The Certification for Long-Term Care

CLTC DIGEST

ltc-cltc.com

Long-Term Care Settlements

Unique Underwriting Factors and Tax Advantages for Seniors

Certification for Long-Term Care

cltc™ Certitrek

APRIL– JUNE 2020

INSIDER'S NOTE

We know that the novel coronavirus is at the forefront of everyone's mind. On behalf of the entire CLTC team, our hearts go out to everyone that has been affected. And we express our gratitude to all those whose professions cannot be done from the safety of home, but instead put them at greater risk of contracting the virus. The entire world has been impacted by this insidious virus and we've all been tasked with the challenges of adjusting to a new, albeit temporary, way of living.

With everyone at home, we've shifted our CLTC training to a virtual class format, while continuing to provide the same experience students receive in the traditional in-person class. We've also launched the updated eCLTC course with new videos featuring CLTC founder Harley Gordon and Director of Training, Bill Comfort.

This pandemic has made us come together to rally our greatest strength, the human spirit. I remain optimistic that the world will return to greatness once again. Thank you authors and readers for all you are doing to protect your clients and for supporting CLTC.

Be well,

Amber Pate

Amber Pate, CLTC®
Executive Director

Certification for Long-Term Care

Certification for Long-Term Care, LLC.

EXECUTIVE DIRECTOR
AMBER PATE, CLTC®

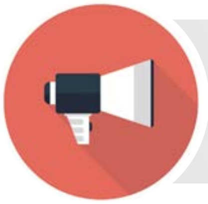
DIRECTOR OF SALES
AUDREY SUNNER, CLTC®

MEMBER SERVICES ADMINISTRATOR
CYNTHIA VEREEN, CLTC®

DIRECTOR OF TRAINING & DEVELOPMENT
BILL COMFORT, CLTC®

CONTACT CLTC
877.771.2582
info@ltc-cltc.com
1005 Slater Road, Suite 101
Durham, NC 27703

