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THE RIPPLE EFFECTS OF YOUR CRISIS RESPONSE PLAN

Viewing Extended Care Through the Eyes of the Pandemic

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SPRING 2021

INSIDER'S NOTE

The past year has brought us countless surprises and challenges. Just one year ago, the Spring *Digest* was written in the midst of coronavirus lockdown. This year, we see the emergence of eased restrictions and the start of a return to normalcy. Most importantly, we are beginning to experience more in-person conversations and long-overdue hugs thanks to a COVID-19 vaccine.

Here at CLTC, we are excited to announce the approaching launch of our Coaching series as well as a new product matrix. Stay tuned for updates on both!

In this issue, two of our recurring contributors, Tom Riekse and Marc Glickman, provide insight into the Washington Care Fund, a state-run and -funded LTC services and supports program. We will explore even further into the new tax act during our June webinar.

Also inside, Shawn Britt and Craig Coers remind us why having a LTC plan is so vital as we reflect on the past year amidst the global pandemic.

Thank you for your continued support of our industry and the community at large. Have a wonderful spring and please enjoy the issue.

Amber Pate

Amber Pate, CLTC®
Executive Director

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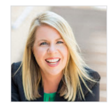

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THE RIPPLE EFFECTS OF YOUR CRISIS RESPONSE PLAN

Viewing Extended Care Through the Eyes of the Pandemic

By Craig Roers

How does your family react in an emergency? Do they approach things calmly and intently, or do they make rash decisions? What is the fallout of the choices they make? A long-term care plan can help your family handle an emergency in much the same way that a disaster recovery plan may keep a business operating. Advisors can use the current pandemic as a frame of reference, assisting families in seeing this need in a new light.

Why look at this in the context of the pandemic? An extended care event can be eerily similar to our national health care crisis. Besides the direct corollaries, it's an analogy we can now all relate to, even if we've never experienced a care event in our own families.

Long-term care is in the news daily. Most newscasts start with an update on COVID-related deaths in nursing homes. If someone didn't want to go into a nursing home before, they certainly don't now. Nationwide Retirement Institute recently did a survey showing that 61% of people would rather die than ever go into a nursing home.[1] In addition to concerns about exposure, they know facilities barred visitors. They've seen images of families communicating through windows, or worse yet, stories of people dying alone without friends or family nearby to comfort them in their final moments.

A long-term care plan, properly funded, can help provide people with options and the flexibility to stay in their home. However, unless they have already experienced a care event first-hand, most people haven't taken the time to create a plan. Preparing can be daunting, but it is essential to avoid making rash decisions while in crisis mode.

I believe that the pandemic can help people understand the need to prepare without dragging politics into the conversation. We've seen the unintended consequences of actions taken in haste. We know that decisions made in haste may not be the best decisions. Just as the country is split in our opinions around how to handle COVID-19 (mask vs. no masks, kids in school vs. distance learning, lockdowns vs. herd immunity), families can become divided. Arguments can erupt from discussions about providing and paying for care, especially if inheritances might be involved. We've all heard stories about siblings who will no longer speak to one another because of disputes related to caregiving.

RIPPLE EFFECTS AND FINANCIAL BEHAVIOR

Humans do not naturally use logic when facing a crisis. Our brains are hard-wired for immediate survival. We have fight or flight responses to risks.

Think we don't make irrational or emotional decisions? If someone had told you that an invisible virus would cause Americans to hoard toilet paper, you would have called them crazy. Yet it happened.

Why do we respond irrationally? Nobel prize-winning psychologist and economist Daniel Kahneman's behavioral finance research suggests we have two modes of thinking: System 1—intuitive, emotional , fast-thinking and System 2—rational, deliberate, and slow-thinking.[2]

FINANCIAL BEHAVIOR **WITHOUT** PLAN IN PLACE	PANDEMIC	LONG-TERM CARE EVENT
Stress Increases	The government does not have a plan in place and starts feeling the impact of COVID-related hospitalizations and deaths.	A family does not have a plan in place and must quickly figure out how to provide care to a loved one.
Emotional Competence Decreases	Plans are rushed to slow the spread, many without thinking about the consequences. One example is the decision to close restaurants for the short-term.	The family feels pressured to make quick decisions to address the immediate need. One example is that to save money and provide care, family members must make sacrifices.
Irrational Decision-Making Increases	Restaurant closures created ripple effects causing other businesses to make irrational decisions. Farmers plowed under crops if their main customers were in hospitality because they could not pivot to other buyers. We saw unemployed hospitality workers and restaurants shifted their business models to delivery or takeout-only.	The oldest daughter quits her job to help provide care.
Physical and Financial Health Decreases	Farmers suffer financially. Rents or leases go unpaid. People face bankruptcy. Some restaurants close forever.	The daughter loses job opportunities at work. She builds less retirement income for herself. Her family feels the impact of Mom not being around. She misses significant events, and they see her physical and emotional health impacted.

