The Certification for Long-Term Care

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Long-Term Care May Not be a Vacation but Deserves Similar Thought and Planning

JULY – SEPTEMBER 2019

INSIDER'S NOTE

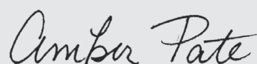
What better reading material for those lazy days of summer than the latest edition of the *CLTC Digest*. Enjoy perusing our pages as you kick back and relax.

Here are some story highlights from inside:

- In Shawn Britt's cover story (pg. 2), she compares and contrasts planning for a LTC event versus planning a vacation. Not surprisingly, Shawn describes why more consideration and advanced planning should be given to long-term care planning.
- Chris Orestis examines life settlements as a potential solution to meeting clients' financial challenges of senior living and long-term care. (pg. 6)
- Kerry Peabody discusses (and puts to rest) some of the more common anti-stand-alone LTC insurance opinions. (pg. 11)
- In this issue's "Ask the Actuary," Marc Glickman (pg. 14) discusses how to offer LTCi using a target premium and funding strategy.

Thank you authors and readers for all you are doing to protect your clients, their income, and their assets. We hope you enjoy the issue— happy reading!

Kind Regards,



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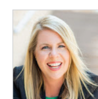

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Long-Term Care May Not be a Vacation but Deserves Similar Thought and Planning

By Shawn Britt, CLU®, CLTC®

Imagine deciding to take the family on vacation to Orlando on the spur of the moment. You were too busy to make prior arrangements, so you decide to just pack your bags, load up the car, and drive the whole family to Florida. No plans and no reservations. There's still time— your spouse and the kids can "plan as you go" while you make the one-and-a-half-day drive to Florida. With cell phones in hand, research and reservations can be handled easily while driving!

How will this vacation turn out? It may be fine...but maybe not. Here is what *could* happen:

- You have a hard time finding a hotel close to the amusement parks for a reasonable price. As it turns out, it is one of the busiest weeks of the year in Orlando. (Who knew?)
- Your desire to stay at a resort hotel that offers convenient shuttle service from the hotel to the parks is dashed. You will be staying miles away and forced to drive in each day and pay for parking.
- The hotel you end up booking looks nothing like the photos shown on the online advertisement.
- The lines in the parks for rides and experiences are beyond long. Waits are 90 minutes or more for each attraction—it was too late to book "fast passes". This has cut down drastically on the number of rides and experiences that the family will be able to enjoy.
- Reservations for lunch with the cast of characters filled up weeks ago. Lunch with your family will be at a food stand, or restaurant on the property that is bound to be of dislike to someone in the family, particularly to the child who was expecting to have lunch at the castle with Cinderella.
- The kids are fighting. The park is getting close to closing and no one can agree on a final choice of where the family will spend the last hour in the park.

I could go on, but you get the idea. Planning a vacation at the eleventh-hour can potentially end in disaster; and the same risk applies to eleventh hour planning for potential long-term care (LTC) needs.

LTC IS AN EVENT, NOT A PLACE

Unfortunately, too many clients equate long-term care with nursing home 30s; therefore, it is important for the client to understand that long-term care is not a "place." Long-term care is an *event.* And like any event, you should plan it in advance to have the greatest chance of having a successful outcome—for both you and your family members.

A well-planned strategy will help provide a smoother transition if and when a care plan needs to be implemented, and will help quell family dissension.

WHAT IS THE DIFFERENCE BETWEEN A VACATION AND LTC EVENT?

The difference boils down to two things: *time* and *money.*

- **Time.** Vacations are taken at our own convenience. LTC events cannot be predicted and do not happen at a "convenient" time.
- **Money.** A vacation can be postponed until we have saved enough money to pay for the vacation. A LTC event cannot be postponed until affordable—it happens when it happens, whether we are financially ready or not.

WHAT SIMILARITIES EXIST BETWEEN PLANNING A VACATION AND LTC EVENT?

Planning for a long-term care event is more like planning a vacation than you may think. For both, you should consider the following:

- **Location.** Just like planning where to go on vacation, your client should consider where they want to be living when they need care.

  Maybe they plan to retire to Florida and intend to stay there if a LTC event were to arise. Or perhaps if long-term care is needed, they hope to be moved back to Ohio to be close to family.

  In order to plan for the cost of care, you must first decide where care may likely take place and determine what care services are available in that location.

- **Whom you want around you.** Some people limit going on vacation with immediate family while others enjoy group vacations or vacations with the opportunity to meet new people. Part of LTC planning is determining whom you wish to be around when you are receiving care.

  Some people may prefer caregivers to be people they feel close to, such as family members or close friends. Others may want outside help in order to relieve burden placed on those with whom they are closest.

- **A place to stay (or live).** When planning vacations, one of the most important decisions we make is where to stay. The same applies to planning for a long-term care event.

  Where would your client prefer to be living while receiving LTC services—at home, with family caregivers and counting on visitors for company? Or would they be happier living in a residential care facility where meals and activities are offered in a more structured setting? There are also alternative care options your client may want to consider.

- **Activities.** Vacation activities vary greatly from sunning by the pool or reading in the shade to participating in grand activities such as white-water rafting and zip-lining. Each person has their own idea of how active they wish to be on vacation.

