

The Certification for Long-Term Care

# CLTC DIGEST

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## LTC Insurance IS NOT DEAD

The Top 10 LTCi  
Training Headaches

Informal Care Giving  
and Home Health Care:  
The Crisis Facing America

The Impact of Tax Reform  
on Federal LTCi  
Deductibility for  
Business Owners

Certification for Long-Term Care



JANUARY – MARCH 2018

# A NOTE FROM THE PRESIDENT

Soon after joining CLTC in October, I was asked several questions:

- "Haven't several carriers exited the business?"
- "Isn't LTCi the hardest sale in insurance?"
- "Isn't that a dying industry?"

Yes. Yes. And emphatically, NO!

Whether or not the issue is given thorough consideration, most of us have a plan for long-term care. For too many, however, the default plan of self-funding that care is not the best one. At CLTC, we strive every day to guide and support our graduates to be more successful in implementing the right LTC plan to protect assets and provide peace of mind.

Some highlights from our first issue of 2018:

- Bill Comfort and Scott Olson respond to a January Wall Street Journal article, pointing out "LTC insurance isn't for everyone, but many more people should buy it. The biggest mistake is thinking you should only buy coverage for the most expensive care you might ever need." (p. 2)
- Bill Weinhoff explains training mistakes to avoid while keeping your mandatory LTCi training in place. (p. 5)
- Tom Riekse, Jr., examines a few scenarios to inform the choice regarding inflation coverage. (p. 8)
- Shawn Britt illustrates with compelling numbers the magnitude and costs—economic and emotional—of home care, and explores the flexibility a cash indemnity plan provides. (p. 12)
- Marc Glickman provides a concise summary of the recent tax reform and reminds us that business owners have considerable tax advantages of which they might not be fully aware. (p. 16)

Thank you to all of the authors for your contributions to this issue, and thank you to all of our graduates. Best wishes for a great 2018!



David Schmidt  
President



**Certification for  
Long-Term Care, LLC.**

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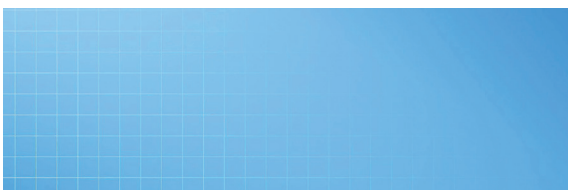
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## CALL FOR SUBMISSIONS


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# LTC INSURANCE IS NOT DEAD

By Bill Comfort, CLTC® and Scott Olson, CLTC®



Contrary to the conventional wisdom—which is not wise at all—long-term care insurance (LTCi) is not dead, nor is it dying. In fact, LTCi is poised for a significant resurgence, and, yes, we are specifically including “traditional” LTCi in that prediction. In which direction you choose to look to draw your conclusions determines your conclusion. Too many advisors and their clients are trying to drive long-term care plans by looking only in the rear-view mirror.

“Past performance [rate increases] is no guarantee of future results [rate increases].”

## THE BAD NEWS

Bad news sells. “If it bleeds it leads” goes the old press adage. Which headline is more interesting:

“Millions Bought Insurance to Cover Retirement Health Costs. Now They Face an Awful Choice”

OR

“Despite the Pain of Rate Increases, LTC Policyholders Continue to Find Value”

The first headline ran recently in the [Wall Street Journal](#) (1/17/2018), the second headline we made up.

The [WSJ](#) article does a good job of conveying the emotional pain policyholders feel when faced with double or even triple-digit rate increases, especially when they felt they were promised “level” premiums. LTCi premium increases affect real people, individuals and families who chose to protect themselves from the high cost and consequences of an extended care event.

Fifty-percent, 80%, even 150%-plus cumulative in-force increases are the reality of traditional LTCi sold in the 1990s and early 2000s; smaller, but still significant



increases, have hit policies sold even into the 2010s. Insurance companies did make several big mistakes in pricing their older policies, but this is also “old news” as premium increases due to faulty pricing assumptions have been part of the market for 15-plus years.

But the rate increases keep coming, and the press’ creed is to always find a way to “personalize” a story.

## THE BIG MISTAKES

The WSJ reporter who wrote the January 17, 2018 article, Leslie Scism, boldly states in the second paragraph, “Steep rate increases that many policyholders never saw coming are confronting them with an awful choice: Come up with the money to pay more—or walk away from their coverage.”

That is wrong; that is not the “awful choice” promised in the headline, because it is not true.

First, nearly every rate increase has offered a “reduced paid-up non-forfeiture” option—whether required by “contingent non-forfeiture” guidelines or not: if the policyholder chooses to stop paying premiums, they still have coverage with a total benefit pool equal to total premiums paid. It is much less total coverage compared to what they purchased, but it is also not zero.

Second, and more importantly, policyholders have a variety of options to reduce coverage to eliminate or reduce the impact of the rate increase. Many policyholders find significant value in these options to keep reduced but still-meaningful coverage even after a rate increase.

All of the data mistakes, omissions of clarifying information, and factual errors in the WSJ article are too many

to individually catalog, but here are a couple more observations:

“In the past two years, CNA Financial Corp. has increased the annual long-term-care insurance bill for Ms. Wylie and her husband by more than 90% to \$4,831. They bought the policies in 2008, which promise future benefits of as much as \$268,275 per person.”

Interestingly, the reporter quotes the combined premium, but then only highlights the total benefit per person. This couple had a very large increase, but together they also will have \$536,550 of total benefits. Paying less than \$5,000 per year for a half-million dollars of benefits sounds very different.

Later in the article the reporter is disingenuous with how she presents the facts again when highlighting how new policies “cover less and cost more”:

“A 60-year-old couple can expect to spend about \$3,490 in combined annual premium for a typical policy that starts out with a maximum payout of \$164,050 per person and then grows 3% a year to \$333,000 when the couple is 85.”

Again, we see the premium for two people but benefits for only one. At age 85 this couple will have total benefits of \$666,000, for a cost of about \$300 per month! That could even be a “shared benefit.”

A final criticism before looking away from the mirror and to the road ahead. All of the sales data quoted by the WSJ reflects only traditional LTCi policies without counting the exploding sales of “hybrid” or “linked-benefit” annuity or life insurance policies with LTCi benefits

which would have more than doubled the recent years’ sales numbers. The reporter dismisses these hybrid plans out of hand saying they cost even more than traditional LTCi without noting that many hybrids carry truly guaranteed premiums and additional benefits like cash value and death benefits.