FINANCIAL BEHAVIOR **WITH** PLAN IN PLACE	LONG-TERM CARE EVENT
Stress Increases	The government does not have a plan in place and starts feeling the impact of COVID-related hospitalizations and deaths.
Emotional Competence Increases	Plans are rushed to slow the spread, many without thinking about the consequences. One example is the decision to close restaurants for the short-term.
Irrational Decision-Making Decreases	Restaurant closures created ripple effects causing other businesses to make irrational decisions. Farmers plowed under crops if their main customers were in hospitality because they could not pivot to other buyers. We saw unemployed hospitality workers and restaurants shifted their business models to delivery or takeout-only.
Physical and Financial Health Increases	Farmers suffer financially. Rents or leases go unpaid. People face bankruptcy. Some restaurants close forever.

System 1 is 95% unconscious. It's automatic. These acts are based on intuition and "what feels right" compared to rational decisions that could be better in the long run.[3]

System 2 is rational thinking. It's slow and logical. It's also more demanding work for our brains—and therefore leads to only 5% of decisions.

To picture how people respond emotionally, imagine a rollercoaster with many ups and downs. Without a plan in place, stress (often financial) starts to build. As a result, your emotional competence starts to go down, which can then cause an increase in irrational decisions. These decisions can result in a decrease in physical and financial health.

Take a look at the examples in the chart on page 3 of financial behavior—one pandemic-based, the other related to long-term care. Do you see how a single act can impact so many? Now, consider that most crises have multiple rash decisions, each with ripple effects. No one wants their caregivers to put their own lives on hold, yet most of us know families who have done just that.

Family caregivers themselves don't feel they make the best decisions. More than half of those don't feel highly qualified for the job. They think they lack a firm foundation for their decision making when it comes to caring for aging loved ones. 52% did not feel qualified to provide physical care.[4]

Now imagine how things could look if a strategy were in place beforehand. A plan can help flip the script. Let's look at our LTC scenario in the chart above.

Think of other rash decisions people make when facing a long-term care event. If you haven't provided instructions on how to pay for your care, family may not be able to follow your wishes. They may tap the wrong assets, sell off family properties like a lake cabin, or have to up-end legacy plans you intended to fund a charity or inheritances.

The pandemic has caused many parents to struggle with homeschooling their kids while still working full-time. This is akin to an adult daughter trying to keep her own family on course while also being expected to provide some (or all) care to an aging parent.

2020 HINDSIGHT CAN BRING 2021 FORESIGHT

What if we could go back just one year and, knowing what we know now, we could create a plan to handle the pandemic? Would things be handled differently? Absolutely! Things still might not be perfect, but they would likely be magnitudes better.

Imagine having the luxury to prepare for a crisis that might not arrive for another 20 or 30 years. That's your long-term care event. It's something that will impact at least half of us. Knowing the toll that caregiving can take on your family, wouldn't you put a plan in place to help them best navigate that crisis? Provide resources they might need? You need a plan.

WHY PLAN NOW, WHILE IN THE MIDDLE OF A NATIONAL HEALTH CRISIS?

- Receive care where you wish.
- Lower rates. The economy may feel unstable, but you lock in your current health by purchasing now, keeping your rates down.
- Your health could change. This crisis came on fast and showed that health could change on a dime.
- Premiums are primarily based on age and health, so there isn't a better time to buy.
- What happened with your other investments? Did they grow at the same rate as before the pandemic? The benefits in a long-term care policy not only hold their value, but if you have an inflation rider of 3% or 5% compound, it will continue to grow by that rate, year over year, despite what happens in the economy.
- There was a shortage of long-term care workers before this crisis. The number of Americans needing long-term care will double by 2030, reaching 24 million individuals.[5] An aging population and the increasing prevalence of chronic conditions will drive up demand for long-term care services. But the supply of caregivers will not be enough to meet the need. A long-term care policy can help secure and pay for care when demand is at its highest.
- Costs will continue to rise. In addition to costs due to caregiver shortages, the pandemic is accelerating growth.
    - 53% of home care providers reported serving more clients in 2020 than in 2019.
    - 43% of providers expect client costs to soon increase by more than 5% due to new costs associated with personal protective equipment, cleanliness, and safety.[6]

While our emotional responses to an extended care event may not be much different than how we view the pandemic, the impacts are more personal. We can see first-hand that it's not the risks, it's the consequences of our choices. The decisions we make today have a lasting impact on our loved ones, often for generations to come.

