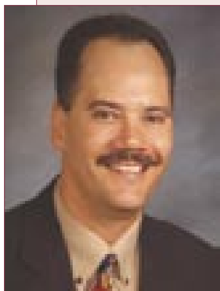

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One Size Does Not Fit All In LTCI Planning

Albert Einstein was right: in the middle of difficulty lies opportunity. Seems like Einstein knew what was coming for thousands of insurance and financial advisors when long term care insurance popped onto the scene some 30 years ago. For many, designing LTCI coverage for their clients has been as tough as explaining $E = mc^2$. But once insurance and financial advisors understand the foundation of the LTCI designing formula, there is certain opportunity.

LTCI case design is critical for insuring that your clients end up with the right coverage at claim time. Another way of looking at how you design an LTCI plan is remembering LTC really means "look toward collecting" your benefits.

Good fact-finding also goes a long way in designing the right LTCI coverage. Now take your job a step further and design the right LTCI policy.

Here are the top five considerations in designing a "one-size-does-not-fit-all" LTCI plan.

1. Age. Younger clients (under age 70) equal longer benefit periods, higher inflation options and paid-up premium options. Discussing an LTCI policy's paid-up premium options is our fiduciary responsibility as insurance and financial advisors. It has become even more important to discuss paid-up premium options because of the recent rash of LTCI policy in-force premium rate increases by multiple carriers.

Speed ahead 20 years and your client receives back-to-back annual in-force policy rate increases of 30 percent. Who's not a happy camper? This situation will not happen if you explain to your client how he can eventually pay up his LTCI policy. Your clients can now choose from a 10-year or paid-up at age 65 LTCI policy. Some carriers even offer a reduction of 50 percent of the premium after age 65.

Younger clients and spouses with dramatic age differences add up to survivor paid-up and return of premium riders. Another consideration is including an indemnity rider for younger clients. This type of payout could add up to thousands of additional dollars being paid to your client because of a claim at a younger age.

For example, let's say your client is diagnosed with early stage Alzheimer's at age 55 and needs care at home. He is married, which is significant because under the indemnity payout (insurance carrier pays full daily benefit amount regardless of cost of care), the money from the LTCI policy goes directly to the wife (still living) to pay for her husband's expenses. More important, the husband will probably need care for a longer period of time (maybe for another 20 years) and with a lifetime benefit period, his wife will receive the full daily benefit amount indexed for inflation to pay for her husband's expenses.

Older clients (over age 70) equal shorter benefit periods and lower inflation options. Also consider shorter elimination periods such as 20 to 60 days, because a much older person, in their eighties, may not receive more than 90 days of care. Be wary

of premiums with older clients and try not to add a lot of frivolous riders to hike up the premium. Stick to providing the core benefits of LTCI to this age group, which means a high daily benefit amount, shorter benefit and elimination periods, and simple or possibly no inflation protection.

2. Gender. Men and women aren't the same! Venus and Mars or Mars and Venus—any way you look at it, men and women have different needs. Same could be true for designing an LTCI plan. Too often insurance agents default by providing identical LTCI benefits for a man and a woman. There is nothing wrong with designing the same plan, especially for a married couple. However, the next time you are fact-finding with a couple, find out if the couple is limited to a smaller premium (this would certainly be true for a lot of older couples on fixed retirement incomes) and ask about their family health history. For example, have the men on the husband's side lived long lives? Or is there a history of heart disease? These kinds of questions may result in deciding to choose a shorter benefit period for the husband. (Statistically, men receive far less care than women do today.)

3. Marital Status and Family. Married, single, divorced or partners? Single or divorced men, especially those without children or much of a family, should purchase an expense reimbursement payout LTCI policy. Why? It's simple. A person in this situation who can't care for himself should not have the money from an LTCI policy paid directly to him (like an indemnity or cash LTCI plan). Instead, it makes better sense to have the money paid direct to a home care agency.