  When putting a LTC plan in place, keep in mind how active your client hopes to be when receiving care. Will your client be content at home or in their room at a facility reading and

watching TV a good part of the day? Or does your client want to participate often in social events and enriching activities?

SUCCESS LIES IN THE PLANNING

While proper planning of a vacation is important, proper planning of a long-term care event is critical. The best chance of avoiding failure is to address each step of the event in advance, even preparing back-up scenarios should original plans go awry.

Planning for a LTC event may be done in stages and the plan should be reviewed annually. The following are some of the planning steps to consider:

1. **What scenario does your client picture as ideal for receiving care?** Encourage your client to apply their imagination. Life does not have to end when a long-term care event occurs. Thinking through and planning now for various care options may help your client feel more in control of their future. Whether considering care at home, a community-based setting like assisted living, or an alternative care service, a list of possibilities should be created.

2. **Plan with the appropriate location in mind as cost of care varies depending on where your client plans to live.** While some clients will want to receive care close to where immediate family resides, other clients may want to remain near friends in the community to which they retire.

3. **Encourage clients to communicate their wishes to family and friends that will be part of their care plan.** It is important to confirm that the people your client plans to include in their care plan are willing to participate as envisioned.

4. **Clients should do an annual review of their care plan, including loved ones and advocates in the discussion, in case there are changes that need to be made.** Death, divorces, relocations, etc. can change a person's willingness or ability to provide the support your client may have been counting on in the original LTC plan.

5. **Clients should have a back-up plan.** The care a person requires may be more involved than initially planned. Coordinating and communicating a back-up plan will help family members make decisions for a loved one should change in their care needs intensify.

6. **Clients should have all documents in place to help ensure their care needs can be implemented as planned, particularly if care needs involve cognitive impairment.** Powers of Attorney, HIPAA release forms, DNR (do not resuscitate) orders, etc. should be put in place while your client still has mental capacity and can make their own choices.

7. **Encourage clients to provide contact information of their financial professional to adult children.** Clients who do not want to share specific financial information with their adult children should be encouraged to provide contact information of their financial professionals and any other persons of importance should assistance be needed with a long-term care event or other emergency.

8. **Fund the plan.** This is one of the most important steps. Having dedicated funds to pay for the care plan will help your client retain their choices and their dignity. Self-funding is not the best way to fund care—even for the affluent.

SELF-FUNDING IS "UN-SURING"

Most people do not embark on a vacation until they know how they are going to pay for it. However, too many people ignore or postpone planning on how to pay for a long-term care event. It is common to hear clients say they intend to "self-insure," but there is no such thing as self-insuring.

Insurance provides an immediate leverage of dollars in exchange for a promise from the policy owner to pay premiums for a set amount of time. It doesn't matter when the triggering event occurs—the insurance pays the promised benefit for the qualifying event regardless of when it happens.

> A client who insists they will self-insure is really self-*funding* and that could be construed as "**un-suring.**"

It cannot be predicted how long the individual will have to save for the event nor can future rates of return be predicted. Timing and performance is unknown and unsure.

If your client tells you they can self-insure, ask them: "When do you believe a long-term are event will begin?" The typical response is "I don't know." And that is the point: to self-fund you have to know how long you have to save and have an idea of the rate of return you could earn.

LTC INSURANCE SOLUTIONS FOR ALL SITUATIONS

There is a wide variety of LTC insurance solutions in the market today. Products providing long-term care coverage range from traditional policies and linked-benefit (hybrid) policies to LTC riders on life insurance and annuities.

Linked benefit policies, and LTC riders on some insurance policies can even guarantee the premiums due will never increase. Premium schedules on the various products range from a single lump sum, short pays such as 5 or 10 years, pay to age 65 and even to age 100. This variety allows the purchase of a policy affordable for a large array of budgets.

FINAL THOUGHTS

Most people would not go on a vacation without a proper plan in place—and long-term care should not be any different. Planning is key. When we plan a vacation, we think about where we want to go, who we want to be with, what we want to do, and how we are going to pay for it. Planning for a LTC event should be addressed with even more consideration and advanced planning than would be put into planning a successful vacation.

If a vacation does not turn out as hoped for, there is always another day to try again. Long-term care is generally not blessed with do-overs.

SHAWN BRITT
CLU®, CLTC®

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.

One of the Fastest Growing Areas to Fund Long-Term Care: LIFE SETTLEMENTS

By Chris Orestis

INTRODUCTION

The costs of long-term care are increasing every year, but most families and advisors do not understand what they will be confronting when it is time to start paying for care. Too many people wait until they are in the middle of a crisis before they start trying to figure out how the world of long-term care works. Long-term care is a topic people don't want to discuss, yet it's a very expensive proposition. Families can go broke quickly trying to provide for a loved one.

Compounding this problem, is that most people don't know what is, and what is not covered between public and private pay. And, most certainly don't understand alternative private pay funding options such as life settlements, reverse mortgages, and the VA Aid and Attendance Benefit; or the growing array of combo long-term care, annuity and life insurance products.

Today, one of the fastest growing areas of funding long-term care is in "crisis management". There are "point-of-need" tools available to families that can help pay for the costs of care at the time that it is needed. One tool that is becoming more prevalent, is using a life settlements with an in-force life insurance policy to access funds that can be used to pay for the costs of senior retirement living and long-term care.