Our primary caregivers—most often, the spouses or adult daughters—are our front-line workers. They are putting their own mental and physical health at risk to care for others. You have the opportunity right now to create a plan that could provide tools that may help them maintain their own physical and emotional health.

That is what a long-term care plan is. It's the written strategy for how your family will cope with an extended care emergency.

There's a tsunami coming—a silver tsunami of an aging population that will soon need care. Now that you know a crisis is coming, what will you do to prepare for it?

CRAIG ROERS

Craig is the Head of Marketing for Newman Long Term Care, an agency focused solely on long-term care planning for 31 years. They have empowered over 50,000 families to finish well by creating a plan for extended care. In his 23 years in LTCi, he has guided thousands of agents in long-term care solutions for their clients.

1 "Nationwide Retirement Institute Long-Term Care Survey", presented by The Harris Poll. November 2020.
2 Thinking, Fast and Slow, Daniel Kahneman, 2011.
3 "Gerald Zaltman in "When to Sell with Facts and Figures, and When to Appeal to Emotions," Harvard Business Review, 2015
4 "Beyond Dollars 2018: How Caregiving Impacts Families, Communities and Society", Genworth Financial, November 2018.
5 "Report: The Ballooning Costs of Long-Term Care" The American Action Forum, February 18, 2020
6 "Drivers of the Cost of Care", J&K Solutions for Genworth, November 2020

MEMBER SPOTLIGHT

CLTC Board Member Profile

Certification for Long-Term Care

Melissa M. Steiner, CLTC

Q: How did you first get involved in LTC planning?

A: I've worked in the insurance industry for more than 25 years, mostly with life insurance and annuities. When I accepted my current position nearly ten years ago overseeing all insurance products, Long Term Care planning was new to me. I was hooked from day one, recognizing the impacts LTC can have on families and finances and the value that planning provides.

Q: What do you find most challenging about LTC planning?

A: I feel there are two pieces to LTC planning that present the biggest challenges. The first is helping clients move past recognition of the need to accept that it may be a need that materializes for them personally. The second is helping advisors navigate all of the planning options available to find the best solution for their clients.

Q: What is the best (or worst) thing to happen to you since you started in this industry?

A: My father was diagnosed with frontotemporal dementia three years ago. Watching his physical and cognitive decline has been difficult, as well as seeing the impacts on my mom as his caregiver. But we are also blessed. My dad is happy and pleasant to be around. And, when learning about LTC planning, one of my first conversations was with my parents and we worked with an advisor to put a plan in place before he was diagnosed. Having an LTC plan doesn't change his diagnosis, but it does provide comfort in knowing that when the time comes, we have resources available to make the process easier.

Q: Who has been your best mentor in this business?

A: I can't say that I've had one mentor, but rather have gleaned little bits of guidance from many industry contacts and resources. There are so many resources available for learning more and taking action in planning.

Q: If you could change one thing about the public views on LTC planning, what would it be?

A: If I could influence any view on LTC planning, I'd like to promote the perspective of <u>living</u> as part of planning. I attended a conference hosted in partnership with the Alzheimer's association with my mom a couple of years ago. One of the keynote speakers was a very accomplished professional who was diagnosed with early cognitive impairment. While he understood the changes coming for him, he chose to embrace the opportunity to show people the human side of dementia and live life to its fullest while planning the best path for himself forward.

Q: What changes do you see happening in the next 5 years?

A: I expect to see continued innovation in LTC solutions. I also anticipate that we will start seeing more advisors specializing in helping people plan not only for retirement, but aging.

Q: If you were doing something else, what would it be?

A: I have always had an interest in teaching at the college level. I am energized by learning, and hope to have the opportunity to give back to others at some point.

Q: How has being a CLTC professional helped you succeed?

A: The information and tactics learned as a CLTC professional have given me the background to have effective planning discussions and provide guidance to advisors for meeting their clients' planning needs.

CHALLENGES OF LTC PLANNING IN A POST-PANDEMIC WORLD

By Shawn Britt, CLU®, CLTC®

Now that the Pandora's Box of pandemics has been opened, the twist and turns in long-term care (LTC) that were experienced in 2020, due primarily to COVID-19, may impact people's future LTC decisions for many years to come. To that end, several surveys have been released reporting insights specific to COVID and the concerns impacting caregivers and their loved ones being care for. While a vaccine has been released and vaccinations are well under way to handle this current COVID pandemic, the insights learned from these surveys can help guide long-term care planning with a focus on flexibility in the event of future unknown circumstances affecting the mass population.