An online column at Forbes.com by Jamie Hopkins, a professor at the American College, titled, “Why The WSJ Is Wrong About Long-Term Care Planning” (1/22/2018), sums up the problem with coverage like this:

“The article also hits a sour note because it actually discourages long-term care planning. The article ends with a recommendation against the purchase of any long-term care insurance. Instead, the article could have seized an opportunity to explain how the financial planning world has evolved to better provide long-term care protections, and has developed the numerous planning options available today.”

The advent of and dramatic growth in hybrid LTCi sales is not so much a wholesale replacement of traditional coverage, but a new, growing option that gives clients and their advisors many more options for funding for care in the best possible manner for each unique circumstance.

## RATE INCREASE PARANOIA

A dangerous conclusion perpetuated by the press as well as too many financial advisors is that LTCi rate increases will continue unabated into the future, including on newly-issued policies.

This is wrong. In a newspaper it is just bad reporting, in a financial advisory practice it could lead to malpractice.



“Past performance [rate increases] is no guarantee of future results [rate increases].”

Understanding why future premiums will be more rate stable requires a little history. The running negative narrative is this: LTCi companies should have known better, they should have known people would live a long time and go on claim in large numbers. The *WSJ* parroted this common refrain that, “almost every insurer in the business badly underestimated how many claims would be filed...”

That is wrong, or at least a grossly misleading over-simplification. It sounds like insurance companies were stupid and ignored clear aging demographic trends. The percentage of in-force policyholders going on claim (the “claim rate” in layman’s terms) is the one assumption that the industry has pretty much hit right on the nose.

The three main drivers of premium increases (in-force and new-business pricing) are:

1. The “lapse ratio”
2. Historically low interest rates
3. Longer than expected claim durations

All three major drivers of LTCi premium increases were unknowable as the LTCi business developed and moved through its formative years in the 1990s and early 2000s. Were mistakes made? Sure, including waiting too long to make corrections, but these three main drivers of premium increases came from factors that could not have been predicted.

## THE NO-LAPSE PROBLEM

There are many more policies in-force than originally assumed. This is due

to overestimating the “lapse ratio,” which is a very different assumption than the “claims rate.”

If out of 1,000 issued policies you expect only 300 to remain in-force until the time that a claim is likely, and if one-third go on claim, then the projection is that claims will ultimately be paid on 100 policies. But what if 600 remain in-force and 200 people go on claim? That is a 100% pricing mistake with the exact same “claims rate.” This was the first and biggest mistake that every LTCi company made.

The overall LTCi actual lapse ratio is about 2%, and for the biggest individual companies with the best policy provisions they have actual lapse ratios of 1% or less. No financial insurance product has ever had such a low lapse rate. It is also important to note that even after more than a decade of serial rate increases, the lapse rate has barely budged; there is no death spiral in LTC insurance.

Most companies in the early to mid-1990s used a disability/health insurance equivalent lapse ratio of 7%-9% (clearly a mistake in hindsight). A few companies priced what was then considered a very conservative lapse rate of 4.5%.

No financial insurance product ever had a lapse rate below 3.5% (whole life insurance). Lapse rates of 2%

or 1% and less were unthinkable, truly unknowable, and devastating, especially as the problem compounded year over year. From the get-go a 4.5% rate versus a 1% reality is a 35% pricing mistake, after 15 years it’s nearly double that (70%) just to catch up.

Many LTCi companies waited too long to make corrections, and then they got hit with the 2008 market crash.

## INTEREST RATES

Because LTCi is a “long-tail,” “reserve priced” insurance product that is designed to collect premiums for many years, if not decades, before paying benefits the interest-earning assumption on the regulatory-mandated reserve funds is a critical component of pricing.

The market crash of 2008-2009 not only dropped interest rates to historic lows, but 10 years later interest rates have been historically low for an unprecedented historically long period of time (with no appreciable increases in sight). LTCi carriers assumed their long-term reserve earnings would be 6-7% as they had been for long-risk, reserve-priced life and disability insurance for 60-some years, and the companies found themselves having to reset their new premium and maturing investments to a 3-3.5% interest marketplace, that’s half the rate and was completely unpredictable. Interest rates have fluctuated—sometimes wildly—in the past, but never to this degree and more importantly for this long.

## THE CLAIMS

Finally, claims data: There was no meaningful LTC experience in the mid-90s, just Medicare & Medicaid Nursing Home data (short & long



durations respectively), which ended up being inadequate as more and better assisted living and home care options became available.

So, average claim durations were off: Women by 33% to 50%, men less, but compounding longer than expected claim durations against up to 10-times more people with coverage than expected and then half the reserve interest earnings, and it was a perfect storm.

The Society of Actuaries estimates that we now have 70-times more claims data than in the early 2000s; that claims data is just now, finally, becoming “credible”, meaning there is a large enough pool of information to be accurately predictive instead of just being an informed assumption. We are finally getting it right with actual claims experience.

The bad news: we need increases on older policies to bring them up to today’s informed pricing standards. That hurts, but the rate increases leave policyholders with premiums no higher than new applicants are being asked to pay for equal new coverage.

## LOOKING DOWN THE ROAD

The good news: new policy rates have all these adjusted factors baked in. The very reasons older policies are still getting rate increases cannot come back to impact newly issued policies because the adjustments are already priced in and are as conservative as possible.

For new buyers looking forward new premiums are priced at 1% or less lapse, so that “mistake” cannot come back; new premium reserve earnings are priced about 4% or less, so if we stay current or even have slight increases in interest rates, that mistake is permanently corrected, and we

have nearly-credible longer-duration claims projections. Rates must be more stable looking forward. Still not guaranteed on traditional policies, but they will be much more stable.

Do you—or your clients—want or need fully-guaranteed premiums? We have that in many of the hybrid plans. What about getting something back if you never need care? We have that available, too. But traditional LTCi which unquestionably provides the richest LTCi benefits for the premiums paid and can guarantee Medicaid Partnership asset protection in all but a few states is poised for a dramatic resurgence if advisors and clients will look beyond the irrational fear generated by misinformed headlines.