LTC-HSA

For those needing to pay for expensive medical or long-term care costs, a life settlement can provide tax-free lump sum cash and/or can be used to fund a Long-Term Care Benefit Account. This is a specific bank-trust account set up to hold and administer the funds from the policy settlement for care. As soon as the account is funded, it can begin making monthly payments towards any form of senior living and long-term care services the owner wants.

All care options can be covered, including home care, assisted living, skilled nursing care, memory care and even hospice. But, this is not a long-term care insurance policy and it is not issued by an

insurance company. It is more like a LTC-HSA (Health Saving Account) funded exclusively by the settlement proceeds to be used for care.

- Like an HSA, the Benefit Account is held and administered by a federally chartered and FDIC insured bank. It is a no-fee, non-interest bearing irrevocable bank-trust account. There are no waiting periods and no claims to file; the account is ready to start making payments towards care as soon it is funded by a life settlements.

- The account is flexible, so payments can start at a designated amount for any form of care a person needs, and then can be adjusted to meet changing care needs. There is a final expense cash benefit with the account, or if the insured passes away before the funds in the account are spent-down, any remaining balance will transfer to the named account beneficiaries tax-free if they are below the estate tax threshold.

- Because the account is funded by the secondary market value of the policy and then used exclusively for medical and long-term care expenses, it is both tax-free and considered a Medicaid qualified spend-down of the funds. This keeps the person private pay for as long as there are funds in the account, but once depleted they could make a seamless transition over to Medicaid.

POLITICAL SUPPORT

In the summer of 2017, the National Association of Insurance Commissioners (NAIC) released the policy paper, "Private Market Options for Financing Long-Term Care", and in it endorsed the life insurance secondary market as an innovative option to help

PRIVATE MARKET OPTIONS FOR FINANCING LONG-TERM CARE (July 19, 2017)

NAIC Long-Term Care Innovations (B) Subgroup

Life Settlements. The sale of an in-force life insurance policy for a market-based settlement value in excess of the cash surrender value (i.e., the account value less any surrender charge) is one option seniors might use to generate resources to pay for their long-term care needs. Some elder care providers and professional advisors recommend that their clients consider using life settlement proceeds to fund an account with a bank and trust company to make monthly payments directly to a designated long-term care provider.

Upon death, in addition to a modest reserve to defray final expenses, any remaining balance in the account is paid to a designated beneficiary. Policy owners who sell their policies receive a lump sum payment that is generally four or more times greater than if they lapsed or surrendered their policy, according to government and university studies. In particular, where there has been deterioration in the insured's health since the life insurance policy's issue date, the owner can sell the policy for an amount substantially greater than the cash surrender value.

Over the past few years, there has been some movement toward the standardization of disclosure requirements around life settlements. For example, the National Conference of Insurance Legislators adopted a model law and a number of states have adopted laws or rules to improve disclosure to seniors regarding alternatives to the lapse or surrender of a policy.

In addition, a handful of states have considered or adopted laws that would require the state Medicaid agency to advise seniors to consider selling their policies as a means to fund their long-term care needs, reducing the financial burdens on the senior, their families and the state treasury.

people pay for long-term care. This was a watershed moment for the life insurance industry, and people in need of financial resources for long-term care. The paper was another important step in the mainstreaming of the secondary life settlement marketplace, right at a time when the senior population and demand for long-term care services is growing at explosive levels.

A MULTI-BILLION DOLLAR MARKET

Today, there are less than 8 million in-force long-term care insurance policies in the United States. By comparison, there are over 150 million in-force life insurance policies with over $12 *trillion* of death benefit on the books today. Of this massive asset pool:

> Seniors own **$230 billion** of death benefit that could potentially qualify to be exchanged in the secondary market for life settlements value on an annual basis.

The challenge is that 9 out of 10 life insurance policies ultimately won't remain in-force to pay a death benefit because they will be needlessly lapsed or surrendered by the owner. Seniors in particular are most vulnerable to this dilemma. For many, after years of premium payments, they decide they no longer need or can no longer afford to keep the policy, or they abandon their policy as part of their Medicaid planning spend-down requirements.

The good news is that for seniors who own life insurance policies, a solution to their financial woes is in their hands. Accessing the secondary market has never been easier, or more readily available to consumers than it is today. The regulatory environment is not only solidly in place across most of the country, but as evidenced by the NAIC paper, regulators and political leaders have come to look upon settlements as a long-term care funding solution with favor.

Moreover, with such a large pool of in-force life insurance policies owned by seniors, there are literally billions of dollars available to fund retirement and long-term care costs. The opportunity for advisors is that these policy owners are sitting on the sidelines every year just waiting for the information and guidance to tap into the secondary market value of their asset.

CONSUMER AWARENESS EXPLODES

Consumer awareness about life settlements continues to grow as the transaction becomes more mainstream. Driven by TV commercials, media attention, and more understanding and acceptance by insurance and financial advisors, the number of settlements transacted is increasing annually.

> In 2018, there were **$3.8 billion** of life settlements transacted—a 28% increase over the prior year.

Also, more advisors are understanding that a life insurance policy is legally recognized as personal property of the owner, and that withholding information about secondary market options from a policy owner opens up the risk of possible legal liability.

As precedent setting legal actions mount across the county in the matter of disclosure versus concealment of information about the secondary market value of life insurance policies, more and more advisors are adding this information to their practice as both a smart business practice, and as a hedge against potential legal and financial liability.