CARE PREFERENCES CAN CHANGE WITH CIRCUMSTANCES

While 71% of participants in the 2020 Nationwide Long-term Care Consumer Study[1] reported they would prefer to receive care in their own home—not all people will ultimately wish to receive care at home. Changes in circumstances can alter how a person feels about where their care should take place. That old adage, "men die married" still holds true. Men are more likely to receive care at home and die first—which is why care facilities are primarily filled with women as residents. When planning for the potential of a LTC event, it makes sense to run though some scenarios with clients, particularly with couples. Care at home may sound great, unless you are left without your spouse or partner for companionship.

My own mother passed away before COVID became a challenge to deal with. Once my father passed away, my mother did not want to live alone in the home she shared with Dad; and she repeatedly made it clear for as long as I can remember that she never wanted to live with me or have me physically care for her. My parents loved going on cruises, and my mom being a very social person, wanted to live at the "cruise ship on land." This meant identifying a continuing care retirement community (CCRC) where activities and socialization was plentiful, but with long-term care options available should they ever be needed. Mom wanted me to be a visitor and advocate, not a caregiver.

IN-HOME CARE MORE IMPORTANT AND CHALLENGING THAN EVER DURING COVID

I can only imagine the turmoil we would have gone through trying to keep Mom safe at her facility in a COVID environment. While she started out in independent living, she eventually needed care in assisted living due to her decline from dementia. Even with residents quarantined to their rooms, there is a revolving door of staff caring for the people in need of services. Residents who can still live independently in CCRCs are less exposed to numerous facility staff, but there can still be a need for staff members to provide certain essentials such as delivering meals to rooms and basic housekeeping. During the pandemic crisis, this has made many people very nervous regarding the risk of being infected with COVID.

According to the Nationwide survey[1], the pandemic caused more than 80% of respondents to feel it is more important than ever for people to stay at home to receive long-term care services—and to have a financial plan that takes home care into account. But the survey also makes it clear that caregivers are struggling. 60% of caregivers report they are finding it more challenging to provide care for a loved one while working from home. Yet, even when there are funds available to help pay for outside care assistance, 63% of respondents report they would not be comfortable utilizing an in-home health care provider, specifically because of the pandemic.

THE CHALLENGE OF PAYING YOUR ADULT CHILD TO PROVIDE CARE AND SUPPORT

I remember buying things to take over to Mom at her care residence, from bringing her a junior bacon cheeseburger and a frosty (her favorite fast food), to buying snacks for late evening munching in front of the TV. And when she was no longer able to go shopping with me to pick out clothes and cosmetics, the list got longer. She would ask me what I owed her. I would tell her "nothing," but she was proud and wanted to carry her own weight—yet the thought of accepting money from my elderly mother felt terrible. I would tell her "don't worry about that now, I'll catch you next time" —and then I hoped she would forget (and with her dementia, she usually did).

More than two-thirds of survey respondents wanting in-home care said they would like to be able to have a family member care for them in their homes, but added that they wouldn't expect their loved ones to provide care unless they are able to pay them. This issue was brought more prominently to the forefront by the impact of COVID-19. 64% of caregivers say the pandemic has affected their financial ability to provide care. These caregivers often have to choose between suffering the guilt of accepting their loved one's offer of money in exchange for providing them with care and needed supplies—or suffer financially by refusing to be compensated.

THE VALUE OF CASH INDEMNITY LTC COVERAGE

All of these insights bring up an interesting dynamic that LTC coverage can help mitigate. Would an adult child find it easier to be paid if the funds were coming from a source other than their loved one's checkbook or savings account? For many, that would ease the guilt. And that is where long-term care coverage with cash indemnity benefits can help.

Cash indemnity benefits are paid with no restrictions from the insurance company regarding how LTC

benefits can be spent[2]. That means 100% of the benefits can be used to pay an adult child to provide care as well as pay for other needs such as transportation, prescriptions, and daily essentials. There are no bills, receipts, or monthly paperwork to submit, so the policy can be easy to manage. Cash indemnity LTC benefits provide more flexibility in care choices, as well as the ability to pivot care needs quickly without needing to ask permission from the insurance company on how benefits can be used.

Most importantly, because the funds are coming from LTC benefits paid by an insurance policy, not from a loved one's "lifelong savings," the person in need of care can better maintain their dignity by paying their family caregiver; and the caregiver can accept the funds for payment of care provided, or re-payment of money spent on their loved one, with less or no guilt. This may help relieve family stress among siblings where one adult child is taking on most of the caregiving responsibilities and making the financial sacrifices of having to cut back work hours to be able to provide care to their loved one.