TABLE OF CONTENTS

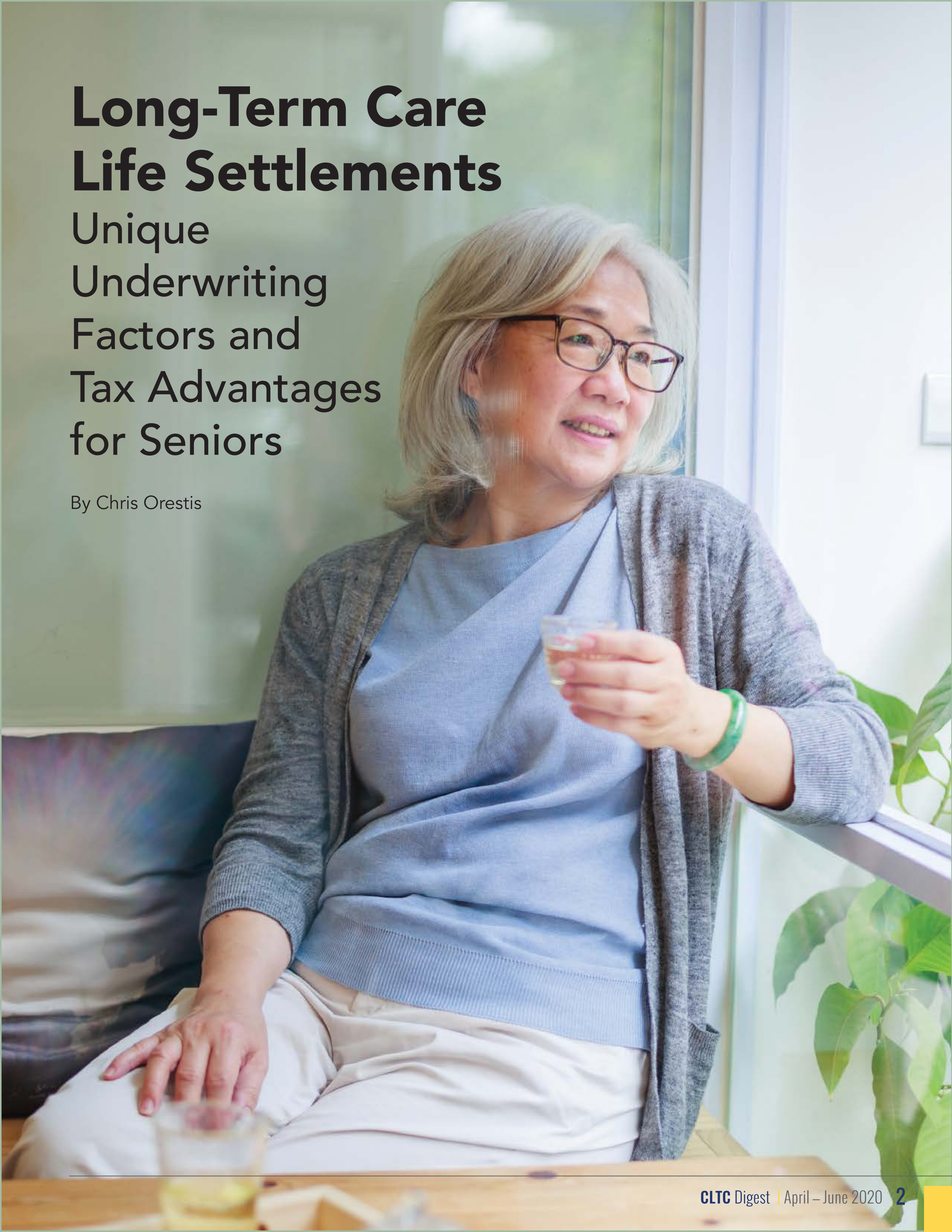


CALL FOR SUBMISSIONS
Do you have something you'd like to share with our readers? Submit your article of 1,000-2,000 words to info@ltc-cltc.com!

Long-Term Care Life Settlements

Unique Underwriting Factors and Tax Advantages for Seniors

By Chris Orestis



Life Settlements for Long-Term Care provide both tax advantages and unique underwriting opportunities for seniors. Life Settlements are taxed in beneficial ways for senior aged policy owners that can make the transaction a very smart way for a policy owner looking to exit the policy. There are also unique aspects to underwriting seniors that are unlike any other age cohort that can make a life settlement more financially sound as a policy owner's age and impairments increase. In the growing area of Long-Term Care Life Settlement, these tax and underwriting insights give seniors an edge in their ability to maximize the value of a life settlement for an unneeded or unwanted life insurance policy.

People buy insurance to protect insurable interests from financial hardship if they were to die. But, life insurance policies can also prevent financial hardship while still alive through a life settlement to pay for extended-care and long-term care. Going back to 1911 when the United States Supreme Court ruled that life insurance is an asset and legally recognized as the personal property of the owner, the use of life insurance to pay for health and long-term care expenses has been an evolving practice.

Life insurance policies have been actively settled to pay for long-term care for over a decade now. Policy owners taking advantage of this option use the settlement of their life insurance policy to fund a Long-Term Care Benefit Account. This unique benefit account is an irrevocable bank account that holds the money from a settlement to make monthly payments for senior living and long-term care. Think of it like an LTC-Health Savings Account (HSA) exclusively funded by a policy settlement, which then makes monthly payments to any form of care the owner wants, at whatever amount is required, for as long as there are funds in the account to spend on care.

In July 2017, the National Association of Insurance Commissioners (NAIC) endorsed in a white paper the secondary market for life insurance policy owners. In it, the NAIC specifically cites the large difference for policy owners between the secondary market value of their policy and cash surrender value. They also specifically endorse the exchange of a policy for a Long-Term Care Benefit Account to help seniors address the expensive costs of assisted living, home care and nursing homes.

TAX ADVANTAGES FOR SENIORS

There are a variety of tax advantages from life settlements that can help a policy owner address a deficit in retirement income, provide an exit strategy out of a policy that is no longer needed or affordable, or provide a way to address the expensive costs of healthcare, senior living and long-term care:

- **HIPAA Exemption.** The Health Insurance Portability and Accountability Act provides for a full exemption of federal taxes from a life settlement for a policy owner that is terminally or chronically ill. The tax-exemption is based on a physician's diagnosis that their health condition is terminal or chronic (two ADL's or greater) that would indicate a need for ongoing health care or long-term care supports and services. For a policy owner facing potentially high costs associated with severe healthcare or long-term care needs, settling their policy exempt from federal taxation is a significant financial benefit during a time of need.

- **Tax Treatment of a Life Settlement.** Tax treatment for a life settlement was revised in the Tax Cuts and Job Act of 2017 (TCJA) or the "Tax Reform Bill", which overturned IRS Revenue Ruling 2009-13. This ruling establishes that tax treatment for cash surrender value and a life settlement are treated equal when calculating basis in the policy. Basis being defined as the amount of premiums paid over the life of the policy. Now a policy owner, who would not qualify for the HIPAA exemption, only pays capital gains based on the amount of funds realized from a life settlement in excess of the owner's basis in the policy. For example, if a policy owner receives $100,000 from a life settlement, and had paid $90,000 in premiums, their only tax impact would be a $10,000 capital gain.

- **Estate Tax.** Many large life insurance policies were purchased over the years as a wealth and legacy preservation strategy to offset the impact of estate taxes. Prior to the Tax Cuts and Job Act of 2017 (TCJA) or the "Tax Reform Bill," the estate tax threshold for an individual was $5,490,000, but starting in 2018, that number has been almost doubled to $10,000,000. With this increase, policies currently in-force to protect estates valued below this level are no longer necessary. This means that settlements are an ideal exit strategy for a no longer needed policy, and a chance for the policy owner to re-coup some or all of their premium payments tax-free under more advantageous estate tax conditions.