Growth in life settlements will be fueled by the combination of growing consumer awareness, advisor adoption, a favorable tax and regulatory environment, and the financial challenges confronting an aging Baby Boom population. This will help seniors tap into billions of dollars of available liquidity coming out of an asset they already own—instead of throwing it away.

LIFE SETTLEMENT MYTHS AND FACTS

Myth: Carriers can prevent policy owners from selling their policy with a life settlement.

Fact: It is the legal right of a policy owner to sell their policy with a life settlement. Life insurance policies are legally recognized as an asset and protected as personal property of the policy owner.

Myth: Life settlements are not well regulated.

Fact: Life settlements are regulated in 45 states under NAIC model regulations. The NAIC endorses life settlements as a private market innovation to help policy owners pay for long-term care.

Myth: Life settlements lack consumer protections.

Fact: Life settlements provide significant consumer protections, and there have been no consumer complaints or litigation against licensed life settlement companies since 2012.

Myth: There is a lack of consumer awareness or interest.

Fact: Consumer awareness is at an all-time high driven by TV commercials, news articles, online information, advisor education and word-of-mouth. Consumer interest drove $3.8 billion of life settlements in 2018.

Myth: Life settlements are viaticals.

Fact: Life settlements and viaticals are different transactions designed to help people based on their diagnosis or life expectancy. A viatical is typically for a person who is medically certified with a terminal condition that would indicate a life expectancy under two years. Life settlements are for people who have a life expectancy over two years and would not be considered terminal.

Myth: Agents and policy owners need to work through a life settlement broker.

Fact: A life settlement broker is neither required nor necessary for a life settlement. Agents and policy owners can work directly with buyers to sell a life insurance policy, and in the process remove the need for a brokerage commission being taken out of the offer to the policy owner.

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Myth: Life settlements are frowned upon by carriers and regulators.

Fact: State regulators long-ago worked with the industry to implement NAIC model regulations that have been guiding the marketplace ever since. Many carriers actually participate in the life settlement market as buyers, and their opposition to the transaction has reduced over the years, but some resistance to the transaction still remains.

Myth: Life settlements are not allowed by broker dealers or Registered Investment Advisors.

Fact: There are many broker dealers that allow and participate in life settlements. Any type of agent or advisor can work with life settlements. Some must obtain an OBA (outside business activity) waiver and some fee-only advisors choose not to forego compensation.

Myth: Taxes are complicated and a problem for life settlements.

Fact: There are two ways that life settlements are taxed:

1. If the policy owner is chronic (2 ADL's or more) or terminal, the proceeds from a life settlement are tax-free.
2. It the policy owner does not meet this standard, the proceeds from a life settlement are taxed as capital gain for any amount above their basis in the policy.

Myth: There is no fiduciary obligation surrounding a life settlement.

Fact: There are at least three settled court cases of policy owners suing their advisor and the carrier for keeping information about a life settlement from them before they lapsed or surrendered a policy.

CONCLUSION

Life settlements have evolved over the last decade into a mainstream tool to help seniors pay for retirement and long-term care. Public awareness, and interest is at an all-time high.

Advisors offering solutions to seniors to meet the financial challenges of senior living and long-term care are adding life settlements to their practice. It is an opportunity to help seniors obtain the maximum market value from an asset they already own, but are in danger of abandoning for little to no value in return. There are tax-advantages and fiduciary obligations that well-informed advisors understand to the benefit of their clients.

Life settlements are a smart tool to add to your toolbox that can not only help families you are working with, but it can also add a new revenue stream to your practice.

CHRIS ORESTIS

Chris is an over 23-year veteran of both the insurance and long-term care industries, a nationally known senior care advocate, acknowledged expert on insurance and long-term care issues, a former lobbyist and political expert, and very well known in the world of life/health insurance brokerage distribution. He was named Executive Vice President of GWG Life in 2017, after the merger of Life Care Funding where he was the Founder and CEO since 2007.

LONG-TERM CARE INSURANCE IS NOT DEAD

By Kerry Peabody, CLU®, CLTC

There's a lot of unjustified hate out there for stand-alone long-term care insurance. The new mantra seems to be "Hybrids are going to save the world, and stand-alone long-term care insurance is dead!" You see it over and over in articles and blogs and on insurance message boards. Fortunately, it's simply not true. Let's cover some of the typical comments you see in an anti-stand-alone LTC insurance piece.

- **The carriers can't make a profit on LTC.**

  While it's entirely accurate to say that the carriers lost money hand over fist—and are still losing money—on earlier generations of policies, that's not so on newer products. When they priced and marketed those early products, they used what they thought were reasonable pricing assumptions, but they turned out to be utterly and completely wrong. That's why every generation of LTC policy has been more expensive than the last—because as the carriers learned, they changed their pricing assumptions.

  If you simply look for them, you'll find plenty of articles explaining exactly what mistakes were made, and how they've been corrected. Additionally, the carriers, instead of trying to "out-feature" each other have pulled back on benefits. That's why new products rarely offer lifetime benefits, why 5% compound inflation is outrageously expensive today, and why you no longer see men and women paying the same rates. The products are far more expensive today because of these changes.

