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CLTC DIGEST

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NEW IDEAS on How to Fix the LTC Insurance Market

5 Reasons to Embrace Traditional LTC Insurance

Uncovering the JOY in a Nursing Home

Four Tiers of Long-Term Care Clients

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OCTOBER – DECEMBER 2017

A NOTE FROM THE GENERAL MANAGER

Welcome to the Q4 issue of the CLTC Digest!

With 2017 coming to an end, we hope you have enjoyed the first year of the CLTC Digest. We appreciate—and hope you have, too—all of the wonderful and insightful articles provided by our members. If you have something you'd like to share with our readers in 2018, I invite you to submit your article to us. Email it to **info@ltc-cltc.com**.

In this issue, we delve into LTCI: why it is an essential part of a financial plan, plus some new ideas on how to fix the market. Then, on page 8, enjoy an earnest perspective on life (and loving someone) in a nursing home.

In our September newsletter, we announced the formation of the CLTC Board of Advisors. We will present these esteemed members over the coming weeks. Additionally, we are excited to launch the new Graduate Forum available on our website. The Forum provides a platform for our graduates to discuss industry-related news, changes and issues.

Thank you for your continued support of CLTC. So much of our success we owe to **you**!

Sincerely,

Amber Pate

General Manager

Certification for Long-Term Care

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CALL FOR SUBMISSIONS
Do you have something you'd like to share with our readers?
Submit your article of 1,000-2,000 words to **info@ltc-cltc.com**!

NEW IDEAS
on How to Fix the LTC Insurance Market

Tom Riekse Jr.

Recently I had a great experience of participating in a one-day conference at New York University in which a group of academics tried to get the answer to a simple question—what›s holding back the LTC Insurance market in the United States? The conference featured participants from schools like NYU, University of Chicago, Stanford, Duke and others. There were also attendees representing insurers, government agencies, and researchers from LIMRA, Fidelity and Vanguard.

"Why aren't more people buying LTC Insurance?"

It's the type of question that might be featured on a Freakonomics podcast—a need so great should create a robust market—but recent sales have been disappointing while in-force policy management by carriers has been challenging (and not very profitable).

Did the conference succeed in identifying the main reason for the market problem? The simple answer is "no." However, there were several promising ideas put forward that should result in future research and help produce concrete suggestions.

One thing everyone at the conference agreed with—in the absence of any changes the United States is facing a "two-tiered" long-term care system—one in which the wealthy can get paid professional care through private pay and LTCI, while everyone else will rely on friends, family, charity, and a challenged Medicare and Medicaid system.

The focus of this session was on private sector market issues, including regulatory issues. With federal action very unpredictable due to current political conditions in DC, there was an emphasis on possible state actions for LTC Insurance reform, including smarter regulation and faster approvals of rate increases and new products. The National Association of Insurance Commissioners have submitted ideas to congress recently for improving the private market.

Among the several discussions and presentations, I found four areas of interesting discussions that may lead market changes and increased sales:

1

SHOULD CARRIERS CONSIDER OFFERINGS PLANS THAT TRIGGER BENEFITS ON THE LOSS OF MORE THAN 2 OF 6 ADL (ACTIVITIES OF DAILY LIVING) BENEFIT TRIGGERS?

It may surprise some people, but as a percentage of the population, France has a larger private LTC market than the United States, and several carriers participate.

What is the secret to their success? The conference included representatives from insurance carriers that participate in the French marketplace, such as AXA. Those representatives implied that a reason for their success may be the fact that French LTC policies typically have more stringent benefit triggers than the LTC plans sold in the US.

In France, most policies require a loss of 3 of 4 ADL's, and any cognitive impairment needs to be more severe than US policies to trigger benefits payments. More stringent benefit triggers mean, of course, that it is harder to qualify for benefits BUT it also means that premiums will be lower and insurance carriers can predict claims with more accuracy.

For those who have been in the LTC Insurance business for a while, we remember the days of deciding between "non-qualified" versus "qualified" LTC Insurance. Back then many proponents of non-tax qualified LTC thought that the HIPAA based qualified benefit triggers were TOO restrictive and that triggers such as "medical necessity" should be part of LTC benefit triggers.

In fact, Penn Treaty, one of the leading LTC carriers, sold a lot of "non-TQ" plans on this basis. It's now apparent those liberal triggers may have benefited policyholders but it came at a big cost. Penn Treaty has been liquidated, and one of the causes were paying more claims than anticipated.

The question is: could a carrier offer a plan with a 3 of 6 ADL benefit trigger and maintain the tax-qualified status of LTC Insurance? A reading of IRS Section 7702b about the treatment of qualified long-term care insurance says that to be a chronically ill individual someone must be unable to perform at least 2 of 6 activities of daily living. It doesn't say policies can't use more than 2. Perhaps carriers and state regulators will look at the possibility of LTC policies that may be "harder" to qualify for—focusing on paying for professional care and offering a lower premium to buyers.

2

IS INFORMAL CARE CROWDING OUT THE NEED FOR FORMAL PAID CARE?

Informal care by friends and family is the biggest part of caregiving today—up to 69% of the economic value of care being provided. (**Image 1**) Many people who have not planned for paying for care must rely on informal care. Of course, this "freely" provided informal care has great costs, not least of which is removing many Americans from being employed in other jobs and adding to the economy.