UNDERWRITING THE GERIATRIC COHORT

The person who would settle their policy based on long-term care needs has many unique factors to underwrite. In this circumstance, underwriting a person based on morbidity factors and the need for long-term care supports and services compared to underwriting mortality factors, is the key to gaining a more accurate assessment of the insured and provide a far higher value to the policy owner.

Underwriting geriatric conditions and impaired risk tends to be more prevalent with the 65+ cohort. This is one of the faster growing segments for the insurance industry with life, annuity and long term care products. Over the last decade, advancements in underwriting and morbidity actuarial models, as well as medical science, have made it possible to price all insurance products at competitive rates in ways that once was unavailable to this age group. Underwriting seniors is a different process than underwriting unimpaired or relatively young and healthy applicants.

FAST FACT
Top health conditions that become causes of death for those 65 and older include: vascular, cancer, stroke, dementia, and influenza.

Once people reach age 65: 80% of seniors report having at least one chronic condition, 50% report at least two, and 30% report having three or more chronic conditions. Additionally, 30% of people 65-70 have reported vascular issues and that number jumps to 70% once you get past the age of 70.

As people age, certain health conditions start to become the norm. For example, seniors will typically experience a slowing of reflexes and loss of muscle mass. Renal and liver functions, as well as pulmonary and vascular capacity can all be expected to decrease. Cognitive abilities will begin to slow, and a certain level of "memory challenge" (not to be confused with Alzheimer's Disease) will creep into the picture. Also, conditions such as cancer or heart disease that are long in remission, under control and/or being managed by medication become less of a factor in determining overall mortality and morbidity.

Lastly, an important underwriting concept to understand is "Life Expectancy Compression". Nursing home need is determined more by physical (as defined by mobility, activities of daily living, and instrumental activities of daily living) and cognitive impairments than medical impairments (heart disease, diabetes, cancer, etc). Research has shown that these impairments put patients at risk of accelerated physical decline. Nursing homes, while necessary for some people, can pose health risks in a group setting with increased risks of contracting contagious diseases—diseases which medically frail bodies are not well equipped to handle. Also, seniors removed from the familiar comforts of home and family can often become socially isolated, and this social disruption and isolation can adversely affect health.

Current life expectancy trends indicate that more people than ever are living at a relatively healthy state up to average target ages based on their demographics. But if a person experiences any significant health impairment, then their remaining life expectancy usually becomes compressed. For example, a healthy individual in the 75-80 age range that lives at home, is able to care for and transport themselves, and pursues leisure vocations and social interaction could have a life expectancy of ten or twenty years. But if that individual experiences a TIA/stoke or breaks a hip, and then must either access home care or move into an assisted living or skilled nursing facility, it is more likely that the life expectancy range would compress to less than five years. The average life expectancy in a nursing home is 13 months, and in assisted living about 2-3 years.

SIX "LIFE EXPECTANCY COMPRESSION" FACTORS

1) **LONG-TERM CARE SETTING.** Life expectancy becomes significantly compressed with the loss of independence and need for assistance in a long-term care facility. National average life expectancy in a nursing home is 13 months with 50% mortality in the first year. National average life expectancy in Alzheimer's care is 17 months with 60% mortality in the first year. National average residency in assisted living is 2-3 years with a percentage expiring while in residence or moving to nursing home care for end of life care.

2) **ADL, IADL, and AADL.** Activities of Daily Living (ADL), Instrumental Activities of Daily Living (IADL), and Advanced Activities of Daily Living (AADL) are indicators of morbidity and onset of Life Expectancy Compression. An increase of ADL/IADL indicators shows decreasing life style quality, independence and the need for higher levels of long-term care. Quantity, form and severity of ADL/IADL are directly indicative of decreasing life expectancy.

3) **LIVING AND FAMILY ENVIRONMENT.** Disruption and dislocation in a living environment will have a negative impact on mortality. Although it is somewhat a subjective factor, the loss of a spouse or need to move out of a home and into a senior care facility or with a family member is a recognized life expectancy compression factor.

4) **PHYSICAL MEDICAL CONDITION.** Individual or co-morbid medical conditions have varying degrees of impact on mortality. Three levels of conditions include:

- **Minor Health Problems.** Overweight, Elevated Cholesterol, Asthma, Arthritis, Cancer that has been in remission

for 5 years or longer, Osteoporosis, Diabetes (type II), Hypertension, Ulcers, Atrial Fibrillation.

- **Health Changed Considerably since Policy Issue.** Hepatitis C, Pacemaker, Multiple Sclerosis, TIA, Sleep Apnea, poorly controlled Hypertension or Diabetes, Parkinson Disease, short-term memory loss.

