SOCIETY OF ACTUARIES

Managing the Impact of Long-Term Care Needs and
Expense on Retirement Security Monograph

Home Equity and At-Need Annuities—A Dynamic Long-Term Care Funding Duo

By Steve Cooperstein

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Steve Cooperstein, FSA
Steve Cooperstein & Affiliates
http://www.InnovatingBeyondThe9Dots.com

Abstract
In the mid-'80s, when AIDS struck the gay community, viatical settlements were created enabling terminally ill life insurance policyholders to tap into the stored legacy value of their policies to pay for treatments or otherwise use these monies while they lived. In a somewhat similar vein, in the late '90s, "at-need" annuities were brought to market to mesh with the cost of long-term chronic care ("at-need" meaning when long-term care (LTC) cost needs have already commenced). Combined with the stored legacy value of home equity, these at-need annuities can be especially helpful in dealing with this other scourge—the potentially financially devastating, and all-too-frequent uninsured, cost of LTC.

Besides actually using this option "at-need," the possibility of being able to opt for it "at-need" could change how people address the spectrum of choices for funding potential LTC costs.

This paper describes the LTC funding problem, including weaknesses of reverse mortgages and Medicaid in these respects, and how this combination of an at-need annuity/home equity combination can offer "late-in-the-game" additional insurance leverage.

An extensive anecdotal example is provided describing how this option can be effectively used to maximize care outcomes by building on other funding. Cash flow analyses of alternatives are discussed, as well as sensitivities involved and the need to focus on risk/reward choices.

The potential and broader implications for practical layered funding of LTC costs, which this possibility facilitates, are also discussed.