John Phillips of the Social Security administration pointed out that many retirees' social security benefits are impacted because of lost earnings during working years. A law professor from UCLA, Allison Hoffman, discussed a proposal that any possible future government LTC Insurance solution should pay for both formal care for those needing care and help the caregivers with income supplements. A costly proposal, for sure, but a thoughtful way of looking at LTC as a family issue.

The good news is that many of today's plans from carriers like Mutual of Omaha and Transamerica include a cash alternative, normally a percentage of the formal (professional) care benefit. These cash plans can help ease the burden of lost income for caregivers.

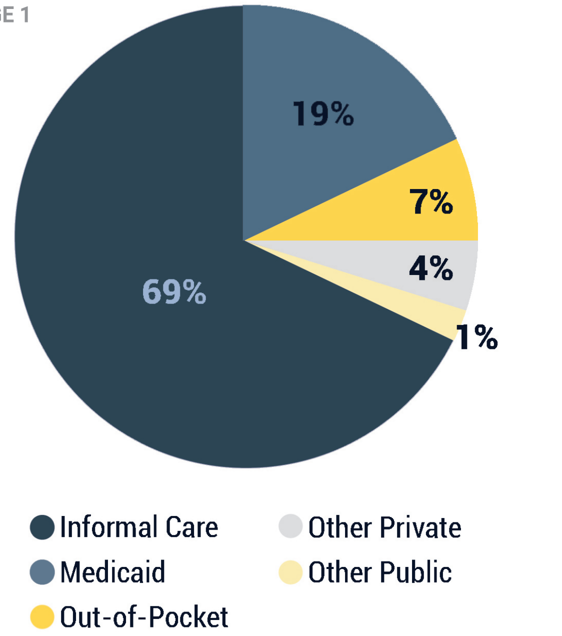
3

CAN HYBRID SOLUTIONS GO "DOWN-MARKET"?

Hybrid Life/LTC plans are very familiar with financial advisors and popular with affluent clients, but less familiar to regulators and academics. Representatives from companies like Lincoln Financial pointed out some of the attractive features of hybrid plans that exist side by side with health based standalone products. Hybrid products can have unique benefits for both carriers and buyers.

For carriers, hybrid products include the "skin in the game" aspect of the policyholder funding the premium—which means at claim time they are taking their own policy contributions first before the "insurance" part of the plan kicks in. From a consumer perspective, the benefits of hybrids include guaranteed premiums and, if LTC benefits aren't used, a death benefit or return of premium. The downside to hybrid plans for many is the premium expense—but longer duration premium payment options can help with that.

IMAGE 1



4

WHAT'S THE FUTURE OF THE GROUP LTC MARKET?

Voluntary worksite sales are increasing, and LTC Insurance can be a growing way for people to buy coverage. The advantage of worksite LTC products include unisex pricing and underwriting concessions. Several trends in worksite LTC show promise for the future.

First, a couple of standalone carriers have had success selling individual products at the worksite and it is anticipated that more standalone carriers will offer worksite products. Next, the built-in tax advantages of worksite plans for employers have been well documented and more employees have Health Savings Accounts and can use pre-tax dollars to buy coverage.

Linked life/LTC carriers are exploring the market and should be rolling out plans in the near term. Finally, as discussed above, the NAIC long-term care sub-committee is recommending that qualified funds be allowed to be withdrawn penalty free to pay LTC premiums—both promoting the purchase of coverage to help protect retirement savings and ease the possible burden on Medicaid.

Thinking of the LTC Insurance market as under-performing and finding ways to fix and improve it will be critical for both families and the country. Careful improvements could actual lead to dramatic changes in planning, and it is encouraging that serious study is underway.

TOM RIESKE, JR.

A co-founder of LTCI Partners, Tom is focused on educating others about the need to plan for care and broadening product distribution to more channels.

Learn more at LTCI Partners blog: www.ltcipartners.com/blog

WHY LONG-TERM CARE INSURANCE IS ESSENTIAL TO YOUR FINANCIAL PLAN

Carmen I. Bississo, CIMA®, AIF®, CLTC, CAS®, CFS®

Long-term care (LTC) insurance is designed to cover the cost of professional assistance with physical activities of daily living (such as dressing, eating, bathing, toileting, transferring, and/or continence) or additional supervisory support if you develop a cognitive disorder.

This care is not covered by Medicare or other forms of traditional health insurance, and extended care can become a huge financial burden if you don't plan ahead.

Consider these key points as you evaluate if LTC insurance is right for you:

You cannot count on the government or your health insurance to pay for your long-term care cost.

Medicare only pays for short-term care and only if it is skilled and rehabilitative. It will only cover the full cost of custodial care in a skilled nursing home for 20 days; depending on your condition the maximum is 100 days. Beyond this, you are on your own.

The only government support available is through Medicaid, which essentially only provides funding when you run out of money. In most states, an individual cannot have more than $2,000 in assets, couples are limited to just over $120,000 in combined assets excluding the house and a car. Additionally, there are income and gifting limitations that apply, and there are other considerations, depending on your family structure, age, and domicile.

You have a high risk of needing long-term care in your lifetime, especially if you are a woman.

While the statistics sound frightening, a 50% chance or higher of needing some type of care for more than 90 days, and if you need care one in five will need it for more than five years. Realistically, the statistical risk is irrelevant since everyone already plans to live a long life and is concerned about running out of money if they live too long, this is the basis of all retirement planning. Therefore it is just reasonable to expect to need care for a few years if you live to 80, 85 if not longer.