- **Serious Health Problems.** Multiple TIA's, Heart Failure, Coronary Artery Disease, COPD, Stroke, Heart Attack, Lupus, Emphysema, Cancer (recent or recurring), Cirrhosis, Coronary By Pass, Alzheimer's disease, aneurysm, peripheral vascular disease, valve replacement or repair.

5) **COGNITION AND MENTAL HEALTH.** Cognition and mental health is a contributing factor to ability to remain independent and can become a degenerative state contributing to mortality. Alzheimer's and depression caused by loss of independence and need for long-term care can take away "will to live" and is a major contributor to compression of life expectancy.

6) **MEDICATIONS**. Types of medications, dosage, frequency, and combination of medications (polypharmacy) in particular are all strong indicators of mortality issues. This is one of the first factors considered for longevity when moving into a long-term care facility.

UNDERSTANDING THE OPPORTUNITY

There are less than 8 million long-term care insurance policies owned in the United States today. By comparison, there are over 150 million life insurance policies currently in-force. But, the vast majority of those policies will either be lapsed or surrendered instead of ever paying out a death benefit. In fact, on an annual basis, seniors own $187B of life insurance death benefit that could be exchanged through the secondary market instead of lapse or surrender—but the majority of these seniors are unaware of the settlement market as a better alternative for their policy.

Inordinate numbers of seniors abandon life insurance policies in the final years of their life. For many, the insurable interest for which they took out the policy no longer exists. In addition, as seniors confront the costs of retirement and long-term care, they can no longer afford premium payments. And then for those that are confronting long-term care, many will abandon their policy because life insurance is a disqualifying asset for Medicaid eligibility, and according to a GAO study 38% of seniors who apply will abandon their policy as part of their "spend down" to eligibility.

But, should seniors abandon one of their most valuable assets like this? The answer is no. After years of premium payments, they should no sooner abandon their policy than they would abandon their home after years of mortgage payments. Before the owner of a life insurance policy would abandon their asset, they should first look to the life settlement market to find out what the actual re-sale value of their policy is. There are numerous tax advantages and underwriting insights that will actually make a life settlement financially beneficial for the older and more impaired the insured is. Life Settlements can pay as much as 10x any cash surrender value and it is certainly a better option than lapsing a policy after years of premium payment for little to nothing in return.

CHRIS ORESTIS

Chris is President of LifeCare Xchange, a nationally recognized senior care advocate, and expert in retirement, long-term care and specialty senior living funding solutions. The author of two books, numerous published papers and articles, and a frequent industry speaker; he is the innovator that brought the LTC-Life Settlement into the market over a decade ago.

5 Predictions for the LTC Insurance Market in 2020

By Tom Riekse, Jr., ChFC®, CLU, CEBS

1 LTC COSTS, ESPECIALLY HOME CARE COSTS, WILL CONTINUE TO RISE

According to Genworth Financial, homemaker services increased 7.14% and home health aide services increased 4.55% in 2019, the highest rate of increase in several years. Why are LTC costs increasing at such a rapid rate?

There are a few reasons. First, unemployment is at a 50-year low and earnings are rising. After many years it looks like employees have some leverage and options compared to employers. Secondly, immigration rates to the United States are down. Caregiving jobs have been an opportunity as entry-level jobs for many recent immigrants from other countries, so home care agencies have to increase wages to entice employees to work. Finally, minimum wage laws in many states have also put pressure on wage costs.

Because of all of this, it is more important than ever to account for rising care costs when considering

LTC insurance. Fortunately, there are several inflation options for both traditional and Linked Life/LTC plans that give policyholders a lot of flexibility. Carriers are even finding ways to price 5% compound coverage, and one carrier is now offering an inflation option tied to the medical care inflation rate.

Have a client with a current LTC policy? Conduct an in-force policy review to make sure current benefits are keeping up with current care costs.

2 THE TRADITIONAL LTC INSURANCE MARKET WILL BEGIN TO GROW AGAIN

It's time to think about the traditional LTC market as two distinct segments. The first segment is comprised of the older in-force blocks, many policies of which still need rate increases and are insured by carriers who are not currently selling new products. Regulators at the National Association of Insurance Commissioners (NAIC) have a task force and a focus on making sure the policyholders who bought these policies will be treated fairly, claims will be paid, and carriers will remain solvent.

The other part of the market consists of recently sold and new policies which have higher initial pricing and, according to the Society of Actuaries, probably won't need dramatic premium increases, if at all. These products have very conservative actuarial assumptions and current regulations make the cost of raising premiums on these plans steep for carriers.

If you have clients who are comfortable with the traditional LTC pricing assumptions, then traditional LTC plans give the most leverage per premium dollar. These products are best considered in for people in their 40s and 50s who can take advantage of their good health. For example, a 45-year-old couple who spend $5K annually on premiums will have a combined $1.6 million in LTC benefits available by the time they are 80.

Carriers that currently offer products in the traditional LTC market include Mutual of Omaha, Transamerica, National Guardian Life, Thrivent, and more.