## THE REGULATORS

Finally it should be noted that in more than 40 states, and as far back as 2002–2004 there are now significant Rate Stability Regulations that have dramatically limited the number of and amount of increases for policies issued since the RSR implementation. Post-RSR rate increases on average have been half of the rates on older policies which grab all the headlines.

There are very strong feelings about LTC insurance, especially unexpected and unexpectedly-high rate increases. CLTC® designees must empathize and always seek to recommend what is best for each individual and family, even if not perfect.

LTC insurance isn’t for everyone, but many more people should buy it. The biggest mistake is thinking you should only buy (or not) 100% coverage for the most expensive care you might ever need. It is not a zero-sum decision. \$3000-\$5000/month of benefit for meaningful home care

services will protect most people from the most devastating personal and financial costs of care. Is it full coverage for any and all types of care? Of course not, but that does not mean it’s not valuable and meaningful.

The potential market for LTCi still growing dramatically as the Baby Boomers age; the need is growing exponentially. “The policy is not the plan; the policy pays for the plan.” What is your plan? How will you pay for it? LTC insurance—in any form—is a great tool that will not only survive but grow with better pricing assumptions and many options to meet whatever needs a client and his family have.



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CLTC®

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**SCOTT OLSON**  
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With over 20 years of experience, Scott is a sought-after expert on LTC insurance.

He is co-owner of LTCShop.com, where consumers can easily compare leading LTC insurance policies within their own personalized shopping portal.

Should You Always  
Recommend  
LTC Insurance  
with  
**Automatic  
Inflation?**

By Tom Riekse, Jr.





For many years, the question of whether to add automatic inflation coverage to LTC Insurance was a no-brainer. Traditional LTC policies were less expensive back then, and adding 5% compound inflation didn't impact affordability for most clients.

Now, however, the answer is not so simple, and advisors should consider whether simply buying more coverage up front is a better strategy, especially for couples age 55+. We've looked at this topic before, and wanted to update the numbers for today's product.

Consider a 60 year old couple with a premium budget of \$3,000 per year and is considering a shared care stand-alone LTCi policy. Let's compare two quotes, one with 3% inflation and one with no inflation. I ran quotes using Mutual of Omaha's mobile software. It is easy to use and automatically updates with the latest rates.

**CHART 1: THE PLAN WITH 3% COMPOUND INFLATION**

BASE BENEFITS*	
Monthly Benefit	\$3,000
Benefit Period	3 Years
Policy Limit	\$108,000
Elimination Period	90 Days
HHC Waiver	No
ALF Reduction	100%
HHC Reduction	100%
Discount	None
CASH BENEFIT	
Benefit Percent	30%
Monthly Benefit	\$900
Combined Total	\$1,800

\*Source: Mutual of Omaha mobile software

As you can see, the couple gets a combined pool of money of \$216,000 and an initial benefit of \$3,000 each. Benefits will grow at 3% compound inflation, and the policy should be eligible as a "partnership" policy in most states.

**CHART 2: THE PLAN WITH NO INFLATION COVERAGE**

BASE BENEFITS*	
Monthly Benefit	\$6,000
Benefit Period	2.78 Years
Policy Limit	\$200,000
Elimination Period	90 Days
HHC Waiver	No
ALF Reduction	100%
HHC Reduction	100%
Discount	None
CASH BENEFIT	
Benefit Percent	40%
Monthly Benefit	\$2,400 max
Combined Total	\$4,800

\*Source: Mutual of Omaha mobile software

Here, the benefits are a combined \$400,000 and the monthly benefit is \$6,000 each. In most states, this plan will not be "partnership" eligible.

As shown above, someone gets about double the initial benefit with the «no inflation» plan. Looking to the future, it takes about 23 years for a 3% inflation plan to catch up with the no-inflation plan. Actuaries have to reserve for these ever increasing benefit amounts, and that is expensive.

### WHICH PLAN IS BEST?

It depends on what happens in the future, of course! Let's look at some scenarios:

**1 Both clients live a really healthy, really really long life.**

If this couple has no health problems until age 95, and then someone needs care, choosing the inflation benefit would have been a good call. The combined benefit would be about \$600,000 and the monthly benefit each would be about \$8,200 per month.

## 2 One client needs care, exhausts their LTCi benefit pool and their assets, and also have a low income allowing them to qualify for Medicaid.

In this hypothetical case, the partnership protection of plans with inflation can be accessed. As interesting as these plans have been, the number of policyholders who bought policies and then end up on Medicaid is rare. As an example, Connecticut has sold a partnership plan in the state since the 90's and over 60,000 have bought these plans.

To date, the number of people who have these plans in place and qualified for Medicaid (thus preserving their assets) is 204. The state estimates it has saved under \$30 million in Medicaid savings due to the program, a mere drop in the ocean of long-term care spending. (As a side note, many states have minimum benefits that must be purchased—a \$3,000 monthly benefit may not even qualify for partnership plans, meaning the people that are meant to benefit from these plans can't afford them!)

## 3 One person has a stroke at age 65 and needs help for 6 months, but then recovers enough so that no longer is benefit eligible.

At age 65, the monthly benefit under the "no inflation" option will be \$6,000 compared to about \$3,400 for the

inflation plan—a more significant benefit for payment of ongoing caregiving costs. The no inflation choice would have worked.

## 4 Someone is diagnosed with aggressive early onset dementia or Alzheimer's.

The number one claim cost for LTCi for these types of claims, and they can be expensive. Because of that, it would have been better to have purchased the higher benefit "no inflation" coverage.