  Case in point, my wife and I bought our LTC insurance at age 40. Our initial, annual premium was a combined $1,236. If we were magically 40 years old again today, identical coverage would cost us roughly $2,919—236% of the original cost. The carriers have swung far to the conservative side on all of their pricing assumptions, they've limited the benefits, and they've moved to sex-distinct rates.

  This means that the rates are far more stable than in the past, and that the product will be profitable moving forward, especially for new carriers who enter the industry, without massive blocks of underpriced business hanging over their heads.

- **There are no carriers offering stand-alone LTC insurance.**

  Well, the list of "no" companies offering this product currently includes Mutual of Omaha, Transamerica, National Guardian Life, Northwestern Mutual, New York Life, Mass

Mutual, LifeSecure, Bankers Life, Thrivent, and a few others.

This is no different than what happened with individual disability insurance in the 1980s. The carriers got into a features and price war, and were selling extremely generous contracts at ridiculously low prices, and suddenly, experience caught up with them. When that happened, prices went up, contract features grew more conservative, and several carriers exited the market.

Today, when DI comes up, there are only about ten really strong carriers to draw from... but that's enough. It doesn't take forty companies to have a strong market. It takes a handful of carriers offering good, appropriately-priced, conservatively-underwritten products. We have that right now in long-term care.

- **Hybrids are the better answer.**

Wrong.

> Hybrids are an answer, for some clients, but not the better answer for all clients. In fact, they're a horrible answer for a big chunk of the middle class.

Hybrids have their place, but they're expensive, and many offer limited protection when compared to stand-alone LTC policies. The best hybrids are funded with a single premium, or a premium paid over a limited period of up to 10 years.

Why do I say these are the best in class? Because they can offer inflation riders, and do an excellent job of providing real LTC protection. But the average single premium is roughly $70,000, and there's a huge population out there who need LTC protection who cannot afford to set aside $70,000 or more to cover their future LTC needs.

But what about ongoing premium hybrid plans? Again, they're expensive, and they offer inferior LTC protection. The on-going premium plans don't offer inflation, so the client needs to buy a death/ LTC benefit today that's large enough to cover their LTC needs in the future. Typically a couple can get better protection with LTC insurance which will cost less for both of them than what a hybrid would cost for just one.

But there's a death benefit on the life policy, right? Yes, that's true, but you're not trying to meet the need for a death benefit, you're trying to meet the need for LTC protection. And the absolute, hands-down **worst** scenario is this one:

> *Bob needs a $250,000 life policy, he buys it, and he's told: "And guess what, Bob, this can also be used to pay for long-term care, so you no longer need to worry about that!"*

Well, if Bob had a need for life insurance, now that need will quite possibly be left unmet, because if he spends the death benefit on long-term care services, it's gone.

As to the cost of LTCi versus hybrids, let's look at a couple, age 60. They need some LTC protection. They compare stand-alone coverage to single premium and an on-going premium hybrids.

The first argument is: "Well, the rates can change on the long-term care insurance." So, let's build that in. Let's assume that the couple with the stand-alone plan has a 15% rate increase in year 10, and another in year 15. In 20 years, they'll have paid a total of $88,743 for their LTC insurance, and they'll each have $292,590 of protection. That's a pretty good chunk of leverage.

With the single-premium plans, they paid $222,727 initially, and have roughly the same amount of coverage. But they took that money completely out of circulation 20 years ago. Had that money been tucked away at a measly 2.5%—easily done with an annuity, by the way—they could have used the interest to fund their stand-alone LTC premiums every year…and they'd still have the cash. Sure, they can get that money back, but they have to do one of two things: give up their LTC protection and surrender the policy, getting back their original premium—no interest—or die. I guess if I had to choose one, I'd take the first option.

The on-going premium plans? They've paid $110,640 in premiums over the same period, and they still have just $112,500 each for LTC protection. In 20 years, that's about eight months in a nursing home. If these folks were truly concerned about an LTC need,

they made a bad decision. And if they needed life insurance, they made an equally bad decision, because the death benefit might still be sucked up to pay for long-term care.

Clearly, stand-alone LTC insurance is far more efficient than either of these hybrid alternatives, when the client's true concern is paying for LTC services.

- **Finally hybrids offer the same benefits.**

  Wrong. Hybrids, at least for now, and I expect for a long time to come, do **not** offer protection under the LTC Partnership program. Granted, for high net-worth clients, this doesn't matter. But for Joe and Donna, who have $500,000 in savings, the LTC Partnership program is incredibly valuable.

  I'm not going to explain the LTC Partnership, because any agent trying to meet the LTC needs of their client should already know how it works, and the value it offers. Sadly, I'd bet that 90% of the consumers who are sold hybrids today have never even heard of the LTC Partnership, because no agent has ever bothered to mention it to them.

So, agents, wholesalers, carrier reps, everyone: I get it, hybrids are easier to sell. And guess what? I love helping my clients find the right hybrid plan...when it's the best, most appropriate option. My goal here isn't to say that hybrid plans are bad, because they're not. They're great products, for the right client. But we need to stop telling everyone that stand-alone long-term care insurance was created by demonic actuaries in the service of Satan, and that the product is dead.

Stand-alone LTC insurance paid over $10 billion in benefits last year alone. Despite all of its warts, LTC insurance works, and it works well.

> Products priced and sold today are going to be more stable by far than anything sold in the past.

