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# White Paper: Client Demand for Long Term Care Solutions

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An estimated 12 million Americans needed long term care services in 2017 according to the Bipartisan Policy Center -- a number which is expected to more than double by 2050. At least 70% of people over age 65 will require long-term care services at some point in their lives, with the national average annual cost of nursing home care currently estimated to be $94,220.

***It is imperative that financial services professionals realize that the shifting trends and priorities of Americans demand new solutions.***

The purpose of this paper is to explore the driving factors behind a client's decision to seek long-term care solutions as well as to conduct an in-depth analysis of the key financial tools and strategies available to address these needs.

## Emotions behind the Long-Term Care Sale

No one wants to think about or plan for a future where they are no longer able to care for themselves. Engaging your clients on the benefits of Long-Term Care insurance (LTCi) exclusively from that perspective can understandably create resistance. **The astute advisor realizes that a conversation about LTCi is not that different from a conversation about life insurance -- the emphasis should be about planning for the needs of the insured's loved ones.** What LTCi can mean for your clients is not whether they will be able to stay out of a nursing home, but instead whether their families will have to bear the financial and logistical issues of caring for them alone.

**According to the AARP Public Policy Institute:**

- Of the 48.9 million caregivers in the U.S., most are family members providing more than 20 hours of care each week.
- The value of caregiving services that family members provide for 'free' is estimated to be $450 billion a year.
- Increases in caregiving expenses have caused 47% of working caregivers to use up all or most of their savings.
- Medical Insurance and Medicare Supplement Plans will generally not cover long-term care expenses

**An LTCi policy or rider can help give your clients the security and added peace of mind that come from minimizing the negative impact that an unexpected long-term care event could have on their family.**

## What does the LTCi Buyer Look Like?

The MSR Group, a leading market research firm, was recently commissioned to perform an in-depth analysis of the long-term care market. Their findings allow us to build a profile which we can use to identify the type of people who are inclined to purchase Long-Term Care policies as well as strategize the most successful ways to approach these individuals:

### The Typical Long-Term Care Buyer

- Males & Females age 55 to 64
- Married with Adult Children
- Working in a White-Collar Profession; not yet retired
- College Educated
- Affluent; Upper Middle Class with a household income of $100,000 or greater

### Primary Reason for Purchasing Long Term Care Insurance

- 23% to Protect my Assets
- 18.1% Security/Peace of Mind
- 17.4% I Don't Want to be a Financial Burden to my Family
- 13.9% I Know Someone who had Trouble Paying for LTC Services
- 7.9% Loved Ones Don't Live Close Enough to Take Care of Me
- 7.4% I Want to be Able to Choose the Type of Care that I Get

### Life Events that Triggered the Purchase

- Planning for Future Retirement (52.1%)
- You or Your Spouse Recently Retired (36.2%)
- A Loved One Needed Long-Term Care (34.7)

### What this Means for You

*Armed with this information, you can start looking for people who fit the profile. The easiest place to start is your client base. These folks already know you, trust you and value your recommendations. The profile will also help you as you prospect for new clients. Focus on how long-term care insurance can help* ***protect retirement assets****,* ***preserve independence*** *and* ***remove the burden from an individual's family. In other words, a Long-Term Care Insurance policy can help you ensure that your clients will be able to use their assets the way they planned.***

## Factors Impacting the Long-Term Care Market

There are numerous dynamics, both statistical and emotional, which propel the long-term care market:

- **Increasing Life Expectancy**, as evidenced by the 2017 Mortality Tables
- **Rising Health Care Costs**, a reality faced by all market demographics
- **Initial Difficulty in pricing LTCi products** – when LTCi products were first introduced in the 1970's insurance carriers did not have sufficient experience on which to base their assumptions, causing them to severely underprice their products. The resulting increase in premiums on in-force policies eroded the confidence of both consumers and advisors.
- **A Prolonged Low Interest Rate Environment**, which has negatively impacted consumer savings while at the same time forcing insurance carriers to increase premiums. (LIMRA estimates that insurers need a 10% to 15% increase in LTCi premiums to offset every 1% decline in long term interest rates.)
- **A 'Use it or Lose it' Mentality** -- clients are hesitant to pay for a product they may never use.

Concerns about inaccurate pricing, rate increases and claims experience resulted in many advisors shying away from LTCi products. That said, the need for Long Term Care planning spans across all economic demographics. Individuals who have worked hard to accumulate moderate wealth throughout their lifetime fear that long term care expenses could quickly and easily deplete that wealth. And while the ultra-wealthy may be able to self-insure, the astute Financial Advisor realizes that an effective estate plan is based on **preserving** as well as **creating** wealth. **The key to this market segment is the ability to demonstrate that there are more cost-effective methods to cover long term care expenses than paying out of pocket at claim time.**

***As clients face an increasingly crowded market of long-term care solutions, it is imperative to navigate the options and simplify the complexity.***

## Long Term Care Solutions: Financial Strategies

There are 3 fundamental financial instruments designed to address long-term care needs:

- **Stand-Alone (Individual) LTC Insurance**
- **A “Hybrid” of Life Insurance and LTC Policies (referred to as Linked Benefit Products)**
- **LTC/CI Riders added to Individual Life Insurance Policies**

Because each product is structured so differently, it does not make sense to do a side by side cost comparison. It is imperative however to understand how each product works, as well as the fundamentally different needs that each meets.