By 2050, the number of individuals using paid long-term care services in any setting (e.g., care at home, or residential care including assisted living or skilled nursing facilities) is expected to more than double from the 13 million in 2000 to 27 million people.

You cannot afford to wait!

It is important to act now while you are in good health as the cost for LTC insurance is highly dependent on your physical condition.

Many people believe that buying a policy later in life will help them save on premium costs. In reality, the longer you wait, the more expensive your options become, and the higher your risk of becoming uninsurable. A big mistake is to forget that a well-designed policy bought today will have benefits that grow with inflation over time, so the amount of coverage you would need to buy in the future if you wait is much more than just the difference in age-related premiums.

Costs of long-term care assistance will be much higher in the future—and where you live matters!

The good news about today's medical advancements is that we will all live longer (though not necessarily healthier) lives. Unfortunately, longevity will increase our risk of needing long-term care services in the future, and we cannot predict what type of assistance we will have when the need for care arises.

The chart below (**Image 1**) demonstrates the annual costs of care for an individual today and the anticipated costs in 30 years. The chart compares the national averages with the DC/ Metropolitan area.

Where you live matters! Visit https www.genworth.com/about-us/industry-expertise/cost-of-care for additional information on costs around the country.

Don't be a burden on your family.

Currently, 66% of home care in the U.S. is provided solely by family members, with children and grandchildren providing the majority of this care. Three out of four of these caregivers work a paying job while simultaneously caring for their loved one. Often, they have to make accommodations such as cutting back hours or quitting altogether, which can have large financial implications on their future. Loss of earnings, Social Security benefits, job security, career mobility, health insurance and retirement savings are just a few examples of the sacrifices caregivers often have to make.

Every parent wants their child to feel safe and protected, not burdened by the financial and time constraints that come with caring for an aging loved one. LTC insurance can be part of the solution.

You choose where you want to receive care. You do not have to leave your home.

When was the last time you heard someone say: "I can't wait to go to a nursing home!"? Without the proper insurance planning, you may not have a choice. Nursing

IMAGE 1

	ANNUAL COST OF CARE			
	NATIONAL AVERAGE		D.C. METROPOLITAN AREA	
TYPE OF CARE	Current Cost: 2016	Expected Costs: 2046	Current Cost: 2016	Expected Costs: 2046
Home Health Aides (Based on 44 hours per week)	$ 46,332	$112,460	$ 54,912	$133,286
Adult Day Care (Based on 5 days per week)	$ 17,680	$ 42,914	$ 14,924	$ 36,224
Assisted Living Facility (Based on 12mo of care; private; 1 bedroom)	$ 43,539	$105,681	$ 80,400	$195,152
Semi-Private Room in Nursing Home (Based on 365 days of care)	$ 82,125	$199,339	$121,363	$294,580
Private Room in Nursing Home (Based on 365 days of care)	$ 92,378	$224,226	$137,058	$332,676

homes are typically the only solution that is covered by Medicaid.

LTC insurance policies provide coverage irrespective of where you receive care – at home, in adult day care, assisted living facility, nursing home or even in hospice care. Many current policies also add an alternative plan of care in the event that new forms of care become available in the future.

Not only do most LTC insurance claims start at home, more than half also end at home. LTC insurance may be the only thing that keeps you out of a nursing home.

Reduce your risk of depleting your assets.

While many affluent investors can afford to self-insure, transferring the risk to the insurance company and preserving assets for future generations is a stronger long-term investment strategy. Even if you do not have an estate plan that prioritizes leaving an estate to heirs, paying for care dramatically impacts the ongoing lifestyle and financial security of a spouse or partner along the way.

You secure your access to the right type of care for your needs.

In the future, it will not be surprising to see assisted living and nursing home facilities accepting only those who can afford care, in fact, these private-pay-only facilities already exist today.

As of 2013, there were more than 44.7 million Americans over the age of 65. By 2060, this age group will more than double in size.3 Given this, there will be an increasing demand for long-term care facilities and we will see longer waitlists and higher costs in the long run. LTC insurance can provide adequate funding to secure the care you need and where you need it.

Save on taxes.

There are several tax incentives used by state and federal governments to encourage the purchase of long-term care insurance. Many states offer tax credits and deductions. Federal tax incentives include allowing the use of health savings accounts (HSAs) to pay qualified LTC insurance premiums, a tax deduction for premiums paid by employers or self-employed individuals, or a tax deduction for long-term care expenses – including qualifying LTC insurance premiums – that exceed10% of your income. Please consult with your tax advisor for additional information.

Buy peace-of-mind.

A LTC insurance policy makes it easy for you to access the best type of care, and it can help to give your family peace-of-mind and the ability to focus on your well-being. In our experience, when there is no LTC policy to rely on, the plan of care chosen is first to exhaust if not harm the health of your loved ones: spouse, partner, kids, etc. Then if professional care is engaged it is typically the most inexpensive which may not provide you with the level of care that you—you're your family—may need. Often, the healthy spouse has concerns of running out of money and there may be a need or desire to protect assets for future generations.

You have options. LTC policies come in all shapes and sizes and your financial advisor can help you identify the one that is right for you. There are also ways to access LTC insurance protection with a life insurance or annuity product, also known as hybrid policies which may better fit your needs than a stand-alone LTC policy.

Irrespective of how you decide to protect yourself and your family for the possible need of extended care assistance in the future, it is important that you have a plan in place and ensure that those close to you are informed and protected.