Whether care is needed in a pandemic environment or not, cash indemnity benefits allow for more choice, control, and flexibility in handling care needs. Recognizing the importance of having family care as an option, some reimbursement plans are now offering limited benefits for family care.[2]

DISCUSSING A LONG-TERM CARE PLAN WITH CLIENTS

We know that discussions regarding LTC should revolve around consequences, not around risk or statistics. The pandemic has brought new questions to light that we may want to add to our client discussion. However, keep in mind that your client may have lost a loved one to COVID, or had a very difficult experience, so approach this subject with care and sensitivity.

Questions to consider adding to a discussion might be:

- Have you thought about the kind of care you would want if faced with needing care during a pandemic?
    - o Would you want to risk remaining at a care facility?

- Do you have loved ones who could care for you in a home setting?
    - What challenges would your family member face if caring for you?

Answers to these questions, as well as ones that would usually be part of a LTC planning discussion, can help provide guidance for putting a LTC plan in place, with the proper funding to help pay for that plan.

HOW COVID HAS AFFECTED THE PURCHASE OF LTC COVERAGE

Clearly, COVID has caused a disruption to the U.S. economy—and one of the consequences was a drop in already-low interest rates. Because interest rates play a large part in pricing LTC coverage, particularly traditional LTC insurance and linked benefit (hybrid) LTC policies, there have been some recent changes that affect the ability to purchase LTC coverage as well as the way people are paying premium. Among the impacts of lower interest rates to the purchase of LTC are:

- A drop in the maximum issue ages of policies
    - Most all insurance companies offering linked benefit LTC coverage have lowered their maximum issue age to 70.
- More multi-pay premium schedules are being purchased
    - Single premiums no longer buy substantially more coverage. Younger clients who are more aggressive in their portfolio strategies may want to purchase a linked benefit policy with a ten-year premium schedule (or longer where available) vs. a single premium, allowing funds in the portfolio earmarked for paying premium to stay invested longer and hopefully continue to grow.
    - Single premiums are still popular for 1035 exchanges, or asset transfers such as a certificate of deposit (CD) that has come due and would renew at a very low interest rate.
    - Multi-premium schedules have expanded with certain carriers to include pay to age 65 and pay to age 100 (usually with issue age restrictions), which can allow for policies to be more affordable.
- New policies cost more than year or so ago
    - Lower interest rates caused the need for LTC coverage to be repriced—primarily with linked benefit LTC policies and traditional LTC policies.
    - Keep in mind that once a linked benefit policy is issued, the premiums are guaranteed.

IN SUMMARY

Long-term care planning is more important now than ever. Not only do we need to plan for a potential LTC event, we need to include in our plan ways that we might deal with unexpected challenges to our care scenarios. I'll never know for sure how my husband and I would have dealt with Mom's care in a COVID environment. Despite her wishes to remain at her facility, she may have ended up living with us—at least until the vaccine made it safe for her to go back to her "cruise ship on land."

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.

1 2020 Nationwide Long-term Care Consumer Study
2 When paying a family member to provide care, please consult with your tax advisor

Private Insurance Option for the First State-Funded LTC Benefits Plan

Understanding the Washington State Trust Act

By Tom Riekse, Jr., ChFC®, CLU, CEBS

Have you heard of the Washington Trust Act? It's the first state run and funded long-term services and supports program. Originally signed in 2019 by Governor Jay Inslee, as of January 1, 2025, Washington State residents who need long-term care may be able to claim benefits (based on needing help with 3 of 10 ADLs) from the state. Those eligible may receive a benefit of up to $100 per day with a maximum benefit of $36,500. Undoubtedly, for many families these benefits are going to be welcomed and helpful.

How is Washington paying for this? By instituting a payroll tax on W-2 employees of 0.58% of payroll. Let's take a look at the chart at the top of page 12.

WASHINGTON STATE LONG-TERM CARE TRUST ACT

Annual Salary	Annual Payroll Tax
$ 50,000	$ 290
$ 100,000	$ 580
$ 250,000	$ 1,450
$ 500,000	$ 2,900
$ 750,000	$ 4,350
$1,000,000	$ 5,800
$1,500,000	$ 8,700
$2,000,000	$11,600
$2,000,000	$14,500

Bonus income is also considered W-2 wages, so for high earners, the tax can increase quickly. The tax is mandatory for W-2 employees, while self-employed people may opt into the plan and payroll tax.

In addition to the self-employed, who else can avoid the payroll tax? The legislation wisely allows people who have planned ahead and already own LTC insurance to apply for a payroll tax exemption from their employer beginning in October. Consider this a "private" option for long-term care insurance.