### A FEW OTHER THINGS TO CONSIDER:

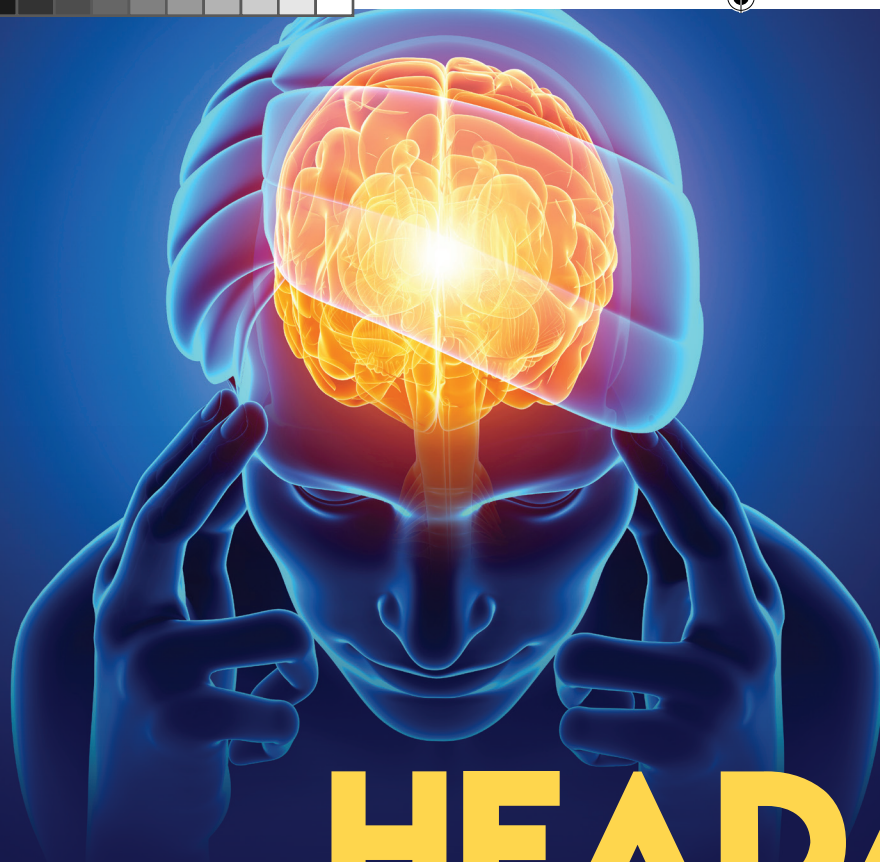
- According to the 2017 Milliman/Broker World Long-Term Care Insurance Survey, only about 25% of policies are now bought with either 3% compound or 5% compound automatic inflation coverage.
- Over half of worksite LTCi plans are sold with either no or future purchase option coverage, according to the the 2017 Analysis of worksite LTC Insurance. The worksite market is growing at a faster rate than sales in the individual market, and perhaps more affordable premiums are a reason.
- Carriers are asking regulators whether mandatory inflation options are necessary on LTCi coverage. With only 2% of policy buyers selecting 5% compound, should it still be required to be offered?
- Many hybrid life/LTCi plans offer inflation coverage, but often plans are purchased without automatic inflation, especially on the ADB (acceleration of death benefit).



**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](http://www.LTCipartners.com/blog)



# THE TOP 10 LTCi TRAINING HEADACHES

By Bill Weinhoff

As a CLTC graduate, you've proved you're serious about delivering the best possible service to your clients by completing the industry's most advanced designation program. Chances are you've also encountered mandatory LTCi training that must be completed on an ongoing basis. There are a few flavors of this, but in 42 states this training is based on the 2006 Long Term Care Insurance Model Act published by the National Association of Insurance Commissioners in December of that year. (A few of the remaining states have their own training requirements but those are beyond the scope of this article).

Early in 2007 states began implementing this training, and toward the end of the year ClearCert® was formed through the leadership of several carriers to help make sense of what quickly became a major compliance challenge. For ten years we've had a ringside seat as states have implemented these requirements, carriers have reacted, and they've done their best to communicate what's needed to their distribution communities.

We've learned a lot during the first decade, and have heard from many producers about their frustrations in trying to keep up with what is arguably the most

challenging training requirement in the insurance industry. In this article I want to share with you the top ten mistakes that producers make when taking training in an attempt to comply with these rules. Even after ten years, this training requirement still can be a major headache if you aren't careful, resulting in returned business and even damaged client relationships.

So without further ado, let's count down the top 10 most common training mistakes.

## 10 | TAKING THE SAME COURSE TWICE

Most states don't allow you to take the same during the same CE compliance period. Many prohibit taking the same course for continuing education credit in successive terms, and some never allow a CE course to be repeated.

Most producers want to get CE credit for taking mandatory long-term care training, but since refresher training must be repeated every two years in most states, you should not take a course that you couldn't get CE credit for if you did need it—even if you don't need CE credit.

Although LTCi training is certified by your carrier, not the state department of insurance, the carriers have no other set of rules to look to in determining whether a course was taken under the authority of the state besides continuing education regulations. So if you took the same course last compliance period and your state won't allow you to take it during the next one for continuing education purposes, don't repeat it, even for non-CE credit.

**What to do:** Take a different refresher course each time one is due. Some training firms offer more than one, but if you have to switch to a different company to avoid this issue, do so.

## 9 FORGETTING ABOUT STATE-SPECIFIC REQUIREMENTS

Seven states—GA, MA, MN, SD, VA, VT and WI—require producers who take a course in a different state to take a 1 or 2 hour course on state partnership and Medicaid rules in order to fulfill the initial training requirement. Three of these states—MA, SD and WI—also require this for refresher training when taken elsewhere. And if you take your main course on a different date than the state-specific course, you may have to track two expiration dates.

**What to do:** If you know you will be representing LTCi in one or more of these states, take the state-specific training as soon as possible after your main course, ideally the same day.

In January of 2018 ClearCert's Carrier Council decided that the MN state-specific requirement applies only to producers representing a carrier that has a partnership policy in the state.

## 8 BELIEVING STATE-SPECIFIC TRAINING ADVANCES YOUR TRAINING DEADLINE

These state-specific courses are less than 4 hours, so taking one begins your certification in the state, but it does not extend the date by which you must take your next course of at least four hours.

**What to do:** In most cases, take a four-hour course in these states, which will get you the state-specific certification you need and extend your training deadline.

The exception: unless you just completed your main course in a different state, your resident state requires you to take your main courses in that state. Or you need the two-hour WI state-specific credit, which would require an eight-hour course.

## 7 TAKING A COURSE IN THE WRONG STATE

In nine states—AZ, CO, IA, MN, OH, TN, TX, WI and WV—resident producers must take a course in their resident state. But if you are a non-resident in Texas, you must take your course in Texas or in your resident state; but, your resident state must have a training requirement based on the 2006 Model Act.