Consumers deserve to know what their options are... all of them. And they need to be given the information they need to make an informed decision.

KERRY PEABODY
CLU®, CLTC®

Kerry is a Long-Term Care Insurance Specialist with Clark Insurance in Portland, ME. He has been involved with long-termcare insurance for more than 20 years. This includes four years as an LTC medical underwriter for UNUM, then another four years as a National Sales Director, training agents around the country on LTC need and products. For the past 15 years, he's been working directly with consumers, helping families and small business owners protect themselves against the staggering emotional, physical and financial impact that an extended long term care event can have.

ASK THE ACTUARY:

How to Offer LTCi Using a Target Premium and Funding Strategy

By Marc Glickman, FSA, CLTC®, LTCP

DO YOU HAVE ANY LTCI QUESTIONS FOR THE ACTUARY?
Please submit them to Marc at marc.glickman@lifecareassurance.com.

Disclosure: The author helps financial professionals and consumers connect with insurance specialists.

Dear Actuary,

I have a lot of people asking me about LTCi solutions, but they tell me it sounds too expensive. What can I do to help them get a plan that meets both their needs and their budget?

Affordable in Arkansas

Dear Affordable,

Most long term care agents will answer this way: "If you think LTCi is too expensive, you should see the cost of not having LTCi!" Then, the agent will show the prospect the cost of care in their area, and the costs might be truly scary. In fact, so scary, that the prospect runs away without a plan!

This is the traditional needs analysis. Needs analysis is an important part of LTC planning, but it may not always be best to discuss at the beginning of the conversation. Admittedly, this can work for skilled agents with certain prospects who see LTCi as a luxury. However, far too often, it results in the prospect deciding not to purchase a LTCi plan once they see the price tag.

Closely related to needs analysis is the defined benefits approach. Agents commonly select pre-determined benefits and ask for one-size-fits-all quotes. This approach also frequently results in clients passing up coverage altogether.

Many agents tell me they despise it when their prospects demand quotes early on in the conversation before they have assessed needs and considered benefits. Here is an alternative approach. Agree with your prospect and embrace these questions! These questions can be a door opener to show how affordable LTCi can be, ask about funding sources, and allow you to share insurance tax advantages.

This conversation often leads to funding analysis. The idea is to first help your client identify which assets or income are ideal for them to use to pay

for insurance protection. This can establish an initial target price point, payment period option (single pay, multi-pay, or lifetime-pay), and can be useful to identify funding sources with tax advantages. Funding analysis can be effective as evidenced by life insurance plans with LTC riders that commonly use an asset-based funding source to great success. You can use funding analysis for any insurance plan.

The funding analysis may be so effective that later in the conversation, when cost of care is discussed, you will find your client asking to buy *more* coverage. At this stage, they better understand the value proposition of the insurance plan.

Closely related to funding analysis is the defined contribution or target premium approach. This is a method where you determine how much money will be put into the plan and choose the plan that maximizes benefits based on a price target.

An example of this strategy is to start with a percentage of income that will be used to fund the insurance plan. This is similar to the approach used in the 401(k) market to identify a percentage of income to take out of the paycheck for a defined contribution plan.

Many agents and websites employ a "good, better, best" methodology to allow the prospect to choose the right starting price for them. This is a combination of the defined benefits approach with three pricing options. Many prospects will choose the middle option. Often this will result in a price that most clients choose on average.

THE TARGET PREMIUM AND FUNDING APPROACH IN PRACTICE

The importance of the funding approach hit home recently. I was having brunch with a good friend, Steve. He is a very successful 62-year-old business executive. As a life-long bachelor, he is winding down his career and contemplating his travel plans in retirement. We got to talking about my LTC business. I told him everyone needs a long term care plan whether or not insurance is used as the solution.

Marc: What's your LTC plan?

Steve: I'll self-insure. I'm really healthy and can't picture needing it. The insurance companies are trying to make money off of me, and if they don't, they'll just raise my rates."

Did I mention that Steve is not a fan of insurance?

Marc: You might consider buying a really small policy. There are core high-end features built into even small plans, and when you consider the costs involved, the insurance company won't be making much money. There are plans today where you can prepay the premiums and limit the risk of rate increases.

Steve: Tell me more.

Steve's an analytical type, so I drew up a plan to demonstrate the LTCi value proposition. We discussed both traditional and Hybrid alternatives. The plan he preferred most looked like **Table 2** on the next page.