3 FIERCE COMPETITION IN THE LINKED LIFE/LTC MARKETPLACE

If you watched any sports broadcasts, you've noticed several insurers have included advertisements discussing long-term care planning. Carriers such as Lincoln Financial, Securian, OneAmerica, Pacific Life, Nationwide, and others are coming out with new products and making enhancements to current plans.

Some of the trends include longer pay periods, more generous inflation options, and reduced cash values that lead to bigger LTC benefits per premium dollar. The appealing aspects of linked life/LTC plans—guaranteed premiums and a death benefit in case no LTC benefit is used remain in place.

4 LTC INSURANCE AS A VOLUNTARY EMPLOYEE BENEFIT WILL BE AN INCREASINGLY POPULAR OPTION

The biggest financial threat to someone's 401(k) is an unexpected financial event, and health care troubles such as Alzheimer's and Parkinson's that lead to big LTC expenses qualify for that category. LTC insurance can help protect a retirement plan, and options for both traditional and life/LTC combinations can be offered on a voluntary basis at the worksite. Traditional carriers include Transamerica, LifeSecure, and Mutual of Omaha while life/LTC plans with guaranteed issue coverage for large voluntary groups include Allstate, Trustmark, and Chubb.

5 THE ISSUE OF LONG-TERM CARE WILL BE AN IMPORTANT LEGISLATIVE ISSUE PRESIDENTIAL CAMPAIGN TOPIC

As the baby boomers age (and their parents are impacted by long-term care) this big voting block will want to see action on the long-term care funding crisis, and politicians are addressing the issue. At one extreme are candidates like Bernie Sanders who propose a universal LTC program with no deductibles and unlimited benefits—a plan unlikely to be affordable or realistic. However, some Democratic candidates have put together more realistic plans that offer to promote private long-term care insurance while making it easier on lower-income families who can't afford private coverage.

While Washington considers the problem, some states aren't waiting and are acting on their own. Washington State has implemented a long-term care insurance plan that will pay for a year of care and is financed by a 0.58% payroll tax; however, If you demonstrate that you own private coverage you can escape the payroll tax.

One thing is guaranteed to happen: the population *will* get older and the need to plan for many is urgent. Financial Advisors play a vital role in this conversation.

TOM RIEKSE, JR.
ChFC®, CLU, CEBS

Tom is the Managing Director of LTCI Partners, one of the largest national distributors focused on long term-care planning. LTCI Partners works with financial advisors, benefit brokers, associations and anyone else interested in helping protect people against the devastating financial impact of a long-term care event.

Creating a Plan for Long-Term Care:

COST OF CARE SHOULD BE FRONT AND CENTER

It's no secret that long-term care costs are on the rise and can quickly impact the financial well-being of not only a care recipient, but that of his or her loved ones. Given this, whether someone is looking to purchase long-term care insurance or trying to create an adequate financial plan to cover future expenses, understanding the exact cost of long-term care is a crucial part of the process.

"IT'S EXPENSIVE."

Most people today have little understanding of the true cost of long-term care. If asked, they would likely respond with the common refrain, "It's expensive" or "I'm never going to a nursing home, so it won't impact me!" Providing clients with actual long-term care costs, for home care as well as facility care, is a vital part of a comprehensive LTC planning discussion. Doing so can help you and your clients seriously consider their post-retirement finances and how they could be impacted by a long-term care event. Knowing exactly what "It's expensive" means can help put plans into action and allow data to facilitate and support discussions and decision-making.

LOCATION, LOCATION, LOCATION

Most people innately understand that long-term care costs will differ based on the level of care provided—i.e., nursing or assisted living facilities vs. care at home. However, not as many stop to consider that the cost of care, for the same or similar services, can vary greatly across the United States. As with traditional real estate where location can greatly impact costs of housing and local services, so too can location impact the cost of long-term care services.

Given this, factoring in where a client expects to spend their retirement years should be considered in the long-term care planning process. Making a move to be closer to family or relocating to what had been a second home could mean a difference of many thousands of dollars in long-term care expenses.

THE TRUE COSTS OF CARE

The *LTCG 2019 Cost of Care Study* collected over 37,000 data points from long-term care providers throughout the U.S. and revealed significant differences in long-term care costs between states. For example:

- Home health care hourly rates varied by as much as $9.00/hr. between the highest and lowest cost states
- Assisted living costs differed by as much as $2,998/month between high and low-cost states
- Nursing facility costs follow a similar trend, with a cost disparity as high as $6,810/mo. between high and low-cost states

It can be tough to make accurate estimates of actual long-term costs and how they vary by state and type. For example, our study found that:

- The most expensive nursing facility states in 2019 were Connecticut and Massachusetts
- The states with the most expensive assisted living care were New Jersey and Delaware

While these four states have posted consistently high nursing and assisted living facility costs, states like Minnesota and North Dakota are not so predictable. Both of these states have some of the highest nursing facility costs in the country while having the lowest assisted living facility rates.

