The New Class in Asset Allocation

Asset-based Long-Term Care Insurance Mitigates Risk

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Asset allocation is the apportioning of available funds among a number of different categories or classes of assets, such as stocks, bonds, cash equivalents; and tangible assets like real estate, precious metals and rare coins. Asset allocation attempts to divide funds in a way that meets investment goals and dampens the effects of periodic market fluctuations. The purpose of having different asset classes in a portfolio is to take advantage of the different strengths of each class. Asset allocation simply means dividing investments among several different categories in an attempt to protect your portfolio from big swings in any one section.

Financial markets can create a bumpy ride; you may have the misfortune of facing a down market at the time you need Long-Term Care (LTC), therefore having to sell assets at a loss. Creating a New Asset Class, establishing a reserve fund, by setting up a designated LTC Fund can help to mitigate selling assets in a down market when the need for LTC arises.

What is being considered as the New Asset Class to help mitigate the risk of LTC? Asset-based Long-Term Care insurance, also referred to as hybrid or combo products. They are built on the chassis of life insurance or an annuity. By repositioning money into an asset-based policy, the money is leveraged up for greater benefits to help cover the cost of LTC. This asset remains on the individual's balance sheet just like the other asset classes. When LTC is needed, the life insurance death benefit or annuity value is accessed to pay for qualifying LTC expense free of federal income tax.

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In the past many individuals have decided to self-insure, paying dollar for dollar from their investments for LTC. This can cause an increase in their tax rate, therefore paying more than dollar for dollar for care. If a person is in the highest tax bracket and their monthly cost of care is $5,000, they may have to sell $6,200 (20% cap gains tax = $1,240) of their position to cover the cost of care and the possible capital gain tax; this does not even include the 3.8% Medicare surtax that may occur. Worst yet if the care is needed in a market downturn.

By repositioning money from their assets into an asset-based Long-Term Care policy, when the need for qualified LTC arises money can be withdrawn income tax-free to help cover those costs with no worry of having to sell assets in a down market. Many are starting to consider this New Asset Class as a better form of self-insuring. If the need for LTC never arises, the money in the asset-based policy passes on to beneficiaries income tax-free. This New Asset Class is designed for those who will need LTC and for those who won't. If you don't use it, you don't lose it.

New medical technology is allowing people to live longer, however they may not be living independently. Many are struggling to perform basic activities of daily living (ADL's), such as feeding, bathing and dressing themselves. With life expectancies increasing, many individuals are requiring health care services. The cost of care can be astronomical giving great consideration to shift the risk of a LTC event.

Let's look at an example: healthy couple, husband age 65, wife age 62 both non-smokers and in good health. They reposition $175,000 into an asset-based LTC policy, which is leveraged up to $365,291. When LTC is needed for either or both, 2% of $365,291 can be withdrawn monthly, $7,306 for each, income tax-free. The monthly benefit will start after 30 days for home health care and 60 days for assisted living, facility care and adult day care. An optional lifetime rider can be added for an additional fee. At death any unused benefit will pass on to beneficiaries income taxfree. So if they don't use it, they don't lose it.

With the certainty of death and the possibility of a LTC need, this type of planning will guarantee the policyholder and/or heirs will benefit from owning an asset-based policy. LTC is a very important part of financial and estate planning. People spend a lot of time and money setting up trusts to help pass on their assets to their family and or charity. However, if they did not plan for LTC expenses, the assets they planned on leaving to their family or charity may be consumed or substantially reduced by LTC expenses.

This type of LTC planning has appealed to thousands of people since asset- based policies were first introduced in 1989. The advantages of adding a New Asset Class to a portfolio can help make assets you have spent a lifetime to build last a lifetime.

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