The Long View

Long-term care insurance is on the minds of more and more baby boomers. What should advisors know?

By Marlene Y. Satter

Advisors generally have specialties. Their practices cater to a gamut of niches, from attorneys and physicians to movie stars, business owners, and nonprofits. But there's one factor all advisors have in common, no matter what their client base: their clients are aging. So sooner or later, the issue of long-term care insurance is bound to come up.

If your practice isn't centered on the elderly, you may be thinking that that's not really a problem. You don't need to worry about eldercare issues just yet. Most of your clients are in their forties or early fifties—or perhaps even younger. However, the average age at which someone will purchase a long-term care policy has been steadily going down: According to Lynn Boyd, senior director of long-term care issues at American Council of Life Insurers (ACLI), there has been a significant change in the average age of the person buying an LTC policy; where it had been 65 only a few years ago, it has now dropped to 60 or below. That means that there are quite a few folks out there well under age 60 who are buying policies.

Awareness of long-term care insurance as an issue is growing. Now that the federal government has seen fit to introduce its own Long Term Care Insurance Program (LTCIP), an initiative that offers coverage to a potential market of 20 million federal employees, members of the military, and their extended families, more people than ever are hearing about LTC and the need for it. And as boomers age and realize that they must find or provide care for their own aging relatives, it's popping up on more and more radar screens every day. If you haven't yet, you almost certainly will be consulted on whether a client should buy coverage—and if so, how much, when, and how.

To Buy or Not to Buy

Unless an advisor has made it her business to thoroughly investigate the marketplace for LTC policies, however, it can be bewildering. Not only are policies changing, there are planning uses for long-term care insurance that you might not have considered. LTC policies don't just guard against health risks; they can be used to protect assets, aid in estate planning, help retain valued employees, and offer attractive and tax-effective incentives in executive compensation. Yet LTC insurance is not for everyone, and those with clients of relatively low net worth may best render their clients service by advising them not to buy a policy at all. The cost is, after all, significant—and growing. Chris Tuttle, a planner in New York with a broad financial background who has focused on eldercare and insurance, argues that a person in the $300,000 to $3 million net worth range is a good candidate for long-term care insurance. A person with assets below that level, however, should consider spend-down options, according to Tuttle. "If you're above $3 million to $4 million with a fair amount of liquidity, you can probably consider the possibility of self-insurance," he suggests.

Not all those rendering advice, such as attorneys and insurance agents, have considered whether LTC insurance is a suitable planning tool, so it often falls to financial planners to take the lead. Rob Davis, whose Chandler, Arizona-based company, Long-Term Care Quotes (www.ltcq.net), has been advising planners and individuals for seven years on buying LTC policies, tells of a 72-year-old man and his 69-year-old wife who were advised by their attorney not to buy LTC insurance, even though they had approximately $800,000 in assets and owned their own house

outright. The attorney advised them instead to spend down and plan to go on Medicaid. Davis points out that the couple would have to reduce that $800,000 to a mere $2,000, and whichever spouse did not receive Medicaid care would only be allowed to retain $80,000 in assets—a far cry from the couple's current status. There is also the issue of quality of care. As government studies repeatedly point out, those confined to nursing homes—the only extended care, with rare exceptions, that Medicaid will pay for—are frequently subjected to neglect, abuse, and worse.