## Stand-Alone Long-Term Care

**Stand-Alone Long-Term Care Policies** have been in the market the longest, and are typically the most well-known by the consumer. These policies provide the purest form of long term care coverage, with virtually 100% of the premium dedicated to long term care protection. The advantage of a stand-alone policy is that it offers more choices in the design of coverage, including *maximum benefit periods*, *optimal elimination (‘deductible’) periods* and *cost of living adjustment/inflation features*. A discount is provided if both a husband and wife apply for coverage. Even if only one spouse applies there is typically a discount if that individual is married.

Traditional Long-Term Care policies have many built-in tax advantages. LTCI premiums may be fully tax deductible by employers and they can be paid directly using non-qualified annuity or life insurance cash value via a tax-free section 1035 exchange. Traditional LTCI benefits are generally received tax-free.

**While it is widely agreed that stand-alone long-term care products offer the greatest flexibility and most comprehensive benefits, there are downsides that have had a significant impact on their acceptance in the market**. Stand-alone long-term care premiums are not guaranteed. Unpredictable claims experience, combined with a sustained low interest rate environment, have caused most insurance carriers to substantially increase premiums for existing policy holders over the past 10 years. The good news is that new products sold today have a significantly lower likelihood of requiring future rate increases based on a recent study by the Society of Actuaries. That said, lack of guarantees remains a primary concern within the LTCI market. In addition, the ‘use it or lose it’ nature of these policies has resulted in many consumers being hesitant to commit to a stand-alone long-term care product.

## Stand-Alone LTCi Policy Benefits & Features

### Policy Basics

- **Policy Limit**: This is the initial maximum amount payable over the life of the policy. The policy limit is calculated using the benefit multiplier (typically 24, 36, 48 or 60 months) and the monthly benefit you select.
- **Monthly Benefit**: This is the initial maximum dollar amount that your policy will pay each month. Monthly benefit limits vary by carrier and tend to range from $1,500 to $10,000.
- **Elimination Period**: Long-Term Care policies have a waiting period before the policy benefits begin. The elimination period starts on the first day you receive a covered service and are usually 90, 180 or 365 calendar days.
- **Waiver of Premium**: Most stand-alone policies will waive premiums when you are receiving benefits.

### Optional Features

- **Inflation Protection**: The cost of long-term care services is likely to be higher down the road when you need care. You have the option with most stand-alone policies to add an inflation protection benefit which increases your maximum policy benefit and remaining policy limit each year. Typical inflation benefits are 3%, 4% or 5% compounded.
- **Shared Care**: If you run out of benefits but still need care, you can access benefits under your partner's identical policy providing that you leave at least one year of benefits for your partner. In addition, if either partner dies while the policies are in force, the surviving partner receives the deceased partner's remaining policy limit without having to pay the deceased partner's premium.
- **Security Benefit**: If your partner doesn't have a long-term care insurance policy, the security benefit can help ensure he or she is cared for while you receive long-term care services. Some policies will pay up to an additional 60% of your monthly reimbursement benefit that can be used to help pay for care or living expenses for your uninsured partner.
- **Return of Premium**: If you are concerned about not using all your policy benefits, you can add a return of premium benefit that, upon your death, refunds up to three times the initial monthly benefit amount of your policy if your policy has been in force for 10 years or more.

## Hybrid (Linked Benefit) Policies

**Linked Benefit Products** were created specifically for the consumer whose primary need is long term care coverage, but who would like the funds available as death benefit if the long-term care benefit is not utilized. These products tend to be especially attractive to the client who is averse to ongoing premium payments and would consider a reallocation of current assets as a single premium long-term care solution. The premiums for Linked Benefit products are guaranteed, and you 'get your money back' in the form of a death benefit if the long-term care benefits are not needed -- answering two of the biggest objections to stand-along LTC policies. On the downside, Linked Benefits are not an ideal solution when a reallocation of assets is either not available or does not make sense from a leverage perspective; LTC features are not as robust as they are with stand-alone policies; and the pricing is usually not attractive when there is a true-life insurance need.

When evaluating Linked Benefit products, the following factors are important to consider:

- Premium Structure (Single Premium vs. Flexible Premium Options)
- Reimbursement vs. Indemnity Method
- LTC Deductible Period
- Residual Death Benefit
- Return of Premium Schedule
- Inflation Protection Option
- Availability of Couple's Discounts

## Life Insurance Policies with LTC/CI Riders

**Life Insurance with Long Term Care and Chronic Illness Riders** is the newest and fastest growing financial strategy to meet long term care needs. This strategy is recommended when the client has a need for life insurance, however is attracted to optionality features in the event of an unforeseen LTC need.