> Under current rules, in order to opt out of the payroll tax, Washington State residents will need to secure LTC insurance coverage by November 1, 2021.

WHAT QUALIFIES AS LTC INSURANCE FOR THE PURPOSES OF EXEMPTION?

Unfortunately, it is not clear exactly what coverage will guarantee exemption from the tax. I'm sure people would love to know what the so called "safe harbor" rules of plan design are, but the current legislation is vague.

Many traditional LTC policies and hybrid policies with tax-qualified (7702B) benefits should qualify for the exemption. For example, buying a policy that has benefits similar to the current cost of home care, inflation protection, and a three-year benefit period should qualify.

> A problem could arise for Washington residents who attempt to buy "minimum" coverage.

Our company recently had a young executive who made $500,000 per year apply for coverage of $1,500 per month that lasted two years, or a total benefit of $36,500—no inflation protection was added. The total premium for this plan was $228 per year. Compare that to the $2,900 annual payroll tax he is trying to avoid. It's pretty obvious that this purchase is being made to bypass the payroll tax—tax that the state depends on for the solvency of the public LTC program. If the payroll tax doesn't support the program, the payroll tax could increase over time.

The insurance carrier issuing the policy will be incurring all the cost involved with underwriting and placing this policy (not to mention, the low agent commission). They will struggle to earn money off this applicant, especially if the policyholder lapses coverage in a couple years to try and sidestep the tax and premiums.

The old saying stands: if it is too good to be true, it probably is. If they'd like to avoid the payroll tax, high income earners should do the right thing and buy a decent private LTC plan. They can even pay premiums with pre-tax dollars if they own a health savings account. They will end up with substantially more coverage than the state option as well.

People often wonder if their tax dollars will be "wasted." The good thing about a payroll tax-funded LTC plan is that we know people will benefit—those needing care and their caregivers. Let's hope the Washington State plan will build awareness of the care crisis so that we all can respond to it.

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.

Ask the Actuary

Washington Trust Act: Should I Stay or Should Go?

By Marc Glickman, FSA, CLTC®

Marc is CEO and Founder of BuddyIns.com; a community of long-term care planning experts. His mission is to help families across the country get an LTC plan and to support the 44 million caregivers in the US. Marc is an actuary by profession and a licensed insurance agent. He is a graduate of Yale University with a degree in economics.

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

If you're a Washington State resident, everyone is talking about long-term care insurance. Back in 2019, the state passed a law to fund a public long-term care program through a mandatory payroll tax on every W-2 employee. The only exception is to opt out by purchasing private long-term care insurance. Things were relatively quiet until the state amended the law in April 2021 to shorten the time available to purchase private LTCi. Now, one must purchase a policy prior to November 1, 2021, to opt out of the payroll tax.

Suddenly, everyone in Washington is rushing to find an LTC insurance agent.

WHY WASHINGTON?

Washington has one of the highest costs for long-term care services in the country.[1] One of the reasons may be that it also has one of the most generous Medicaid waiver programs for home health care. Supply meets demand. Owing to a shortage of home health care workers across the country, the cost of care has risen much higher in recent years. Last year, due to the effects of COVID, the increases were magnified further. Medicaid programs are strained in states around the country, but especially in Washington.

If you're not in Washington and think this doesn't affect you, think again. There are at least five other states discussing the same program and one of the most populous states in the country may be pricing out a payroll tax of its own.

LANDMINES TO AVOID WHILE OPTING OUT

FINDING AN LTCI PRODUCT THAT WORKS

If you're considering private LTCi for the purpose of opting out of the payroll tax, your first instinct might be to look for a guaranteed issue LTCi plan through your employer and self-enroll for the minimum possible coverage.

Not so fast. When this began, there were two simplified issue worksite LTCi options. Even before the law was signed, one of the carriers had already announced they were exiting the market due to unrelated reasons, and the other has already decided to limit the number of enrollments.

What about life insurance with LTC or chronic illness riders? There has been a proliferation of these products that have emerged over the past decade including a few guaranteed issue options for employees. Do these products qualify for opting out? It depends on the Trust Act's definition of long-term care. At the time of this article, most signs indicate to this being the code in RCW 48.83.020[2], but recent guidance on the official WA Cares website cited additional definitions related to dedicated long-term care riders (7702B) and then those definitions mysteriously disappeared.

The safest route is probably to purchase either an individually underwritten traditional LTCi plan or a true hybrid product designed primarily for LTC planning. For these products, you will want to find an LTCi specialist who can shop the market for the best value, and more importantly, find a product for which you can health qualify. The good news is that 85% or more of working employees may be able to obtain coverage from one of a dozen different insurance products in the marketplace based on health.