Large cost fluctuations can even occur when states are in the same region of the country. Consulting a detailed cost study, such as the one LTCG has been doing for over seven years, can allow you and your clients to confidently estimate the costs of long-term care where they are most likely to receive it.

LOOKING AHEAD

Of course it is also important to recognize that long-term care costs, like traditional health care costs, will continue to rise. The national average cost of a private room in a skilled nursing facility had the most significant increase, jumping 4.8% from 2018 to 2019. Assisted living and home health costs have also risen —3.2% and 1.0%, respectively.

It's easy to make plans for covering long-term care based on current costs, rather than looking at what they may be in the future. It's highly likely a 57-year old pre-retiree may not need to worry about LTC costs for 25 or more years. Given this, he or she should consider what LTC costs may look like well down the road, when the need for care will arise.

Understanding how costs for different care levels are likely to increase year-over-year is an important part of the planning process. In this example, the pre-retiree would likely want to consider adding inflation protection to a traditional or Linked Benefits policy, or select an investment product projected to keep pace with rising costs.

HOW TO LEARN MORE

Needless-to-say, a long-term care event can be a very stressful time for families, especially if they didn't adequately plan for it.

"Having access to the *LTC Cost of Care Study* can be a valuable way for insurers and financial institutions to improve their customer experience. It can simplify complex decisions around coverage options based on geography and care preferences," said Matt Capell, Senior Vice President of Provider Solutions at LTCG. "As Americans become increasingly concerned with the cost of long-term care, understanding the true costs and how they vary has become an essential piece of information for every financial services company offering products in this space."

Defining LTC Terminology in a Growing Market

By Shawn Britt, CLU®, CLTC®

The development of long-term care (LTC) products over the last few decades has been very exciting and offers individuals more planning choices than ever before. However, it has also created some confusion with the expansion of terminology—way beyond what was once just a world of traditional LTC policies. The purpose of this article is to put some thought and clarity around LTC terms that have become common place, but are often used in conflicting fashion. While not all terms and products will be covered in this article, it is hoped that some of the most confusing terms will be clarified. We will also discuss terms that are generally understood but may have components that need defining.

TRADITIONAL LTC POLICIES AND STAND ALONE LTC POLICIES

Long-term care insurance policies are often referred to as "traditional LTC policies" or "stand alone" LTC policies; and the acronym most commonly used is "LTCi." These two terms represent the same product. They are insurance policies that only pay benefits for qualifying LTC needs and are for people looking solely for LTC coverage. These policies are sold by health insurance agents and financial advisors. Only a health insurance license and any mandatory state required LTC CE is needed to sell these policies.

- They are fully underwritten, but for morbidity only.
- They may be the least expensive in base form because these policies pay benefits only for LTC.
- Currently most, if not all, policies only pay LTC benefits by the reimbursement benefit model.

Return of Premium Rider
When placed on a traditional LTC policy it is a bit different than the similarly named rider on LTC coverage placed on financial products. On traditional LTCi, the return (or refund) of a premium rider is available at an additional cost and generally returns the amount of premium payment that is not utilized by the insured for LTC benefits. Ultimately, this option helps eliminate the "use it or lose it" fear some people have with traditional LTCi policies. But keep in mind the following:

- This is *not a return of premium to the policy owner* for purposes of buyer's remorse. The intension is that the beneficiaries receive unused dollars so no premium dollars are ultimately lost.

- There are many variations to this option, as some companies offer multiple ROP (double or triple premiums paid), and formulas vary.

LTC COMBOS

This is the most generic of the terms and refers to any LTC rider or chronic illness rider that is paired with a financial product. It includes LTC riders on life insurance, linked benefit LTC and annuity based LTC coverage, as well as chronic illness riders on life insurance (these should not be referred to as LTC, however). Generally, the only product not included in this categorization is traditional LTC insurance. Combos will then break down into individual product offerings.

WHAT IS AN ACCELERATION RIDER?

An "acceleration rider" is a generic term that refers to accelerating either a portion or all of the death benefit while the insured is living and may be available for various purposes. The rider may or may not require underwriting or have an upfront charge. Such a rider will generally be referred to by its intention. You can have an acceleration for any of the following purposes:

- **LTC Rider:** Usually underwritten and charged for upfront.

- **Chronic Illness Rider:** Charges and underwriting requirements vary.

- **Terminal Illness Rider:** A feature usually built into the policy; fees apply when implementing.

- **Critical Illness Rider:** Usually built into policy and then discounted at the time of claim; sometimes it is charged.

When the acceleration rider is built into a life insurance policy there is little to no underwriting and there will usually be a backend charge—either a fee and/or a level of discounting to pay for the early payment of death benefit. Acceleration riders that are underwritten and charged for up front will pay an amount that is defined at the time of policy issue.