In addition to addressing the 'use it or lose it' concern of the consumer, certain designs that utilize no lapse guarantee life insurance can lock in premium rates for the life of the policy. While accelerations of death benefit privileges have been around since the 1980's, LTC/CI riders have taken the concept to an entirely new level, mirroring some of the most attractive features of stand-alone long-term care products.

## Chronic Illness vs Long Term Care Rider

**The first thing you want to look at when evaluating a rider is if it is defined as a Chronic Illness or a Long-Term Care rider**. While both versions of the rider typically are triggered by either a severe cognitive impairment or the inability to perform at least two of the 6 Activities of Daily Living (ADLs), there are numerous differentiating factors.

Chronic Illness Riders tend to cover only impairments which are deemed to be permanent, such as Alzheimer's disease, a moderate to severe stroke, frailty older ages, crippling arthritis, brain and spinal cord injuries and degenerative neurological diseases.

Long term Care Riders cover not only permanent impairments, but impairments which are considered short term as well, such as fractures, joint replacement, heart attacks and minor strokes. **It should be noted that there has been a recent legislative change which has broadened the definition of chronic illness to include shorter-term impairments. Many carriers however have not yet adopted these changes, so it is important to fully understand the conditions allowed by each specific rider**. The chart on the next page details the major distinctions between LTC and CI riders.

## Comparison of LTC vs. Chronic Illness Riders

| | **Long Term Care Riders** | **Chronic Illness Riders** |
|---|---|---|
| **Duration** | At least 90 days | Must be permanent<br>(may evolve based on new regs) |
| **Payment Types** | Reimbursement or Indemnity | Acceleration |
| **Taxation** | Amounts above IRS limits are not taxable if reimbursement. | Amounts above IRS per diem limits are taxable |
| **Waiver of Premium** | Limited to no waiver of policy deductions while on claim | Possible waiver of all policy deductions while on claim. |
| **Distribution** | Sections101c and 7702b<br>Requires A&H License and State specific LTC Certification | Section 101c only<br>Only Life License is required |
| **Internal Revenue Code Section** | 7702B<br>Requires LTC CE | 101 (g)<br>No LTC CE Required |

## Reimbursement vs. Indemnity Method

Another important distinction to be aware of is whether benefits are paid via a *reimbursement* or *indemnity* method. An indemnity rider pays out long term care benefits based on the maximum monthly benefit allotted under the rider regardless of the amount of actual long-term care expenses incurred by the insured. In the indemnity method, the full monthly benefit is paid directly to the policy owner, and can be utilized to pay both medical and non-medical expenses, or be used to enhance savings. Most carriers offering an indemnity rider limit the monthly benefit to the ***lesser*** of a percentage of the death benefit or the IRS per diem limit.

Alternatively, the reimbursement method (which is offered only by carriers with a pure LTC rider) pays out long term care benefits based on the long-term care expenses incurred by the insured, limited only by the maximum monthly benefit prescribed in the contract. This style of rider allows the policy owners to receive a benefit more than the IRS per diem limit without adverse tax consequences. Under a reimbursement style rider, the rider benefit will be paid directly to the policy owner unless the owner elects to have the caregiver paid directly. A reimbursement rider requires the policy owner to provide the insurance company with bills associated with the insured's long-term care expenses.

There are pros and cons to each of these methods. While the indemnity method allows the funds to be used in many ways, and does not require documentation of actual expenses, the reimbursement method can provide a higher level of benefit on a tax favored basis, as well as ensure that the monthly benefits are specifically dedicated to long term care expenses.

## Chronic Illness Riders: Discounted Death Benefit vs. Up Front Charges

A differentiator among Chronic Illness Riders is whether the rider is paid for by an additional charge added to the policy premium or by including the rider as a policy feature and then calculating a back-end charge when invoking the Chronic Illness Rider. Under this method (also known as the discounted death benefit method) benefits cannot be calculated until the actual time of claim. The discounting of death benefit is based on several variables including age, gender of the insured, premium class and discounted interest rates at the time of claim. Women, with all other factors equal, will have a larger discounted rate than men, and consequently will receive a lower benefit. The advantage of the Discounted Death Benefit is that there is no rider charge IF the rider is never used; the downside is that there will be a lower overall pool available for benefit if needed.

## Tips for Underwriting LTC/CI Riders

All carriers underwrite separately for Long Term Care riders; most (but not all) underwrite separately for Chronic Illness Riders. It is important to remember that there is a different set of considerations when underwriting long term care versus traditional life insurance. Quality of recovery from an impairment is a significant factor in overall determination of the risk. Impairments that involve cognitive conditions, frailty, multiple medications, mobility and functional capacity are all concerns. Favorable factors include employment, spouse in good health, current ability to drive, exercise and hobbies. It is not unusual to see a different rate class for the life policy and the LTC/Chronic Illness Rider.

## Conclusions

There are numerous solutions available today to insure against long term care and chronic illness expenses. It is important to thoroughly understand and explain the pros, cons and inner workings of each of these strategies so that that clients can make informed decisions about what is sure to be one of the most important financial concerns over the next decade and beyond.