BUYING MINIMUM COVERAGE AND AVOIDING TEMPTATION TO DROP THE POLICY AFTER OPTING OUT

The natural instinct is to try to purchase an insurance policy that costs less than the payroll tax. Unfortunately, you may be hard pressed to find it. Carriers are beginning to limit the capacity of such products or establishing their own minimums. You may also end up with a policy that provides such limited LTC benefits that you are tempted to drop the policy the moment after you receive your opt out approval.

There are several potential risks to the buy-and-drop strategy:

- If too many people are dropping policies, Washington may decide to recertify coverage at a later date or when the client changes employers. The WA Cares Fund administrators are given latitude in the law to audit coverage, impose minimums, or even ask on the opt-out form: "Do you intend to keep your coverage?"
- You may drop your policy and soon thereafter need long-term care services. It is not as uncommon as it sounds for clients to require care after being in a severe car accident, suffering illness (COVID), or a disease like cancer.
- Agents may be unwilling to offer you a solution. High policy lapse rates are a red flag for insurance companies that may result in an agent losing their ability to sell the insurance company's products or being accused of churning their clients. LTCi specialists licensed in WA will be in high demand until November.

Your best bet for your plan, and also from the perspective of state regulators, carriers, and agents alike is to buy at least minimum meaningful coverage. You'll even want to consider more robust coverage when the insurance value is particularly good. It turns out using LTCi the way that it is intended may be your best strategy.

DOES IT MAKE SENSE TO OPT OUT?

The ideal employee for opting out of the WA Cares Fund is actually the same person that might want to consider LTCi in the first place for planning purposes.

Higher earners with more income and assets to protect are going to see the best value from opting out because the payroll tax is uncapped. The tax also includes all wages including income, bonuses, vacation time, and the value of annual stock grants. It is quite possible for a higher earner to pay more into the payroll tax than they could even get out of the WA Cares Fund.

The math is pretty straightforward. Take your annual wages and multiply by 0.58%. Consider how much your wages will grow each year in the future until retirement. Add together each year to get your total payroll tax.

For example, a 40 year-old employee is making $200,000 per year and expects her wages to grow 3% per year. If she retires at age 65, she will have put in a projected $42,293 over 25 years. A lifetime maximum

BuddyIns

Trust Act vs. LTCi

COMPARING WA STATE'S TRUST ACT AND PRIVATE LTC INSURANCE

	TRUST ACT	PRIVATE INSURANCE
DURATION OF COVERAGE	1 YEAR	2-6 YEARS OR LIFETIME
DAILY BENEFIT	$100 0% OR CPI	$100 - $500 1%-5% COMPOUND INFLATION
BENEFITS EFFECTIVE	PAY IN 10 YEARS WITHOUT 5 YEAR GAP	IMMEDIATELY UPON ISSUE
SERVICES RECEIVED	MUST BE IN STATE	US OR CANADA; SOME PLANS HAVE INTERNATIONAL COVERAGE
RETURN OF PREMIUM	NONE	HYBRID OPTIONS
DEDUCTIBLES	0 DAYS	0, 30, 90, OR 180 DAYS
HEALTH UNDERWRITING	NONE	BY APPLICATION; MEDICAL RECORDS REVIEW & RX CHECK
ADDITIONAL INCENTIVES	NONE	LTC PARTNERSHIP PROGRAM, HSA FUNDING, BUSINESS OWNER TAX DEDUCTIONS

of only $36,500 with nominal increases can be received from the WA Cares Fund.

Other individuals that may want to consider opting out:

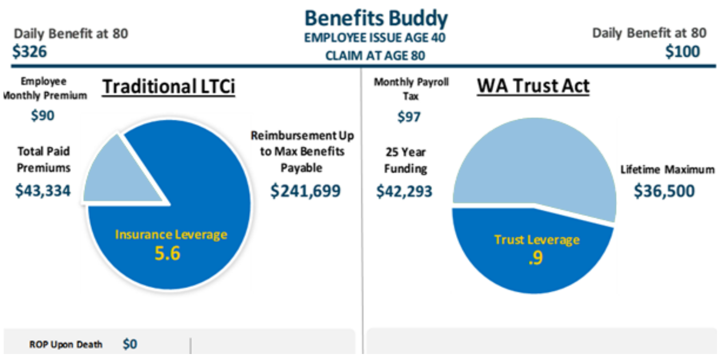
- Those that will not likely pay into the payroll tax for at least 10 years without a break of five consecutive years (unless the individual needs care and is applying for benefits, in which case it is three out of the last six years.) Many individuals will not meet this vesting criteria and may be better off considering private insurance.
- The WA Cares Fund only provides benefits to residents of Washington. So, those who plan to move out of state for five or more years, may forfeit payroll tax premiums and benefits.