The Latest Trends

There are changes in the long-term care marketplace and in the policies themselves, and there are new strategies for using LTC. Marketplace changes include the looming presence of the federal government and its above mentioned LTCIP that has led to a wider awareness of the issue among the general population. Moreover, the federal program has provided selling opportunities for companies other than MetLife and John Hancock, partners in Long-Term Care Partners, a joint venture formed specifically to administer the federal program. The reason is that while LTCIP is comprehensive and rates "an 8 to 8.5 on a scale of 10," according to John Ryan, an independent insurance consultant to advisors based in Highlands Ranch, Colorado, it "doesn't do some things most other plans do" and can be considerably more expensive. In fact, says Ryan, "if someone's in good health, they're better off with another plan." The government plan does not give discounts for good health or for married couples; this can add up to a substantial cost differential. In addition, LTCIP pays only 75% of home health care costs, while many individual policies pay 100%. The number of insurers encouraging home health care is growing all the time, as companies realize that such care is both cheaper to provide than nursing home care, and many times is all that's needed. Long-Term Care Quote's Davis says that there's a positive trend toward encouraging home care. Ten years ago, he points out, the industry was so fearful of fraudulent claims that it discouraged people from staying home. Now the industry has realized that the cost of keeping someone at home is half that of a nursing facility, so new policies are offering extensive coverage for care at home, home modification, and medical alert systems.
There are other differences worth noting between the federal plan and private policies; a good comparison is available at Davis's Web site (*http://www.ltcq.net/index.php?action=fedplan&web_Session=cfa0dfcfdb1aa093caf9f45078d43518*). Information about LTCIP itself can be found at *http://www.opm.gov/insure/ltc*.
Because of this federal initiative, other LTC carriers are in the unique position of having the government educate people about the need for LTC insurance and then being able to offer an alternative, often at lower cost, with comparable benefits. Advisors should be very aware of the federal program, however, because it is another option and the benefits, if not the best, are good.
There are also changes in underwriting; companies are getting tougher. "It's an actuarial decision," says Davis; it's harder to qualify for an LTC policy, and the costs are increasing, though Davis notes that companies are trying to avoid having to admit that they have had to raise rates on policyholders. "It's death," he says, "when a competitor says, 'You don't want to go to X company, because they had to raise their rates.'"
As a result, Davis says, companies are starting out with higher premiums on new-generation products—"10%, 15%, 20%, in some cases 40% higher than what their earlier generation product was so that newer buyers are helping subsidize earlier blocks of business." However, says Davis, the newer policies are richer in benefits, a trend he says has been growing for 10 years. "Every generation gets richer, bigger, better on what the policies will cover, how much,

when." But Davis has also seen some sticker shock on the part of consumers and as a result, some companies are putting out streamlined, less expensive products.

The Underwriting on the Wall

Davis also has noticed insurers offering lower premiums for married couples. "Actuaries have had enough experience now to look at claims and see that married couple claims will be filed much later, if at all," Davis says, and to a smaller degree than by someone who is single. TransAmerica Occidental offers a significantly discounted new product, TransCare Options, he says, designed for married people. "From an actuarial standpoint, you can't blame them." He explains that actuarially, the husband will be the first to need care and typically the wife will provide it. When the husband dies, the wife generally survives him by eight years; during that time she typically will file a claim herself. So the insurance company has benefited by avoiding one of those claims by having a spouse act as caregiver.

New York planner Tuttle points out that underwriting for long-term care insurance is more problematic than for life insurance, since LTC insurance "is not a mortality product; actuarial calculations are not as precise." (See sidebar on page 98 on LTC underwriting issues.) Medical underwriting is not as advanced with LTC insurance as it is with disability and life insurance, Tuttle says. "For people in their late 40s and early 50s, there's virtually no underwriting," he says. "It's attending-physician oriented." There are specialty LTC carriers for people with mobility or cognitive disorders, or cancer, or diabetes, Tuttle says. And while cancer clearly is a problem for life insurers, "it's more benignly treated with LTC. Certain carriers are easier to deal with."

Payments and Bundles

Insurers are making other changes to policies, such as quick-pay options: many are now offering 10-pay, 20-pay, or even single-pay options for buying coverage. This appeals to younger purchasers, says Tuttle, who contemplate the number of years they'll have to fork over premiums and shake their heads. The premium cost is higher for this option—anywhere from 20%-40%, according to Tuttle, since the insurance company has a finite amount of time in which to collect premiums (anywhere from the aforementioned 10 years to 20)—but often that's worth it to the younger person with statistically many more years of earning power ahead of him. Single-pay is generally available to companies that provide LTC insurance as a benefit to executives—but more about that in a minute.