**What to do:** If your resident state requires that you complete courses at home, be sure to do so.

**Special note:** If you are a resident of one of the nine states that does not have a training requirement based on the 2006 Model Act—CA, CT, DC, DE, HI, IN, MS, NM or NY—and you represent LTCi in one of the other 42 states, you will need to take a course in one of those states; taking a course in your resident state will not count, because your state doesn't have the approval authority for this type of training. If you sell partnership policies in Texas, take your courses for Texas credit.

## 6 LOSING YOUR TRAINING CERTIFICATE

Course completion certificates seem to be printed on very slippery paper, because they have a tendency to disappear. Be sure to keep both paper and digital copies of your LTCi completion certificates. You never know when you'll need them.

But if you lose one, you can usually get a replacement from the training firm. (ClearCert is exclusively authorized to replace AHIP training certificates).

**What to do:** Check your state's training transcript service to identify the course you took. (ClearCert provides this service.)

## 5 LOOKING FOR ANSWERS IN ALL THE WRONG PLACES

Got a question about mandatory LTCi training? Don't reach out to the state department of insurance or a training firm. Your contact there may be well-meaning,

but they aren't authorized to provide definitive answers about what carriers will accept.

**What to do:** First, check the carrier's online rules. (Fifteen carriers use [www.clearcert.com](http://www.clearcert.com) for this purpose.) Still unsure? Contact the carrier's licensing team. Because the carrier must verify your training, only its version of the rules counts.

## 4 | LETTING YOUR STATUS LAPSE

Although you can usually restore your certification status by taking a refresher course following a lapse, it's your fiduciary duty to discuss all products that can meet clients' unique needs. That means you should be prepared to discuss LTCi at any moment—so keep your training status current.

**What to do:** Keep track of the date(s) on which your status will expire and be sure to take a course before that date. If you represent LTCi in multiple states, take refresher training on the interval of the state(s) that requires it most frequently.

## 3 | CONFUSING LICENSING AND TRAINING RECIPROCALITY

In most states, as long as your education status is current in your resident state, you are considered compliant with non-resident state education requirements.

LTCi training reciprocity doesn't work like that. Instead, your course is reciprocal to other state requirements—most other elements of that state's rules still apply, such as the date by which you must take another course.

If your resident state gives you until the end of your next license period until you must take refresher training, your status may expire in non-resident states that use the 24-months-after-last-course standard, even though you're still certified at home.

**What to do:** Reciprocity has caused a huge amount of confusion, and is the reason ClearCert developed automated tools for calculating reciprocity automatically. Your firm's licensing department should be able to help you with this.

**DID YOU KNOW?** Partnership Training is a requirement for professionals to sell long-term care insurance in 42 states. CLTC offers Partnership Training **free of charge** for our graduates—and we are an approved vendor through ClearCert.

## 2 | FAILING TO RECEIVE STATE-BASED CREDIT FOR YOUR COURSE

Some training firms require an extra fee to receive continuing education credit for your course. If you don't need CE credits for license renewal, or if you are primarily taking a course for designation program credit, you may be tempted to skip this. Without this information your carrier will probably not consider your certificate valid.

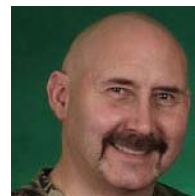
**What to do:** Before you take a course, ask whether your certificate will include your name and license or national producer number; show the state for which you received credit; the number of credits earned; and the state-issued course name/number.

## 1 | TAKING THE WRONG COURSE

You've taken your continuing education courses through the same training firm for years. They offer long-term care training courses, so you take one—only to hear from your carrier that the course cannot be accepted.

**Why this can happen:** Since your carrier must certify your training—and is liable for market conduct action if it says you are certified but you are not—it must be instantly prepared to respond to any state inquiries about courses it accepted for compliance purposes. Many carriers rely on ClearCert for this task, while others do internal reviews. A course that hasn't been checked won't be accepted. It may meet all requirements, but if the carrier can't prove this, it can't take the risk.

**What to do:** Before taking a course for LTCi credit, check with your carrier's licensing department to be sure the course you plan to take is fully acceptable. You can also check ClearCert's certified course list—we guarantee your carrier will accept your course if we have certified it.



**BILL WIENHOFF**  
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# Informal Care Giving and Home Health Care

The Crisis Facing America

By Shawn Britt  
CLU®, CLTC®



Informal caregiving is facing a crisis in America—“baby boomers” are aging into retirement, driving an increasing need for senior services and long-term care (LTC) support. The boomers thus far are the largest population to retire, yet they face a unique challenge that past generations escaped—who will be available to provide the care they may need?

Studies show that **74%** of people would prefer to receive long-term care at home.<sup>1</sup>

However, the number of people available to work for agencies that provide home health care (HHC) is barely growing compared to the number of people that will need HHC services—estimated to be 120 million by

2024.<sup>2</sup> To make matters worse, turnover rates are high in the home care industry, exceeding 70%.<sup>2</sup> Thus, the HHC industry is bracing itself for a shortage of labor to fill the much-needed caregiving positions.

That could bring a greater need for informal caregivers to step in and provide help in order to keep an individual from being forced into a facility simply because professional care services at home were not readily available. But the people charged with these tasks may not be able to financially afford to step away from a job or even reduce working hours.

## WHAT IS AN INFORMAL CAREGIVER?

Simply put, it is an unpaid individual—usually a spouse or partner, family member, friend or neighbor—who assists an individual in need of help with activities of daily living (ADLs) or other living and medical



needs. Some of these needs may be what are called instrumental activities of daily living (iADLS). This care is usually given in a home setting.

► **Activities of Daily Living**

- Bathing
- Dressing
- Eating
- Transferring
- Toileting
- Continence

► **Instrumental Activities of Daily Living**

- Household chores
- Meal preparation
- Shopping
- Managing money and paying bills

The resulting cost to people providing informal care is more than double the cost of HHC and facility care combined.