INSURANCE STRATEGIES TO CONSIDER

- Buying minimum meaningful coverage of at least $100/day, a two-year benefit period, and 3% inflation. This would cost between $40 to $160 per month depending on age and gender, but total benefits compounded at 3% inflation may far exceed the Trust Act benefits at older ages when you are most likely to need care.
- Buying robust coverage with longer benefit periods can increase the insurance leverage.
- Including your spouse for additional discounts, especially if your spouse is also a W-2 employee.
- Purchasing dedicated long-term care riders or traditional plans with return of premium options that have the flexibility to cash out the policy and receive back 80-100% of the premiums paid. This option is priced by the insurance carrier to allow flexibility by design.
- Leveraging tax incentives, such as the ability to pay LTCi premiums pre-tax with your Health Savings Account (HSA) up to an annual limit, or paying through your business for tax deductibility along with tax-free benefits.

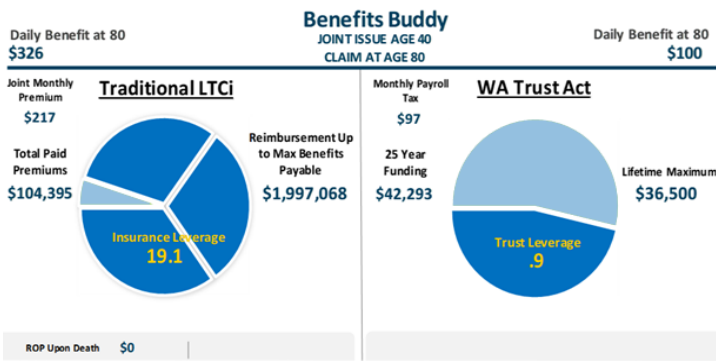
Here are estimates of what the value of LTCi might be for a relatively healthy 40 year-old making $200,000 per year with projected LTCi benefits at age 80 compared to the Trust Act benefits.

EXAMPLE 1:
MINIMUM MEANINGFUL COVERAGE; INDIVIDUAL AGE 40



*$100/day, two-year benefit period, 3% compound inflation, 90-day elimination period.

EXAMPLE 2:
MORE ROBUST COVERAGE; COUPLE AGE 40



*$100/day, five-year benefit period, shared care rider (third pool), 3% compound inflation, 90 day elimination period.

It is worth noting that certain hybrid plans offering return of premium can also get significant insurance leverage. These plans typically require higher up-front costs to receive the best value plan designs. However, pre-paying LTCi policies that you're planning to keep also has its perks. With a 10-pay, you have the ability to get a paid up plan before retirement, guaranteed premiums on traditional policies, and the potential to front-load tax deductions.

IS THE PAYROLL TAX A GOOD DEAL?

The biggest limitation of the payroll tax is the lifetime maximum of only $36,500 with limited growth potential.

- The likelihood of needing care at some point in your life may be greater than 50%.
- For an extended care need, the average length of claim for individuals that need care for at least 90 days may be about three years.
- The median cost of care in Washington state in 40 years may be close to $350,000 per year.
- This makes the average risk of long-term care costs in 40 years about $1,000,000 per person for those that have an extended need.[3]

Buying in the private LTCi market can allow families to take a much bigger amount of the risk off the table, so those who engage a specialist in an exercise of true LTC planning will have the most to gain prior to November 1.

One final suggestion: if you know you want to purchase LTCi, don't wait. It is important to educate yourself about your options before making a decision. However, start planning early if you are considering purchasing private LTCi. There are a limited number of insurance products and LTCi specialist agents in Washington state. During normal times, it typically takes about 30-60 days to educate yourself, apply for, and get approved for coverage. Given the increased volume because of this new payroll tax, we anticipate wait times could significantly increase, and that puts at risk your ability to opt out of the tax.

Good luck in the planning process and let us know how we can be of assistance. Our LTCi specialist community is here to help. We are also vetting LTCi specialists from across the country to plug them into Washington State opportunities and leverage our platform. You can contact me (or your BGA) directly for more information. Long-term care planning may be one of the most meaningful things you can do for your family to protect them from becoming unintended caregivers.

1 www.genworth.com/aging-and-you/finances/cost-of-care/cost-of-care-trends-and-insights.html
2 app.leg.wa.gov/rcw/default.aspx?cite=48.83.020
3 www.genworth.com/aging-and-you/finances/cost-of-care.html