Keep in mind that collecting benefits from a Terminal Illness Rider and/or Critical Illness Riders will affect what can be received from a LTC or Chronic Illness Rider if that is also on the policy and vice versa.

IS IT AN ASSET BASED, HYBRID, OR LINKED BENEFIT?

Some of the most confusing of all LTC terminology are the terms "asset based LTC," "hybrid LTC," and "linked benefit LTC." Are they the same thing, or are they different? The answer is a bit complicated. In reality, you can have an asset-based policy that is also a linked benefit policy. Conversely, you can have a linked benefit policy that is not asset based. The descriptions below will help clarify these terms.

Asset Based LTC on Life Insurance
The term "asset based" was originally used to describe what we now call a "hybrid" or "linked benefit" LTC policy. In times past, nearly all policies structured in the "buckets of money" style had a day one return (or refund) of premium feature (ROP) available to the policy owner. That allowed for these policies to be marketed as "repositioning an asset" that "would still maintain its value on your portfolio ledger" since the asset paying for the policy was totally liquid.

Today, only a few insurance companies offering hybrid/linked benefit policies also offer day one ROP. In fact, the policy does not even have to be a hybrid or linked benefit policy to be considered "asset based." The policy simply needs to offer a day-one ROP feature—should the policy owner have a change of heart and wants to surrender the policy. This cash is thus considered a "liquid asset."

As insurance companies are transitioning to longer periods of time before the "asset" is refundable, the use of the term "asset based" is being replaced.

LTC Hybrids

This term was once used interchangeably with “combos” and then with “asset based” but, in reality, it is more interchangeable with “linked benefit LTC” because it refers to the “two pools (or buckets) of money” concept. The use of “LTC hybrid” refers to a policy that looks and feels like a traditional LTC policy but whose chassis is on a financial product, thus the reference to “hybrid." While not as customizable as traditional long-term care insurance, LTC Hybrids offer multiple choices of benefit periods and inflation options which provides a policy that can be designed to meet a person’s individualized needs.

Linked Benefit LTC Policy

The use of “LTC hybrid” is transitioning to the term “Linked Benefit” LTC policy, but essentially it refers to the same product. This term is actually a good description of how the “two pools (or buckets) of money” type policy works.

- The first pool of benefits is comprised of a life insurance policy with a LTC rider that will accelerate the death benefit on a monthly basis if the qualifying LTC needs arise. This is where LTC benefits are initially paid from. There may be some leverage of death benefit (depending on the insured’s age at purchase), but the death benefit is usually worth at least the amount of premiums paid.

  This life insurance benefit pool provides “premium protection," meaning that if LTC is little or never used, any remaining death benefit is paid tax free to the beneficiary. Therefore, there is no “use it or lose it” risk with this type of policy. While the foundation of the policy is life insurance, the purpose of this product and its primary leverage is long-term care coverage. Thus, this product should be purchased for the objective of LTC coverage, not life insurance protection.

- The life insurance/LTC rider component of the policy is “linked to” an extension of benefits rider, which provides the second pool of LTC benefits. This portion of the policy is essentially the equivalent of a traditional LTC policy, since these benefits are only available to the policy owner as LTC benefits. When the LTC rider benefits from the first benefit pool are exhausted, only then do the extension of LTC benefits rider start paying. These benefits cease upon death.

- Most companies offer a guaranteed minimum residual death benefit, which varies greatly by insurance companies from a minimum of $5,000 to a maximum such as "20% of the specified amount with no cap."

- Underwriting is usually a form of simplified (or streamlined) underwriting for both the LTC and life insurance components of the policy.

- Benefit payment modes come in both cash indemnity and reimbursement models.

Return (or Refund) of Premium (ROP)
What makes the ROP feature unique on linked benefit LTC policies is that it is intended to be used by the policy owner (not by the beneficiary). For example, the policy owner may have a change of heart and want to surrender the policy, or perhaps the policy owner outlives their income in later years and wants access to the cash value in the policy. Regardless, it is the policy owner that will benefit from this feature if enacted.

This is a feature offered in various forms by the insurance companies. Some insurance companies have only one ROP feature while other companies will offer a choice of ROP features. Generally, the longer the applicant is willing to wait for full ROP, the more LTC benefits they can purchase for the same amount of premium.

Linked benefit policies are sold by insurance agents and financial advisors who are life insurance licensed and have completed any required state LTC CE requirements.

LTC RIDER ON LIFE INSURANCE

These policies are intended for people who still have life insurance needs, but also have LTC concerns for the future. The death benefit is accelerated to provide monthly LTC benefits for qualifying needs. LTC benefits vary by insurance company and range from 1% to 5% per month of the death benefit.

- The length of benefit payments will be tied to the monthly benefit percentage elected. For example: a 2% monthly LTC benefit will last 50 months while a 4% monthly LTC benefit will only last 25 months.