- **\$241.7 billion:** Annual cost of paid care at home or in a facility<sup>5</sup>
  - More than twice the amount is spent on informal care
- **\$522 billion:** Annual amount spent and opportunity cost losses due to informal care<sup>6</sup>

To put those numbers in perspective, there is more overall cost to informal care than the total sales for Walmart in 2016—**\$482 billion.**<sup>7</sup>

**WHO IS PROVIDING HOME CARE?**

- 66% of older people receiving care at home get their care exclusively from family (mostly wives and daughters)<sup>8</sup>
- 26% receive some combination of paid help and unpaid family care<sup>8</sup>
- Only 9% receive all of their care from paid help<sup>8</sup>

People may perceive informal care as being “free,” but in reality, there is a **big** cost connected to the sacrifices family or friends make to provide care. The costs to caregivers include economic, time and personal health.

**ECONOMIC IMPACT TO CAREGIVERS**

The average caregiver is a married 49-year-old female who is employed.<sup>8</sup> Caregiving reduces paid work hours

for these women on average of 41% and results in other career sacrifices in the form of passed up promotions, taking a leave of absence, quitting their job entirely or retiring early.<sup>8</sup> Individuals returning to work when caregiving ends often wind up in jobs with less pay and less in benefits than the job they previously held.

In addition, caregivers generally have out-of-pocket expenses relating to their caregiving responsibilities. This adds up to a large economic sacrifice.

- \$7,000: Approximate average annual out-of-pocket expense for family caregivers<sup>9</sup>
- \$12,000: Approximate average annual out-of-pocket expense for long-distance caregivers<sup>9</sup>
- \$303,880: A caregiver’s average loss over a lifetime in lost wages and benefits<sup>8</sup>

**25% of informal caregivers are millennials with less income and assets than their parents had at the same stage in life.**<sup>3</sup>

**TIME SPENT CAREGIVING**

Caregivers often invest significant time into helping their loved one. This results in time away from their own family, friends and personal and work responsibilities.

- **24 hours a week:** Average amount of time spent in the role of caregiver.<sup>10</sup>
- **4 years:** Average amount of time, in total, an individual devotes to caregiving.<sup>10</sup>
- **30 billion hours:** Total number of hours spent each year in the U.S. on informal caregiving<sup>10</sup>
  - 22 billion hours are performed by people with full-time jobs<sup>10</sup>

**HEALTH IMPACT OF CAREGIVERS**

Economic and time challenges coupled with physical and emotional stress impact the health of the caregiver. People who provide informal care are more susceptible to emotional stress; anger and anxiety; escalated substance abuse; and higher mortality rates.<sup>8</sup>

- Caregivers are two times more likely to say their overall health is poor vs. the general population<sup>11</sup>

**40%**  
of sole caregivers  
predecease their patient.<sup>12</sup>

## MEETING THE CHALLENGE

How can advisors help clients address some of these challenges? That's where long-term care insurance coverage can help. Any type of LTC coverage can provide additional funds to help cover the cost of qualifying LTC expenses; and possessing funds for LTC leaves an individual with more care options outside of depending on family or friends.

However, when discussing LTC coverage with a client, the advisor should ask what type of care is desired. Clients expressing interest in paying family members or unlicensed caregivers, or looking at alternative care services for their LTC needs may want to consider a cash indemnity policy.

## CASH INDEMNITY: LOOKING AT VALUE vs. PRICE

When you consider the policies available, what is worth more—a reimbursement policy with more potential benefit dollars or a cash indemnity policy paying the full available monthly benefit with no restrictions on use?

A reimbursement policy "may" pay for alternative care services if the insurance company chooses to approve the expenditure, but they generally do not reimburse for the cost of care provided by an immediate family member or for care from unlicensed caregiver (which can be less expensive).

However, cash indemnity LTC benefits can be used 100% without restriction from the insurance company; thus, the policy owner can pay their daughter, niece or other family member, or a friend to care for them. This could help replace some or all of the income the caregiver may have to sacrifice in order to take on the caregiving responsibilities.<sup>13</sup>

In addition, there is a future value to cash indemnity benefits—paying for the unknown. As other creative solutions to LTC services and supports come into being (for example non-human help such as robots), cash indemnity benefits will be there ready to pay for what is needed. Thus, some clients may find more value in a policy whose benefit pool is open to any and all care options without need for approval from the insurance company.

LTC services and supports are likely to continue evolving into the future to meet the ever-changing needs people will face as the shift in the LTC work force takes place. Owning a cash indemnity LTC solution is one way to prepare for changes and have flexible funding to pay for accessible care.



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- 2 www.1800homecare.com; "Massive Caregiver Shortage Expected as Demand for Home Care Services Rises", Christopher Adrien, March 20, 2017
- 3 The Hill; "Family care needs upgrade; Millennials are the new 'sandwich generation'", Nancy LeaMond and Jen Mishory, April 12, 2017
- 4 The Internal Revenue Code Section 7702B(c)(1)
- 5 U.S. Dept. of Health and Human Services; July 6, 2016
- 6 The Opportunity Costs of Informal Elder-Care in the United States; Health Services Research, June 2015
- 7 www.statista.com/statistics/183399/Walmart-net-sales-worldwide-since-2006/2016
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- 9 AARP Study, "Family Caregiving and Out-of-Pocket Costs: 2016 Report"
- 10 The Caregiving Landscape: Challenges and Opportunities for Employers, Nobel, Weiss, Sasser, Sherman, Pickering, March 2017
- 11 2015 AARP Research Report – Caregiving in the U.S.
- 12 Careing.com, Ron Kauffman – "I'm Losing Myself Being a Caregiver", October 16, 2016
- 13 Please consult your tax advisor when paying an informal caregiver as there may be tax implications to such an arrangement.



# The Impact of TAX REFORM on Federal LTCi Deductibility For Business Owners

By Marc Glickman

The Tax Cuts and Jobs Act ("Tax Reform") was signed into law in late 2017. It is complex and still being analyzed by tax experts and advisors. In this article, we will explore the possible impact of changes to the tax code and how those changes might affect long term care insurance planning. Since every situation has unique circumstances, and laws are subject to interpretation and change, your client should consult with their tax advisor to see how Tax Reform might affect them. While I'm not licensed to give tax advice, the following information is meant to give a general overview of the recent changes.

Annually, CLTC publishes a one page Tax Summary<sup>1</sup>, which can help you better understand LTCi deductibility. Visit [ltc-cltc.com](http://ltc-cltc.com) to review the 2018 Tax Summary under graduate resources when you log into your account.