There are many combination products available now, too; LTC insurance is being bundled with everything from universal, whole, and variable life insurance to annuities. In some ways this is not a good thing, since coverage is generally better when an LTC policy is bought separately, but for clients who cannot qualify for a conventional policy, one of the bundled policies may be the only way to buy coverage. Davis points out that 20% of consumers who want to buy LTC coverage don't qualify. However, a product like the John Hancock AssureMark single-premium deferred annuity has an LTC rider you can purchase with no approval process. The catch is that you can't access the LTC insurance benefits for six years, so it's not appropriate for anyone who might need LTC coverage within that time. "But for someone who has early Parkinson's and has maybe 10 years" it's a good solution, Davis says, since there's no underwriting.

The Executive Sweet

A little-used strategy in which to employ LTC insurance is executive compensation. There is already a move among insurers to educate owners of small businesses (from 10 to 200 employees) about the benefits of offering an LTC package to their employees. The insurers point out that it costs nothing to negotiate a group discount for employees; the employees pay 100% of their premiums; and they miss fewer days from work due to long-term care issues for family members covered by the policies. But there's another facet to offering LTC policies to employees in C corporations, what Davis calls "the ultimate employee benefit."

The typical way it's done, says Tuttle, is to institute a discounted voluntary group plan with a 5% or 10% permanent discount as long as you get a certain number of employees, employees' relatives, and employees' children to apply. "Then you do a carve-out for senior personnel in the company," says Tuttle, as an extra benefit. The company can write off the cost of the LTC policies for the executive class as a normal and necessary executive business expense, since LTC insurance is classed as a medical deduction on taxes.

Another benefit to LTC insurance, says Tuttle, is "the arbitrage; it is a disability instrument that protects against morbidity risk, but under HIPAA [the Health Insurance Portability and Accountability Act of 1996] is accounted for as medical insurance." As such, all tax calculations are looked at as a medical expense, he notes. Regular disability insurance, he clarifies, insures against the insured's inability to perform his own occupation. If the company pays for disability insurance, any insurance proceeds are taxable income to the employee. With an LTC policy, Tuttle points out, if the trigger is an inability to perform a given ADL, and if the company pays for it and accounts for it as a deduction, the employee can still own the policy and when the benefits are received they are received completely tax free. Of course, he adds, protecting earned income and your own occupation when you are in your 30s and 40s is definitely a job for disability insurance. But in your 50s and 60s, Tuttle argues, LTC's tax benefits can make it "better than disability."

Davis offers another insight. The key person or owner of a C corporation can buy LTC insurance on a quick-pay or single-pay basis, with higher (but deductible) premiums. If that policy has a nonforfeiture feature, there will be a total return of premium even if there's a claim. (Lincoln Benefit Life offers such a policy called Full Nonforfeiture.) Davis explains that a C corporation could purchase this policy single-pay, deduct the premium, and add the optional rider of total return of premium, and in one action "they've got a tax deduction, they're offering the key executive a nice benefit tax-free, and if the recipient needs to use it, the proceeds are paid tax-free and when they die, all the premiums are paid to a named beneficiary." Davis is surprised that such "creative opportunities" are not seeing much execution in the corporate world: if an advisor, he says, "had 100 business owners in a room and brought this up, probably 70% haven't heard of it. Why not? It protects assets. Why aren't more of them doing it?"

It's Not About the Care

Men's and women's reasons for buying LTC insurance are vastly different. Herb Perone of ACLI says that men buy LTC insurance to protect financial security, and women buy it to protect their independence. "Women want to take care of themselves," Perone argues, while "men look at it as financial. Women want to be at home as long as possible and don't want to be dependent. One-half of all women over age 65 will spend some time in a nursing home, compared to one-third of all men."

These statistics are grim enough, but they only reflect part of the truth. Perone points out that LTC is really a women's issue, since women are more often the family caregivers, and not only quit their jobs, but also forego overtime, promotions, and transfers in order to give that care. "Twenty-two million families are currently caregiving; that's one in four American families," he adds, then reminds us that women live longer than men, and retire with less money than men. "The good news is that they live longer; the bad news is that they can't afford it," he says. If men need long-term care, it's generally provided by wives or daughters, so men stay out of nursing homes longer, while women go into nursing homes sometimes before they need to because of a lack of someone to take care of them.

Whether your clients are male or female, business owners or employees, sooner or later they'll ask about LTC insurance. Will you be ready with the answers?

Senior Editor Marlene Y. Satter can be reached at msatter@ia-mag.com.