- In addition, 100% of the death benefit will be paid (assuming no withdrawals or loan) either as LTC benefits, a death benefit, or a combination of both. For people who still need life insurance and can't afford a separate LTC policy, this is a good alternative as it provides the life insurance protection needed now but can also transition to LTC coverage later, after life insurance needs have been reduced or eliminated.

- Some companies offer a guaranteed minimum death benefit, even if the entire death benefit is exhausted by LTC claims. The amount varies by insurance company up to 10% of the original death benefit amount.

- LTC Riders also must comply with LTC Consumer Protections including policy lapse protection while on LTC claim, reinstatement of the policy without evidence of insurability (qualifying circumstances apply), and extension of benefits after policy lapse (qualifying circumstances apply).

- LTC Riders are fully underwritten, for both the life insurance and the LTC portions of the policy.

- LTC benefits are paid by reimbursement, indemnity, and cash indemnity benefit models.

Life insurance policies with LTC riders are sold by insurance agents and financial advisors who are life insurance licensed, have completed any required state LTC CE requirements, and also hold any other license required to sell the underlying life insurance policy.

CHRONIC ILLNESS RIDER ON LIFE INSURANCE

These riders are similar, but not equal to, LTC Riders. In fact, regulations prohibit the use or association of the term "long-term care" in any way (verbally or in writing) with these riders. These policies are intended for people who still want life insurance protection, but also have concerns with future chronic illness needs. The death benefit is accelerated to provide monthly benefits for qualifying chronic illness needs.

All chronic illness riders pay benefits in the cash indemnity mode. However, how much the chronic illness benefit is and how much the policy pays out in total, partially depends on the type of chronic illness rider chosen. The two most common types of chronic illness riders are: "dollar for dollar" and "discounted".

Dollar for Dollar Chronic Illness Riders

- Dollar for dollar riders are fully underwritten for the death benefit and chronic illness rider; and there is also a charge for the chronic illness rider.
- As such, the full amount of the death benefit will be paid either as chronic illness benefits, a death benefit, or a combination of both.
- There is no residual death benefit in excess of the death benefit.
- Depending on the insurance company, temporary claims may or may not be allowed.
- Depending on the insurance company, lapse protection while on claim may or may not be available and policy premiums may or may not be due while on claim.
- LTC consumer protections are not required on these policies. Thus, they may not be included, or may be limited, and vary greatly by insurance company.

Discounted Chronic Illness Riders

- Discounted chronic illness riders are only underwritten for the life insurance component of the policy. The chronic illness rider is a "check the box" if desired, or just included though there may be a requirement that the base policy be a certain underwriting class (such as standard) to qualify for the rider. While there is no charge for the chronic illness rider, it is not free.
- If death occurs without using the chronic illness rider, then the full death benefit will be paid (assuming no withdrawals or loans).
- If the chronic illness rider is enacted, then a portion of the death benefit is accelerated to provide chronic illness benefits, but the accelerated amount is then discounted to "pay for" the rider. How much the acceleration is discounted depends on a formula comprised of many factors.
    - o All else being equal, women's acceleration will be discounted more and they will receive less than men. This is because they are expected to live longer and paid less for the policy.
    - o The younger a person is, the more the acceleration will be discounted and the less they will receive than an older person of the otherwise same circumstances.
    - o When the rider is enacted, unless done near age 100, the total death benefit purchased will not be received in total. The amount that is discounted for the acceleration of benefits is the "charge" and the total amount of the discounts will never be paid to the policy owner or their beneficiaries.
- Generally, only permanent claims are eligible for benefits.
- Lapse protection and other consumer protections are generally not available or are limited.
- This rider may be a good choice for someone who is still life insurable, but not long-term care insurable, since only the life insurance portion of the policy is underwritten.

Life insurance policies with chronic illness riders are sold by insurance agents and financial advisors who are life insurance licensed and also hold any other license required to sell the underlying life insurance policy. Currently, no state CE is required.

CRITICAL ILLNESS RIDER

The term "critical illness rider" is often confused with the term "chronic illness" rider, but they are two very totally different types of benefit. Thus, these terms should not be interchanged.

The purpose of a critical illness rider is to provide funds to an insured who has suffered a catastrophic illness. Qualifying illnesses and circumstances vary by insurance company. Common qualifying events would be the need for an organ transplant, stage four renal failure, certain cancer treatments, etc. In other words, the condition is not necessarily terminal (within 12 months), but it is life-threatening and generally requires extreme medical intervention.

A critical illness rider is closer in structure to a terminal illness rider in that with most insurance companies, the critical illness benefit will be the lesser of 50% of the death benefit or $250,000. Most critical illness riders are included with the policy but have charges associated with implementing the claim. In a few circumstances the critical illness rider will be charged for, but then will offer more robust benefits.

SUMMARY

Having a good grasp of terminology can help a person better pinpoint the type of policy, the type of rider, or included policy features most valuable to an overall planning strategy.

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.