Tax Reform presents a unique opportunity to have a LTCi planning conversation with your clients. Business owners and tax advisors are focused on analyzing the many changes to the tax code. LTCi can be an integral part of that analysis.

## WHAT HAS NOT CHANGED

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) was enacted to satisfy a number of different public policy objectives including: (1) classifying long term care costs as a medical expense thus providing taxpayers with some economic relief; (2) categorizing long term care insurance as accident and health insurance thereby providing clarity as to the tax treatment of premiums and benefits; and (3) providing the general public an incentive to purchase private long term care insurance.

As a result of treating LTCi similar to accident and health insurance, businesses began to provide this valuable benefit to their owners and employees. Businesses can "carve-out" LTCi plans for owners, select employees, their spouses and dependents. Tax-qualified LTCi reimbursement benefits received are generally not includable in income for the employee despite the fact that premiums are deducted by the employer. This differs from other employer paid plans (i.e. Disability Insurance) where benefits can be taxable to the employee if the premiums were deducted by the business.

Businesses that file their taxes as C Corporations can generally deduct all LTCi premiums under the plan subject to the requirement that the total compensation is reasonable for services that the employee provides to the business.

Businesses that file their taxes as S Corporations can also deduct premiums paid for LTCi. Like accident and health insurance, LTCi premiums for a 2%-plus owner in an S Corporation may be claimed as an above-the-line (not itemized) self-employed health insurance deduction on line 29 of the 2017 IRS Form 1040. 2%-plus owners of an S Corporation have an annual dollar limit on the amount of the premium deduction based on the age of the owner during the calendar year when the deduction occurs—limited to the lesser of actual premium paid or eligible LTCi premiums.

This tax treatment not only applies to S Corporations, but also Sole Proprietors, Partnerships, and some Professional Service Corporations (i.e. doctors, lawyers,

or accountants). The precise treatment of the LTCi deduction depends on the type of business entity.

based on age) x Individual Tax Rate. The actual dollar tax savings will depend on many factors related to the owner's overall individual tax return.

## WHAT HAS CHANGED

There are changes in Tax Reform that may have an indirect impact on the amount of tax savings related to LTCi deductions:

### 1. Changes to the overall tax rates for businesses and individuals.

Tax Reform changes both the Corporate and Individual Tax Rates. The highest C Corporation Tax Rate changes from 35% to 21% and the highest Individual Tax Rate changes from 39.6% to 37%. Later in this review, we will look at estimated after-tax costs of LTCi plans for a hypothetical client given these new tax rates.

### 2. Changes to other deductions that might affect LTCi tax savings.

The state and local tax itemized deduction for individuals on the federal tax return has been changed under the new law. This could increase federal taxable income especially for those in high income tax states. As such, LTCi deductions may be more desirable than before to take on state income tax returns.

### 3. Changes to the CPI methodology for the Age Eligible LTCi Premium limits.

The age based annual deductibility limits changed from CPI to "Chained CPI". This is unlikely to have a major impact. Overall chained CPI has increased 2.11% annually since 2001 as compared to CPI, which has increased 2.33% annually. The Age Eligible LTCi limits are linked to the medical care component of CPI.

## INSIDE THE NUMBERS

Different entity types will likely yield different estimated dollar tax savings for a business owner paying LTCi premiums using the corporate checkbook:

- Owner of a C Corporation = Premiums Deducted (not limited) x Corporate Tax Rate
- 2% plus owners of a S Corporation = An amount equal to the S Corporation's deducted LTCi premiums is pass-through income to the owner's individual tax return. The business owner can then deduct the premiums (limited by dollar amount

## CASE STUDY

A 60 year old couple (business owner and spouse) are looking to implement a long term care plan after having just finished taking care of one of their parents. They learn from their advisor that LTCi can not only provide significant asset protection, but the benefits received are tax-free. Both individuals are very healthy and have been pre-qualified for the best underwriting class. After a conversation to learn about the client's needs, budget and desires, the advisor designed a long term care insurance plan that will cost approximately \$2,500 per person, or \$5,000 combined.

Let's see how much tax savings they could achieve by deducting the LTCi premiums. First, let's assume they own a C Corporation. As a result of Tax Reform, the highest federal corporate tax rate is 21%. Their premiums are fully deductible and they could save \$1,050 (\$5,000 x 21%). As a result of this deduction, the net cost of the LTCi plan after tax savings is essentially \$3,950.

Now, let's assume they own an S Corporation. After Tax Reform their top federal individual tax rate is 37%. In 2018, based on their age (60), they are eligible to deduct up to \$1,560 per person (or a combined \$3,120) based on the Internal Revenue Code Section 213 table:

### AGE ELIGIBLE LTCI PREMIUM LIMITS

Age	2018 Limit Per Person
40 or under	\$420
41-50	\$780
51-60	\$1,560
61-70	\$4,160
71+	\$5,200

The tax savings could therefore be about \$1,154 (\$3,120 x 37%). When they turn 61 in 2019, the eligible LTCi premium deduction limit may be higher. But, let's assume that it will still be \$4,160 per person (or a combined \$8,320 for both of them based on the 2018 limits). They can deduct the combined \$5,000 premium in full with a resulting tax savings of \$1,850 (\$5,000 x 37%). As a result of this deduction, the net cost of the LTCi plan after tax savings is essentially \$3,150.

An owner of a S Corporation might be able to have a higher dollar tax savings because their individual tax rate is higher than the C Corporation tax rate.

In addition to the advantage of deducting LTCi premiums, using a 10-year premium payment option might maximize this opportunity, and benefit the owner and employees by having the plan fully paid up before retirement.

your community as a resource for everything related to long term care insurance planning.

Recently, I was speaking with someone whose CPA had not been utilizing the self-employed LTCi tax deduction on their own tax return! Don't let this happen to your clients or their advisors. Become the go-to person in your community as a resource for everything related to long term care insurance planning.

### LIFETIME LTCI PREMIUM PAYMENT

(Over the first 10 years.) Estimated after-tax cost of plan.