CARMEN I. BISSISSO
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Uncovering **Joy** in a Nursing Home

Greg Lhamon

"Look at him," Mom says and nods to the corner.

I look to see an elderly man in a folding chair nuzzling up to his elderly wife. He whispers in her ear, but she doesn't seem to hear. She stares out the window, smiling. He holds her hand in his. His other hand is inside her shirt, cupping her breast.

Mom grins and shakes her head. "He's 92 and has dementia and still has only one thing on his mind."

"I guess there are some things guys never forget."

I glance at my daughters, hoping they didn't see Agent 007 doing his thing in the corner. They're busy showing Grandma Hoover a card they'd made her. Good, I think. Dodged a bullet.

It's 1999. We're at Pekin Manor, a nursing home where my Grandma—Dorothy Lillian Hoover—is a resident. She's been there for a year now battling the latter stages of Alzheimer's.

I look around at the residents of the home. Some are visiting with family. Others mill about aimlessly. A great many are parked in wheelchairs here and there like abandoned shopping carts. The place smells of urine. Suddenly, the lights go out.

“What happened?” I ask.

“That’s Gladys,” Mom says, and thumbs toward the hallway.

I step into the hall. A nurse with latex gloves comes out of a room, hands held up, and walks across the hall and nudges the light switch with her elbow. As she walks back to the room, she passes an elderly woman who is strolling the hall. The nurse says, “Let’s keep the lights on, shall we Gladys?”

Gladys makes no reply, nor does she turn her head or slow her pace. She continues walking, hugging the wall as she goes. She walks to the end of the hall, turns, and then loops back along the opposite wall.

Unlike many of the residents, Gladys isn’t wearing a robe or nightgown. She’s fully dressed: a blouse, a skirt, and canvas shoes that squeak as she shuffles along.

Gladys stops when she sees a hospital cart with a half-eaten tray of food standing in the middle of the hallway. She glares as if it has insulted her. She heaves an exasperated harrumph, seizes the cart, and pushes it up against the wall where it belongs. Then she continues her march. She’s the drill sergeant around here, I think.

I go back to the others in the common room.

“She do that all the time?” I ask.

Mom nods. “Yeah. That’s her thing. She paces up and down the hall and turns the lights out each time she sees a switch. My guess is that she’s reliving the years when her kids were young and left the lights on. See that woman over there?”

I see a woman wearing dress shoes and a long furry trench coat. She’s holding a clutch purse. Her hair is done up nicely and she wears makeup. She checks her watch.
“Her name is Myrtle but she insists you call her Mrs. Schmitz,” Mom said. “She was once a school teacher. Everyday she gets dressed up as if she’s heading off to school. One day we were visiting Mom and Mrs. Schmitz walked in and shooed us away. She said, ‘My students will be here any moment. You must leave the classroom now.’”

I laughed. “What’d you do?”

“What could we do? We grabbed Mom and left.”

“So many personalities here,” I say.

“And if you come often enough, you learn to appreciate each one.”

I turn to Grandma and take her hand in mine. “How are you doing, Grandma?”

She looks at me and waves of fear cross her face. “Who are you?” she asks and pulls her hand away.

“I’m Greg, Grandma. I’m Deanna’s son.”

“Mom, you remember Little Greggie. He’s all grown up now and has his own children. This is Taylor and Rachel. They’re your great grandkids.”

The girls look at Grandma Hoover and then to me. They’re afraid.

I smile and mouth to the girls, “It’s OK.”

A glimmer of recognition comes to Grandma’s eyes. “Greg?” she says and smiles weakly.

The lights go out again.

Somebody somewhere yells, “Gladys! Turn the lights back on!”

Alzheimer’s: The Damnable Thief

Alzheimer’s is a horrible, unrepentant Thief. He begins by stealing your short-term memory. You forget names and important days. You repeat stories. He forces you to throw away the soup because you lost your place in the recipe and added two more tablespoons of oregano.

Then he robs you of the ability to tend to yourself. You leave the stove on. You forget to bathe and wash your clothes. You find your missing slipper in the refrigerator. He’s laughing now as he jumbles your thoughts. You forget where you are and how you got there. You lose things and blame those closest to you. “Where is that twenty dollars I left on the table? You stole it, didn’t you? It’s mine, I tell you, give it back!”

When he’s finished taking, he starts giving. Terrible things. Confusion, depression, fear, anxiety. And when his work is nearly complete, he leaves you with one final, malevolent gift: paranoia. And then he’s gone, off to terrorize his next victim.

Now you are utterly alone, because he’s convinced you that everyone means you harm; your children, your friends, your caretaker, everyone.

Helping Grandma Find Peace, Even if Fleeting

I know people who refuse to visit a family member in the nursing home. They say it's too difficult to see Grandpa that way. They'd prefer to remember him the way he was, not the way he is now. They mention the sights and smells and it disturbs them.

I understand those sentiments. But I believe it's a mistake not to go.

In many cases, the person you love is still in there. You just need to learn how to draw them out. It's our job to reach into their confusion and help them find the familiar through a story, a song, or a pleasant memory. We learned that in order to pull Grandma Hoover out of the fog, all we needed to do was to ask about her childhood. She'd look away, going back in time. Then she'd smile and begin describing what she saw.

She told stories of ice skating on Terwilliger's pond and playing in the haymow with her brothers and sister. She spoke of thrashing parties when the men of the county came together to help one another bring in the crops while she and the other young girls helped the women prepare a meal of dumplings and fried chicken and apple crumb pies. She told us about the Victory Gardens she grew during World War II and how her oldest sons Jack and Dick sold tomatoes, radishes, and onions door-to-door while she walked to the corner grocery to trade some fresh vegetables for a soup bone.