Table 1: **TARGET PREMIUM STRATEGIES**

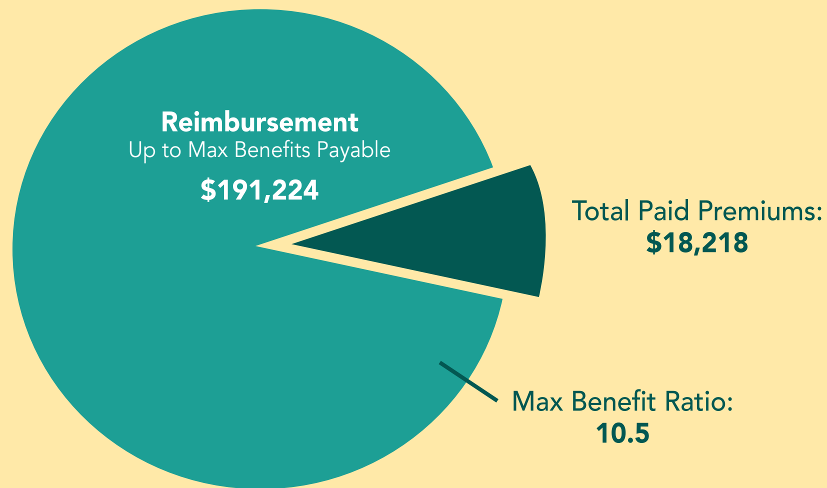
Strategy	Question to Ask
Average Price of LTCi	What do you think most people pay for LTCi on average?
Income-based Planning	What percentage of your earned or retirement income is comfortable to spend after accounting for other living expenses and obligations?
Asset-based Planning	What asset might be repositioned to provide coverage longer and better than you are currently doing?
Pricing Based on Other Types of Insurance	How much do you pay for life insurance, annuities, disability, health, auto, or homeowner's insurance?

Table 2:
BENEFITS BUDDY

Male Issue Age: **62**
Projected Claim Age: **85**

Male Annual Premium:
$1,822

Daily Benefit at 85:
$99



The plan cost only $1,822 per year and would be paid up in 10 years! At that point, no more premiums would be due, and the insurance company couldn't raise his rates or reduce his benefits.

At age 85, this plan could provide just under $200,000 of benefits paid out at about $100/day should he need LTC services for several years. Not a high-end plan, but he could self-fund the rest as he planned to do anyway. This is a good foundational plan for the care he might need in the future.

The value proposition is that the insurance plan might provide a maximum of 10.5 times tax-free benefits compared to the total premiums paid, which significantly exceeded the multiple he could get from self-funding over the same horizon. I could see the wheels turning as Steve began to assess the financial tradeoffs.

THE TRIPLE TAX ADVANTAGE OF HSAs FOR LTCI

Steve spent most of his career as one of the country's foremost tax experts in his field. So, we began to dig a little deeper.

> **Marc:** Let's discuss some funding options for this plan. Do you own an HSA?

Many tax experts aren't aware that you can fund LTCi premiums using an HSA up to an annual limit. HSAs have soared in popularity because of the ACA and growth of high deductible health care plans. HSAs have grown 10-fold since 2008 with about $51 Billion of assets as of 2018[1].

> **Steve:** In fact I do have an HSA that is accumulating a lot of money.

It can make a lot of sense to fund LTCi from an HSA. HSAs can be left to a spouse at death but otherwise generally get taxed if the remaining amount is left to the estate.

Steve was able to take his original tax-deductible contribution into the HSA, which had grown tax free, and then withdraw the money, tax free, to pay for his LTCi premiums. This so called "triple tax advantage" could be parlayed into significantly more LTCi benefits that would also be received tax free.

We discussed the cost of care in his area today and the potential cost of care in the future. For home health care the average cost might be three times higher than this plan, and facility care costs are even higher.

Table 3 outlines the plan that Steve finalized. He decided to more than double the LTCi premium initially quoted to maximize his HSA withdrawals. He will most likely continue to fund the premiums out of his HSA over the next nine years and have a greater amount of protection than his self-funded plan alone.

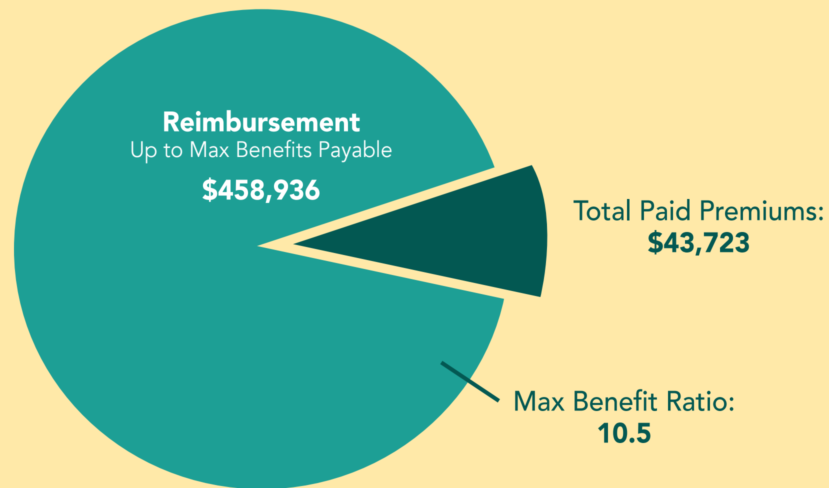
If you have married clients, not only can they benefit from joint policies and spousal discounts, but they may also be able to use one spouse's HSA to fund both of their LTCi plans!

Table 3:
BENEFITS BUDDY

Male Issue Age: **62**
Projected Claim Age: **85**

Male Annual Premium:
$4,372

Daily Benefit at 85:
$237



INSIDE THE NUMBERS

I researched the average stand-alone LTCi purchase price based on data from annual industry surveys. Looking at the period starting in 2004 through 2018, I realized something extraordinary. The average purchase premium hasn't really changed in the last 15 years[2]. Average industry premiums have nearly tracked inflation:

- For stand-alone LTCi, the average new policy price is about $2,500 per person.
- For Life Insurance hybrid plans that include LTC or chronic illness riders, the average is about $6,400 per person as a recurring premium and $91,000 as a single premium.

