the who, what, where and how of long term care planning needs. My layman’s understanding of a stochastic approach in insurance is that it takes into account the magnitude of the moving parts and the fact that there may be many random outcomes in the given risk equation. Trying to understand what may be the most likely outcome is the challenge. In other words, it is hard to take aim at strategic planning issues when the target is composed of multiple spinning wheels.

The ultimate success of anyone’s retirement plan is subject to the positive aspects of self-discipline and commitment to the cause. It is, of course, also vulnerable to uncontrollable adversities such as rampant inflation, the mixed blessing of unanticipated longevity, poor investment performance, and health and long term care expense. We are intimately concerned with only one question: Will you have the funds available when the time comes, if it comes at all, to pay for care, and what impact will that have on your desired lifestyle in retirement?

The reality is that those with greater assets and income at retirement may be better prepared, acknowledging that insurance may increase cost before retirement but can substantially reduce risk exposure later in life. Even the wealthy who choose not to purchase LTCI, however, will not escape unscathed from the emotional and financial firestorm created by an extended need for care. There will always be some cost, at least in terms of reduced planned estate disbursements or discounted charitable objectives. The great failure of our industry is that it has simply been unable to protect those who are most vulnerable to the problem: low and middle income households.

Models designed to simulate the financial impact of an adverse event are, again, subject to the whims of a variable economy, duration of the claim, and available family support. It is also important to recognize
the nature of the risk itself. Most claims will be small and manageable, but a significant number will be very large—which means it is impossible to use averages when evaluating risk. As an example, the average risk may be three to four years, but that number does little to help plan or understand the real extent of the potential financial impact.

The bottom line, however, is that the research does strongly suggest that “middle income households could benefit the most from LTCI, provided the premium costs do not adversely impact wealth accumulation.” Caregiving in America—including caregiver shortages, lost wages and erosion of retirement benefits—shall remain the primary motivation for government reform, product innovation and insurance sales. A recent phone survey estimated that as many as 50 percent of Americans are already involved in caregiving. Aggregate lifetime costs to caregivers are in excess of $3 trillion. According to recent analysis from the Kaiser Family Foundation, America’s caregivers are 58 percent female, 66 percent above age 50, with 38 percent caring for a parent and 44 percent providing care for three or more years. It is specifically the collateral damage to all those family members and friends that will continue to keep the long term care problem in the direct path of progress for the government and the insurance industry.

Currently the bottom line is that for wealthier Americans after retirement who are “lucky” enough not to experience any unexpected financial setbacks, they may be able to withstand a health or long term care shock claim. For just about everyone else, being completely unprepared is a formula for pure disaster. Related retirement research also indicated that the best approach to being better prepared may be a combination of reducing retirement expenses, downsizing housing and purchasing insurance.

The catastrophic risk may be relatively small, but its possibility is absolutely certain. There is no escape, no reprieve, no pardons and no excuses for all concerned. Other than that I have no opinion on the subject.