She remembered her childhood with remarkable detail. We kept asking questions for as long as she was willing to talk, because when the stories stopped, the fear returned. And we sang songs.

"Hey, Grandma, you remember this one, don't you?"

Smile the while, you kiss me sad adieu.
When the clouds roll by, I'll come to you.

She smiled and joined us in the singing.

Then the skies will seem more blue
Down in Lover's Lane, my dearie.
Wedding bells will ring so merrily
Ev'ry tear will be a memory
So wait and pray each night for me
Till we meet again.

Not a lyric was lost on her. And she sang in perfect harmony.

Music brought Grandma back to us. So, we sang often.

Unexpected Humor

While Alzheimer's is difficult, it is not without it's humorous moments.

Dedee's grandmother was Beulah Goebel, but people called her "Granny Bill." She developed dementia in her 80s. One day, Dedee's mother Ann dropped in unannounced for a visit. As Ann walked into the living room, she saw Granny Bill cradling one of her couch pillows as if it were a newborn. Ann stopped and listened as Granny spoke softly to the pillow.

"Well, you are a sweet little baby. And so beautiful, too." She paused slightly, staring at the pillow. "Yes, you are a lovely baby. But you sort of remind me of my couch."

The Kind of Love that Alzheimer's Requires

Dementia imprisons a person in a cage of the unfamiliar. It's our duty to release them, to push aside our discomfort in order to bring them a moment or two of peace.

It was tough at times with Grandma Hoover. In her fear and confusion, she often lashed out. Mom was her primary caretaker, so naturally she caught the brunt of it. I watched Mom in those moments and marveled. She'd smile, lean forward and stroke Grandma's eyebrows, and say, "It's OK, Mom. I know you don't mean that."

And then they sang together, mother and daughter.

I come to the garden alone,
While the dew is still on the roses,
And the voice I hear falling on my ear
The Son of God discloses.

And He walks with me, and He talks with me,
And He tells me I am His own;
And the joy we share as we tarry there,
None other has ever known.

In her infirmity, Grandma continued to teach us. She taught us patience and perseverance and how to love someone regardless of their ability to love you back.

It's a lesson that'll take me a lifetime or more to perfect. But I'm glad she taught me to try.

GREG LHAMON

Greg has spent 30 years in broadcast and digital marketing helping business owners grow their companies by learning how to tell their story. He's passionate about fly fishing, live theatre, the St. Louis Cardinals, and beef jerky. Greg writes at www.GregLhamon.com.

The Four Tiers of Long-Term Care Clients

Shawn Britt, CLU®, CLTC

Many advisors find themselves having the same long-term care (LTC) conversation with all of their clients only to find many clients say they can "self-insure". Most people, regardless of how affluent they are, can benefit from LTC coverage—but how and why a client can benefit depends on the specifics of the wealth they possess.

You may find more success by dividing your client's into tiers of wealth classifications, and then taking a customized approach to conquering the unique set of circumstances, needs and consequences each wealth group faces should they choose to ignore the opportunity to insure the risk of LTC expenses. For purposes of LTC discussions, clients can be divided into the following four tier groups:

1. **Medicaid-Likely**
2. **Middle Class**
3. **Affluent with No Estate Tax Liability Concerns**
4. **High Net Worth with Estate Tax Liability Concerns**

Each tier group is deserving of its own discussion, and by doing so you have a better opportunity to showcase the advantages of LTC planning that are specific to each group.

1 MEDICAID-LIKELY

Individuals or couples in this tier group will likely comprise little of your clientele. This tier group relative to your practice are more likely to be the parents, relatives or family friends of clients who have brought these people to you hoping you can assist. These newly acquired clients likely cannot afford (or qualify for) any type of LTC coverage, so you may want to help them prepare by recommending a good elder care attorney in your circle of influence.

These individuals or couples have little choice but to hold their breath and hope nothing happens; but if a LTC need does occur, the elder care attorney can help set up a Medicaid rescue plan that can help keep a spouse financially afloat, or help set up an individual in a cost share plan with Medicaid that has a possibility of preserving a little bit of inheritance for loved ones if death ensues relatively quickly.

Your role will likely be limited to following the lead of the elder care attorney by providing the client the financial products needed, such as a Medicaid compliant annuity.

2 MIDDLE CLASS

These are the clients we most often associate with the purchase of LTC coverage. The goal for this group of clients is to protect income and assets from devastating depletion due to LTC expenses. It's important when speaking with this group to open the conversation by avoiding the phrase "long-term care" since that term is so often associated with "nursing homes". Instead, direct the discussion towards providing funds that can "keep you in your home as long as possible should you need help". Since the highest percentage of claims begin with home health care,1 this approach is valid and may resonate better with clients.

Insuring the risk of LTC expenses provides this group with;

- More likelihood of being able to receive care at home by a paid provider
- A better chance at being able to sustain the lifestyle of a surviving spouse
- Protection that can help preserve assets for loved ones and help avoid Medicaid and the loss of

choices that comes with it.

LTC coverage could come from a traditional LTC insurance (LTCi) policy, life insurance with a LTC rider, or a linked benefit LTC policy. The solution ultimately chosen will revolve around the client's budget, or around available assets that could be repositioned. Clients with little assets available to reposition may find annual premiums for a LTCi policy or life insurance with a LTC rider a good path to pursue. While LTCi policies are initially less expensive than other solutions, they do not have guaranteed premiums and have a "use it or lose it" stigma with some clients.