Year	Ages	Paid Premium	C Corp	S Corp
2018	60/60	\$5,000	\$3,950	\$3,846
2019	61/61	\$5,000	\$3,950	\$3,150
2020	62/62	\$5,000	\$3,950	\$3,150
2021	63/63	\$5,000	\$3,950	\$3,150
2022	64/64	\$5,000	\$3,950	\$3,150
2023	65/65	\$5,000	\$3,950	\$3,150
2024	66/66	\$5,000	\$3,950	\$3,150
2025	67/67	\$5,000	\$3,950	\$3,150
2026	68/68	\$5,000	\$3,950	\$3,150
2027	69/69	\$5,000	\$3,950	\$3,150
		<b>\$50,000</b>	<b>\$39,500</b>	<b>\$32,196</b>

### 10-YEAR LTCI PREMIUM PAYMENT

Estimated after-tax cost of plan.

Year	Ages	Paid Premium	C Corp	S Corp
2018	60/60	\$11,500	\$9,085	\$10,346
2019	61/61	\$11,500	\$9,085	\$8,422
2020	62/62	\$11,500	\$9,085	\$8,422
2021	63/63	\$11,500	\$9,085	\$8,422
2022	64/64	\$11,500	\$9,085	\$8,422
2023	65/65	\$11,500	\$9,085	\$8,422
2024	66/66	\$11,500	\$9,085	\$8,422
2025	67/67	\$11,500	\$9,085	\$8,422
2026	68/68	\$11,500	\$9,085	\$8,422
2027	69/69	\$11,500	\$9,085	\$8,422
		<b>\$115,000</b>	<b>\$90,850</b>	<b>\$86,144</b>

## CONCLUSION

Tax Reform, now more than ever, represents a great opportunity to approach tax advisors and business owner clients. There are roughly 28 million small businesses in the US. The potential opportunity within your own network is greater than ever before.

#### Before April 15:

Do you have current LTCi clients that own a business, have long term care insurance, but are possibly not taking advantage of tax deductibility? You can add value to them by educating them on tax savings they might not know are available.

#### After April 15:

A great time to approach tax advisors! They've just completed prior tax year filings and have time to listen to how you can help them and their clients. Recently, I was speaking with someone whose CPA had not been utilizing the self-employed LTCi tax deduction on their own tax return! Don't let this happen to your clients or their advisors. Become the go-to person in

#### ASSUMPTIONS

C Corporation Tax Rate	21%
Individual Tax Rate	37%
Rate Class	Best
Daily Benefit Amount	\$200
Benefit Period (3 Pools)	5 Yr/Each + Shared Care
Inflation Protection	3% Compound
Elimination Period	90 Day



#### MARC GLICKMAN

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Marc is responsible for distribution of the National Guardian Life (NGL) EssentialLTC program. He has a decade of experience as an LTCi actuary.

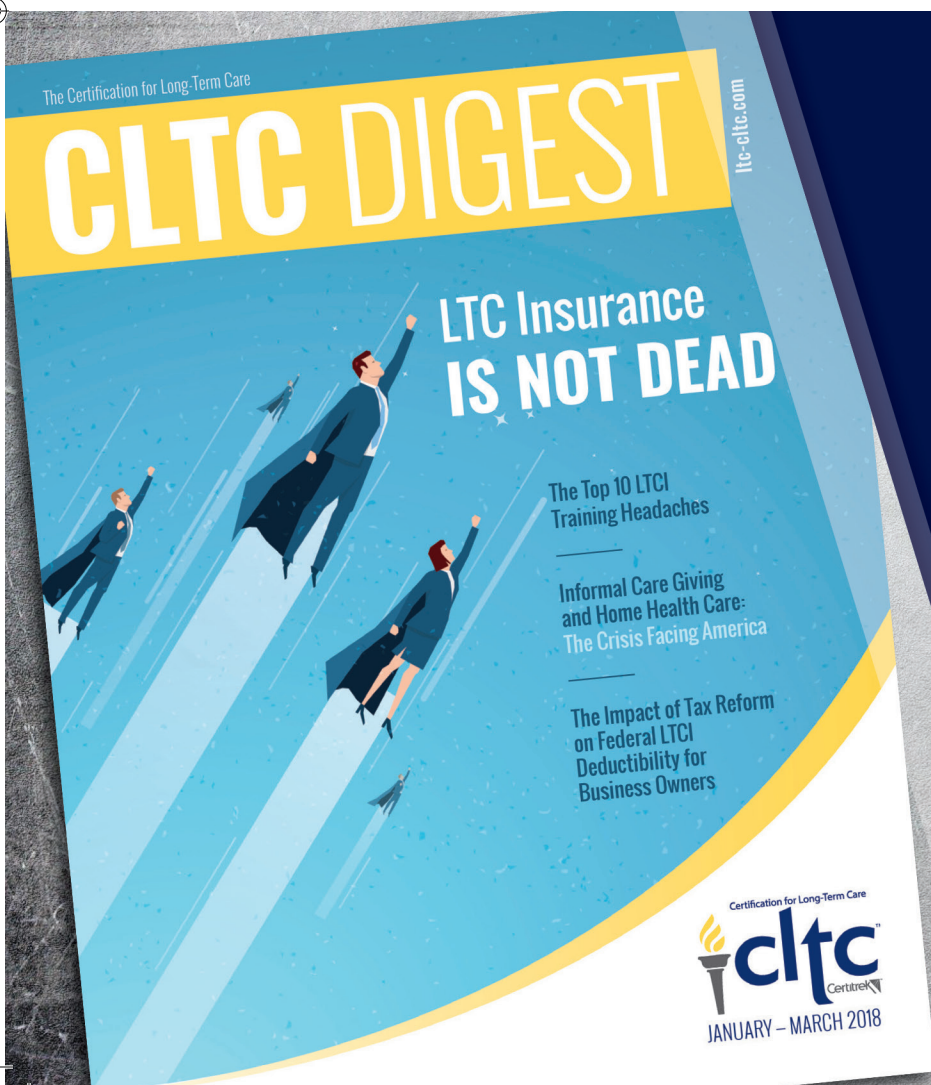
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<sup>1</sup> CLTC One Page 2018 Tax Summary: Tax-Qualified Long-Term Care Insurance (LTCi); [ltc-cltc.com/pdf/CLTC%20Page%202018%20Tax%20Summary\\_Final.pdf](http://ltc-cltc.com/pdf/CLTC%20Page%202018%20Tax%20Summary_Final.pdf)



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