THE BOTTOM LINE

Many people will use LTCi solutions to partially or fully fund plans once they are convinced that it is affordable and offers value. Addressing funding and price early in the conversation can reduce fear for your client. They know what to expect and it builds more trust.

You may feel like you are helping your prospect by showing the cost of care early in the conversation, but it could be a disservice if they were to walk away without any plan at all. Once funding and price are on the table, it further helps improve the agent-client relationship. Your prospect knows that you have their best interest at heart because of a mutual objective: to help provide them the most beneficial plan possible for their budget.

1 www.morningstar.com/blog/2018/11/12/top-hsa-providers.html

2 If this sounds counterintuitive, consider that the most common benefit purchased today is a three-year benefit period with 3% compound inflation protection. Fifteen years ago, the most common benefit was lifetime coverage with 5% compound inflation.

MARC GLICKMAN
FSA, CLTC, LTCP

Marc is Chief Sales Officer with LifeCare Assurance, an industry-leading product development and administration company dedicated to LTCi. His mission is to revitalize the LTCi industry, so consumers have more choices for long term care planning.

Marc co-founded www.buddyins.com to help insurance specialists share their expertise.

Marc has over a decade of experience as an LTCi actuary. In his current role, he assists Brokerage General Agencies, LTCi specialists, agents, and advisors across the country with LTCi solutions. Marc works on the team that developed and launched the National Guardian Life (NGL) EssentialLTC program. He is also a member of the CLTC Board of Advisors.

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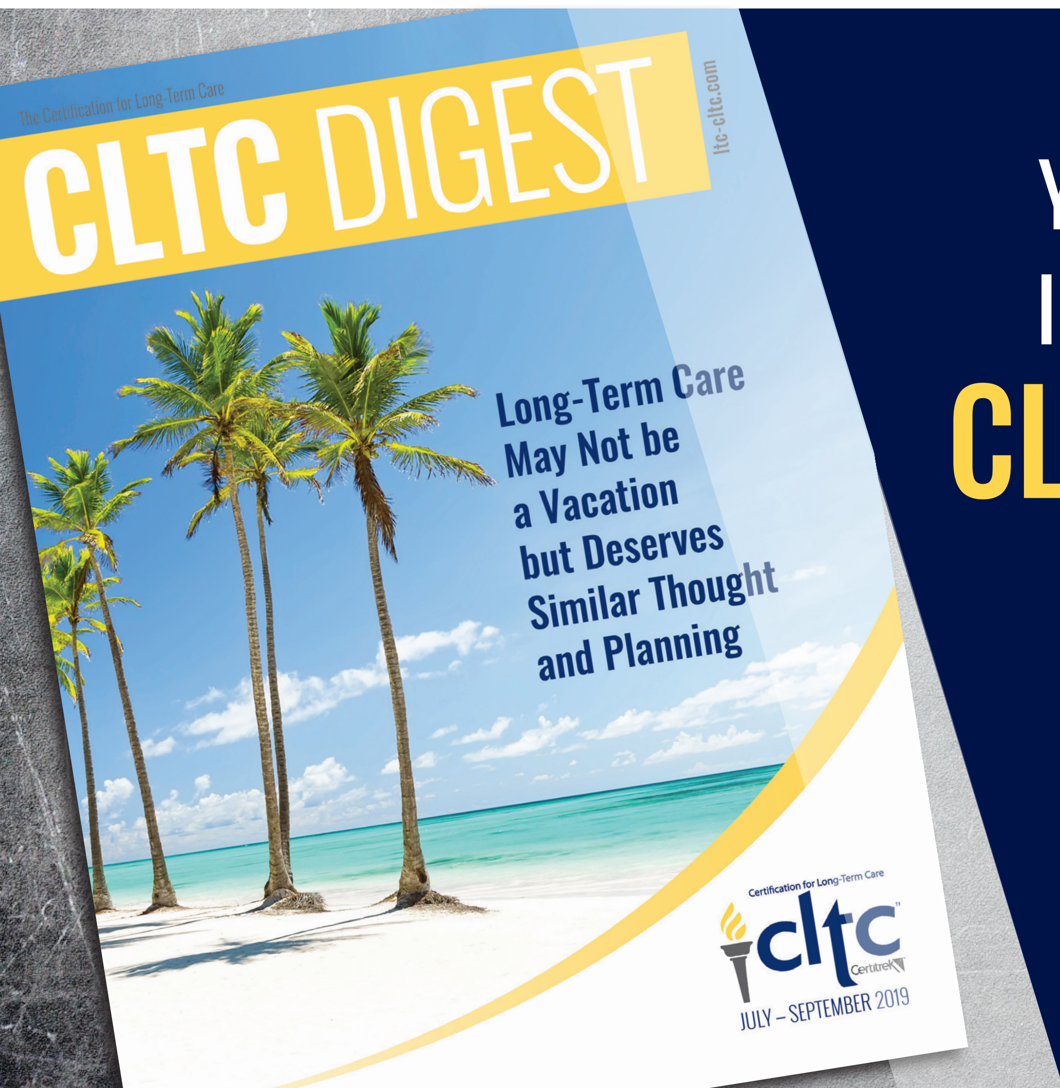

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Delve into the specifics of long-term care planning and discover the most important trends and unique perspectives of this ever-changing field.