On the other hand, life insurance with a LTC rider can provide coverage using guaranteed premium products, and will pay a benefit whether the insured uses LTC benefits or not since LTC benefits are simply an acceleration of the death benefit. Any amount not used for LTC is paid to the beneficiary as a death benefit. This solution is a good fit for people who need life insurance now, but like the idea of owning a policy that can provide LTC benefits if needed. Whether for younger clients needing family protection, or older clients looking to protect/enhance wealth from LTC expenses, this solution can help.

Clients who have assets to reposition, or have the ability to make larger premium payments and pay up a policy in short period of time may want to consider a linked benefit LTC policy. Premiums are guaranteed, and these policies have features and benefit choices more consistent with traditional LTC policies, but without the "use it or lose it" risk. This policy is not for people with a life insurance need, but purely with LTC concerns. The death benefit will always be equal to or more than premiums paid.

3 AFFLUENT CLIENTS WITH NO ESTATE TAX LIABILITY CONCERNS

This group of clients generally falls into an asset bracket of $1.5 million to $4 million net worth for singles and $3 million to $8 million for couples. Many of these clients not only hope they will never need care, but believe if they do, they have enough money to self-insure their care. Thus, a "traditional" LTC discussion will not go far with this group of people.

This tier group of clients may better respond to a discussion about "insuring the portfolio against an unexpected LTC event at a time when the market and account values are down". These clients have likely lived through the Dot Com crash of 2000, the 2008 crash blamed on the real estate and banking industry debacle, and perhaps even the market crash referred to as "Black Friday" on Oct. 19, 1987. And while one cannot predict how and when an account will recover from such events, one thing is most likely true—it's hard to build an account value back up when you are withdrawing substantial amounts of money from the account. Thus, while these people can likely afford to self-insure their potential LTC expenses, there is no guarantee such an event will come at a time that is convenient to the market performance of the portfolio.

SELF-INSURE VS. SELF-ASSURE

It all comes down to how to "self-insure" in the most efficient manner. Agree with your client that they can afford to self-insure, but then add that there is more than one way to self-insure and you would like to show them a more cost efficient way to do it.

SELF-INSURE A traditional way some clients plan to self-insure is to set aside some money and place it a secure liquid investment. This money may even be put in a conservative investment earning a low interest rate—such as a money market account - to ensure principal protection. Upon needing LTC, those funds (plus any gains) will be used to pay for LTC expenses. But if that individual is still alive and needing care when those set funds exhausted, they would have to tap other personal resources to continue paying LTC bills.

The advantage to this method is that if and when the time comes to need care, the person in need simply retrieves their money (cash), and spends it on the type of care they wish to have. The problem is that if and when the money set aside is exhausted, funds from income and/or accounts that were not planned for this use must now be accessed. An individual, or a couple both in need of LTC services for an extended period of time may be stunned at the amount of assets they have gone through, leaving far less for loved ones than planned. However, there is another way of self-insuring for LTC—which could be referred to as "self-assuring".

SELF "ASSURE" First, consider showing your client a linked benefit LTC policy that pays cash indemnity benefits, as that may better resonate as an "apples to apples" comparison to self-insuring. By choosing a cash indemnity policy, additional flexibility is provided that will allow for any level of care they desire without having to worry if a service will be covered, including certain "concierge" level services; because with a cash indemnity policy, the insurance company places no restrictions on how the LTC benefits are used.

Using a hypothetical example, we have a married 55-year-old female who is in good health. Keeping the numbers in this example easy, let's assume she has $100,000 ready to be earmarked for potential LTC expenses she may face in the future. If she were to self-insure, she might place the $100,000 into a safe and liquid investment such as a money market account. Upon needing LTC, she would spend that $100,000 (plus interest) on her LTC expenses. She is able to spend this money in any way she desires since it is her own cash. However, if she is still alive and needing care when that $100,000 of savings (plus interest) is exhausted, she would have to tap other personal resources to continue paying her LTC expenses.

- Conversely, with the "self-assure" option, she could simply reposition her $100,000 into a cash indemnity linked benefit LTC policy. Since these policies generally offer some form of a return of premium feature, she has the knowledge that she could retrieve this money some time into the future if needed. Her $100,000 will purchase approximately $540,000 of LTC benefits, with a death benefit of $180,000 if the policy is never used. And the benefit is "cash" that she controls, just like the self-insure plan.
    - In theory, upon qualifying for a LTC claim, the first $100,000 of LTC benefits received would essentially be coming from her own premium dollar money, much like the self-insure plan.
    - But once that $100K is exhausted, in this example, there is up to $441,257 in additional LTC benefits available from the policy to pay for LTC expenses.
    - In addition, there is a small guaranteed residual of death benefit for heirs.

The bottom line is that the cash indemnity linked benefit policy provides a level of "stop loss" that self-insuring cannot provide. When a person self-insures LTC, they are liable for every dime that needs to be spent out of their own pocket. However, with the "self-assure" method using a linked benefit policy strategy, the policy provides a stop of asset loss until the benefits are exhausted. Discussing this strategy using more of a financial spin may resonate better with your more affluent clients.