Think about a single female in her eighties, trying to manage her own care as well as the payments from an LTCI policy. As the agent, you might have to be involved monthly, managing your client's LTCI claim. Leave the claim process to the experts, but be there for your client as a liaison if need be. Married people or partners living under the same roof should consider such LTCI benefits as an indemnity payout, survivor paid-up, return of premium, dual waiver of premium, and a shared care benefit (couples can share each other's pools of money once one pool is exhausted or at death of the first spouse).

For example, the husband exhausts his pool of money—three years of benefits—and now can use his spouse's pool of money. Or let's say, at the husband's death he had never used his LTCI plan; thus, his spouse can now absorb his pool of money (in this case she doubles her pool from three to six years) and only keeps paying her premium.

4. Location…location…location. Sounds like what your real estate agent would say. How can you properly design an LTCI plan if you do not know the cost of LTC services in the area your client lives in, or better yet, the location in which your client decides to retire? Do your research by obtaining either the study that MetLife has done on the cost of nursing, assisted living and home care across the country, or call the local facilities in your client's home town. Imagine the adult children of your clients filing their parents' LTCI claim and asking you, "Why is my mom's LTCI policy only paying 50 percent of the actual cost?" You might be facing an E & O claim!

5. Finances. High-net-worth versus lower-net-worth. Obviously no insurance or financial planner would be doing his job if he did not do income or asset fact-finding with his clients for any kind of financial planning. LTCI should be no different. In fact, to design the right LTCI coverage for your client, his income and especially his assets play an important role. We know most people could not afford to pay for LTC expenses with only their incomes. Statistics show that most couples are broke after paying for just 12 months of LTC expenses.

So for lower-net-worth clients *($300,000 and below of non-housing assets or for plan design purposes—$170 a day x a five-year benefit period = a $310,000 pool of money),* you should recommend an LTCI partnership policy where available (CA, CT, IN, NY). This type of policy would protect the full $300,000 of non-housing assets once the policy exhausted itself. Your clients would then apply for state assistance and the state would disregard the $300,000 from the spend-down limits (please have your clients seek legal advice from an elder law attorney if they need Medicaid planning).

For those of you in non-partnership states, follow the same plan design techniques for lower-net-worth clients.

For higher-net-worth clients *(more than $1 million of non-housing assets),* consider doing the opposite of what you would normally think of doing with them. What's that? Advise them not to self-insure all or part of their LTC risk. In fact, most high-net-worth clients understand the value of transferring financial risk to an insurance company. Most of them also understand about a word called "leverage." An LTCI policy is "leverage" against paying these costs from your own pocket.

With this in mind, the next time you are meeting with a high-net-worth client to discuss LTCI, ask him if he would like the LTCI policy to pay only a percentage of the actual LTC expenses or as close to all of the actual LTC expenses as possible. The answer 100 percent of the time will be "we want the policy to pay as close to 100 percent of the actual expenses as possible." Ask yourself this question: Would you or your clients want your current health insurance coverage to pay only a small percentage of the actual costs or as close as possible to 100 percent of the actual costs?

Finally, for high-net-worth clients, try explaining the future costs of LTC expenses by showing them what the actual costs would be when they are more likely to use the benefits. For example, your clients (both spouses at age 55) buy an LTCI policy today. The current average cost of LTC in your client's area is $5,000 per month. The next step is illustrating to them (lots of great software is available to show them the effects of inflation on the cost of LTC in the future) what the costs will be in 25 years or at age 80 for both of them.

The numbers are quite revealing, and your smart clients will now understand the potential risk they face. At age 80, for one of your clients, the cost of care has ballooned to $575 per day, $17,250 per month, or $207,000 per year. If your client needed

five years of care, the bill would be just over $1 million, or $2 million for both spouses. This figure should wake them up!

Of course, when discussing these five considerations for designing LTCI coverage with your clients, it could come down to your clients telling you what they want before you even get started. This is a good problem to have and would make selling LTCI much easier for all of us. But unfortunately, it doesn't happen a large percentage of the time, and we must "sell" LTCI to our clients by creating opportunity and ultimately designing a policy that's right for them.

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