4 HIGH NET WORTH—WITH ESTATE TAX LIABILITY CONCERNS

This group of people have a different risk to discuss — the cost of "getting lucky". Your conversation with this client is to show them how self-insuring places them in the unique position (compared to people of less wealth) of their estate potentially being taxed on the money set aside for LTC if they pass away needing little or none of said funds. Let's start by looking at the potential effects of how self-insuring LTC may not be the best solution for many high net worth people.

In order for the high net worth client to self-insure, they must have assets available to them that are liquid and accessible inside their estate in the event they encounter a LTC situation that needs funding. Let's assume this client sets aside $1,000,000 for this purpose.

- If the client actually needs LTC and spends through most or all of the $1,000,000, then the "self-insure" plan worked well enough.
- However, if the client needs none of, or very little of the assets set aside, there is a cost to being "lucky" enough to not need LTC as these funds could be left subject to estate taxation.
- Assuming a 2017 maximum estate tax rate of 40%, up to $400,000 of the $1,000,000 could be taxed if it was never needed for LTC expenses (assuming holding on to this additional $1,000,000 puts the client's estate over the exempt amount).

But there is a way to potentially avoid the financial risk of self-insuring. A LTC rider can work inside an irrevocable life insurance trust (ILIT) if the rider pays indemnity benefits. An indemnity plan pays the LTC benefit directly to the owner of the policy; in this case it is the trust/trustee. The life insurance policy is essentially funding the ILIT with cash via payment of an accelerated death benefit. Keep in mind, the LTC benefit reduces the final death benefit dollar for dollar, but the total cumulative payout would remain the total death benefit amount. The insured (grantor) must never have the LTC benefit directly in hand nor can they have claims against the trust for such monies. So the big question is—how do you get the money out of the ILIT without creating incidents of ownership? That is where a collateralized arm's length loan comes in.

The trust is made "defective" for the purpose of being able to access funds from the ILIT using arm's length fully collateralized loan provisions. The loan is secured by property pledged by the Grantor/Insured. It is essentially an exchange of assets, dollars for the loan obligation—backed by the collateral. The loan must be legitimate with collateral pledged, interest charged, and an agreement to fully pay back the debt. Collateral can be anything that covers the debt; a house, artwork, coin collections, etc., as long as the asset has a legitimate fair market value.

The interest rate charged should be at least equal to the interest charged on the life insurance policy (although in this concept there will be no loan taken against the policy itself). In most cases, the loan interest is allowed to accrue. Ideally, the loan interest should be paid back prior to the death of the Grantor/Insured to avoid income taxation on the interest paid to the trust. Some plans call for the repayment of interest on a periodic basis to hedge against the risk of all interest being taxable at death, though this will impact the overall accrual of debt.

At the death of the Grantor/Insured, the loan principal and accrued interest is deductible from estate assets. Remember, estate taxes are not figured until the estate has repaid all debt. So in this case, both the loan principal and the accrued loan interest are considered debts that can be deducted. If the interest is paid back prior to death, it will remain tax free to the trust. If paid after death, the interest will be considered income to the trust and be taxed.

A reimbursement plan will generally not work in an ILIT because bills for the long-term care of the insured are submitted to the insurance company by the trustee of the ILIT (which owns the policy). The insurance company then pays the bill to the nursing home or care provider on the behalf of the insured or reimburses the trustee for expenses paid for the benefit of the insured. This chain of events provides a direct monetary benefit from the ILIT to the insured and destroys the integrity of the trust.

For more information on how this concept works, please request the white paper "Using Long-Term Care Riders in Estate Planning"; NFM-3880.11AO.

SUMMARY

How you discuss LTC with a client is really a matter of where the client falls in regard to their wealth classification. By dividing up your clients into the aforementioned wealth tiers and focusing the discussion specific to the needs and challenges each tier possesses, you may find LTC an easier conversation to have, and with more success for all tiers of clients in your practice.

[1] American Association of Long Term Care Insurance—AALTCI Sourcebook 2015-2016

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Shawn is Director of LTC Initiatives for Advanced Consulting Group at Nationwide FInancial. She has been engaged in the life insurance and LTC industry for over 20 years. Shawn has been a major influence in promoting the need for long-term care and development of Nationwide's LTC product solutions.

5 Reasons to Embrace Traditional LTC Insurance

Steven M. Cain, CLTC®

We all know that the Traditional LTCI market has struggled over the past several years—from carrier exits to significant in-force premium increases. Are you ready for the good news? There are more planning options available today—Traditional coverage, Linked-Benefits and Life Insurance with CI/ADB riders. and Traditional LTC Insurance is not going away! In fact, we're seeing LTCI Version 2.0 (sales growth and responsibly priced products).

Here are five reasons why Traditional LTCI may be a good fit for advisors and their clients:

1 TAX ADVANTAGES

The tax advantages of LTC Insurance are many, and have been well documented. Each year, the IRS increases the available deduction, and as more people build health savings account balances they can pay their premiums from the HSA. For businesses, the ability to deduct LTCI premiums as a health insurance expense is also really nice. Many small business owners take advantage of this.

2 TRADITIONAL LTCI OFFERS THE MOST LEVERAGE PER PREMIUM DOLLAR

It's true that both Linked-Benefits LTCI products and riders on Life Insurance products can provide significant LTC protection. However, if someone is looking for pure bang-for-the-buck, Traditional LTC insurance is the way to go.

3 TRADITIONAL LTCI IS BUDGET-FRIENDLY

Let's be real, LTC Insurance provides meaningful benefits and can't be called inexpensive. In addition, current LTC polices have higher initial premiums than older policies did. However, this doesn't mean policies aren't available to a wider group of prospects than assumed. According to the comprehensive 2017 Milliman LTC Insurance Survey published by Broker World, the average LTC premium in 2016 was $2,480, almost unchanged from previous years. For many mass affluent consumers who are buying policies in their late 50's, this is a manageable premium amount. Another way of looking at the average premium is it is about 2% of income of someone earning $120,000.

How much does that premium buy? According to the survey, it buys an average of $4,776 of monthly benefit for 4.07 years, or $233,259.84 of benefit. To keep it simple, understand that $2,500 buys $250,000 of coverage, or 100x premium.

4 LTC INSURANCE WORKS...JUST ASK THE PEOPLE WHO HAVE BENEFITED

For investors in LTC insurers, the last few years have been painful as claims incurred greatly exceeded actuaries projections. However, the policyholder experience with LTC Insurance, with a few exceptions, has worked very well. Current sellers of LTC Insurance paid billions in claims in 2016 and companies who no longer sell have paid billions more. The types of claims paid are well balanced, with roughly similar dollar amounts in 2016 paid for home healthcare, assisted living, and nursing home care.

Another surprise that was not anticipated by insurers is the amount of assisted living claims paid by LTC coverage. The average claim amount for assisted living is higher than either home health care or nursing home care.

5 FLEXIBILITY OF BENEFIT OPTIONS AVAILABLE

Although Linked-Benefits (Life/LTC) policies are offering more options, Traditional coverage still allows for the most customization of benefits. Here are some of the interesting and innovative options that are available through traditional LTC coverage:

- Lifetime coverage
- Multiple inflation options
- Waiver of premiums upon claim
- Shared-care coverage

Although there are numerous of ways to design a LTCI plan, be sure to not overwhelm clients with choices when recommending a solution. With consciousness about this issue at an all-time high, it's a great time to be involved in helping clients plan for LTC. More choice and insurance solutions are better for your clients, just don't forget to consider Traditional LTCI products.

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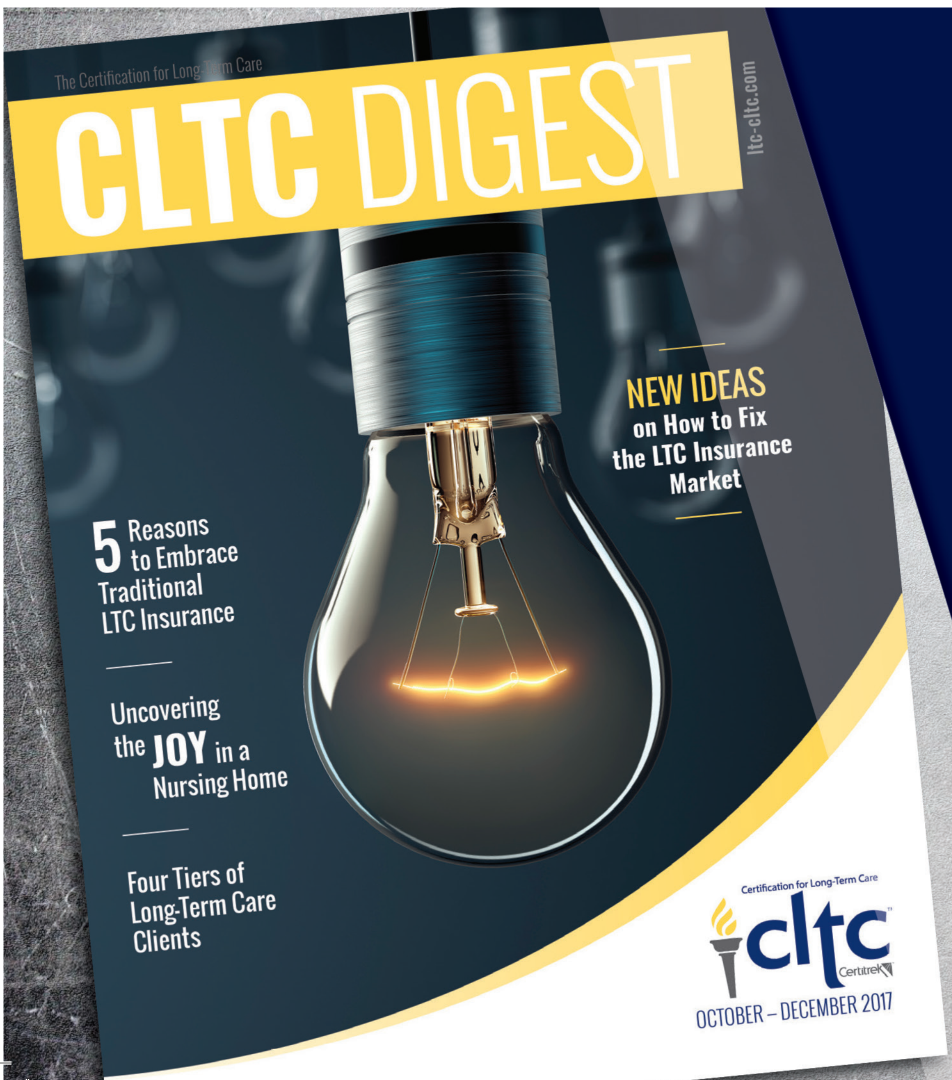

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Delve into the specifics of long-term care planning and discover the most important trends and unique perspectives of this ever-changing field.