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# Visualizing A Long Term Care Insurance Plan

## *The first in a three part series on LTCI planning solutions*

We are in the midst of a renaissance in long term care planning awareness. Increasing longevity around the world has given virtually everyone a personal experience with someone who can no longer take care of themselves. Alzheimer's and related dementias, once the unicorn of final outcomes, has become one of the most common causes of death for those experiencing an extended care event. The ongoing discussions in congress about defunding Medicaid have brought to light that most of the government Medicaid spending is for long term care costs—not just those in poverty. Between the direct payments by Medicaid together with the indirect costs of informal caregiving, more than $1 trillion is being allocated annually to long term care. This amount is increasing much faster than the rate of inflation.

Yet, few are aware that there are affordable insurance tools that, together with government incentives, provide the foundation for a solid long term care plan. Traditional LTCI has seen a rebirth where version 2.0 now offers:

- Price guarantees in the form of single pay and risk mitigation with 10-pay options;
- Coverage guarantees with lifetime benefits now available;
- Return of premium options that eliminate the concern of "use it or lose it;"
- Reduced likelihood of rate increases;
- LTCI plans that can be funded like health insurance as a tax deductible business expense; and,
- LTCI plans paid via a 1035 Exchange using existing non-qualified annuity or life insurance cash values where both principal and future deferred tax gains can pay for LTCI premiums.

Life insurance has also experienced a reboot with innovation in a myriad of LTC and chronic illness riders that enhance the core life coverage. In fact, there are now so many options that even a sophisticated financial advisor can face analysis paralysis and end up providing the wrong solution or even none at all.

This makes long term care expertise a valuable asset for those agents and advisors who can bring proactive solutions to their clients. Investments in insurance technology now allow us to take a complex planning concept and break it down into its fundamental parts. Tools exist for the first time that allow agents to visually interact with potential LTCI solutions by instantaneously displaying the value proposition and customizing a plan specific to the client's budget and needs.

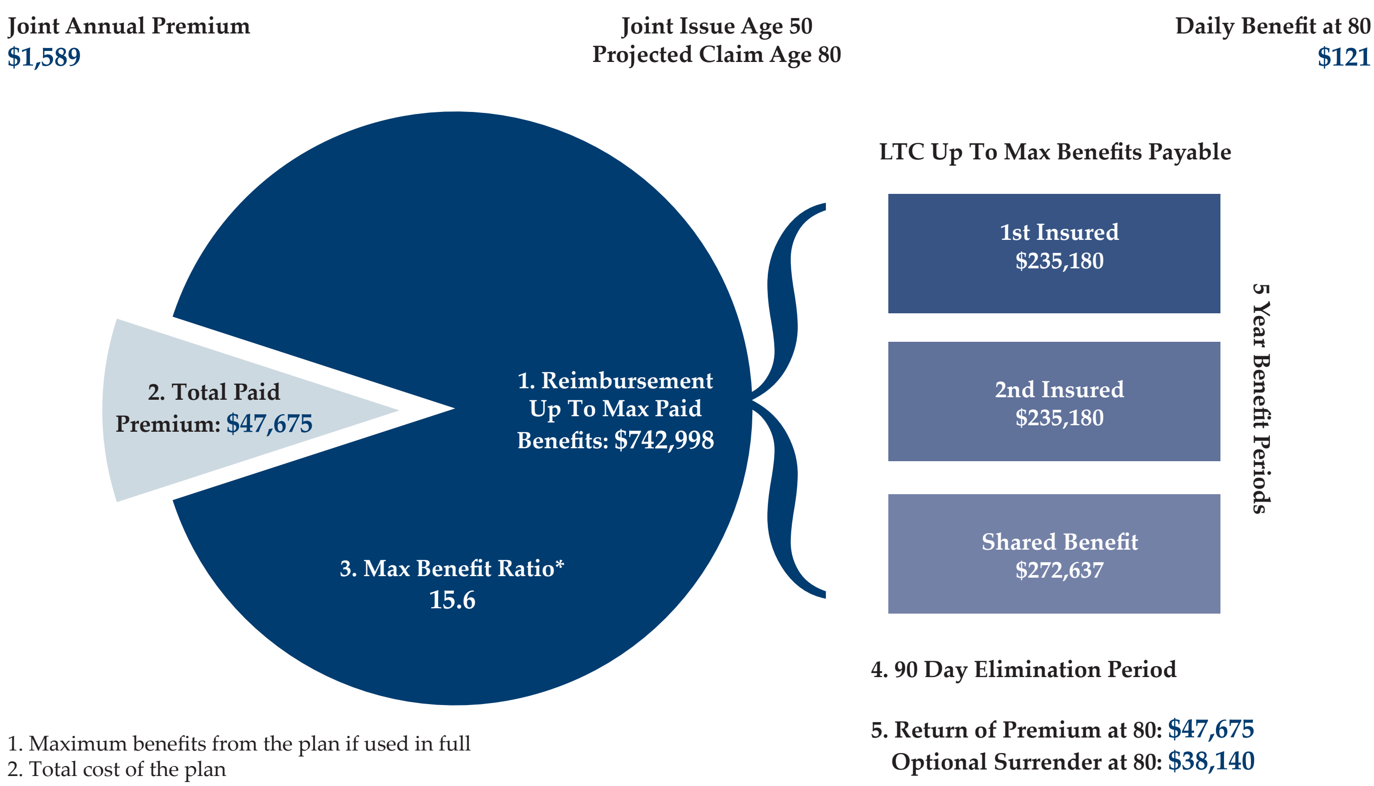
Ever heard an advisor say that LTCI is too expensive? The LTCI plan shown in the chart for a healthy 50 year old couple delivers:

- A combined premium of only $1,589 per year for a five year benefit period for each, with a third five year benefit pool that either or both can use.
- Three percent annual compound inflation protection.
- Up to 15.6 times the paid premium in the form of tax-free benefits if both individuals qualify as chronically ill after satisfying their 90-day deductible periods.
- Return of premium death benefit (second-to-die) with a cash surrender option equal to 80 percent of all premiums paid, if LTCI benefits are not used.
- The option to make payments up front, either in one guaranteed single premium of $42,709 with return of premium included, or $25,574 without the return of premium option.

Take a look again at how affordable the joint premium is for this couple. A comprehensive LTCI solution for less money than this couple might be paying for their term life insurance policies. You can even buy a policy for as little as a few hundred dollars per year that delivers tremendous value. The policy can be designed to be Partnership qualified in most states just by including the three percent inflation option. This allows a much larger Medicaid asset exclusion once the LTCI policy benefits are exhausted. Beyond the financial benefits, even the most basic policy provides the same rich high end extra features, like help with a plan of care, when the family needs it the most.

LTCI is often perceived as too expensive because many agents and advisors have skipped the initial step of assessing

**Married couple age 50 with projected benefits for each beginning at age 80**




1. Maximum benefits from the plan if used in full
2. Total cost of the plan
3. Key value metric = total maximum benefits divided by total cost
4. Self-funded deductible
5. Residual value of the plan if LTCi benefits are not used

their client's budget. In the search for a middle market solution, many agents have overlooked the one that currently exists. Amazingly, this solution actually looks similar to the government funded Class Act proposed a few years ago, which was designed to provide a basic $50-100/day benefit. Unfortunately, the Class Act was never implemented because of the fatal design flaw of being guaranteed issue, but using a voluntary purchase design. This may sound familiar to the issues faced today in the proposed changes to the Affordable Care Act.

Luckily, the private market allows us to create a truly affordable plan, by removing the guaranteed issue feature. It only requires trusted advisors to reach out to their healthy clients rather than wait for their less healthy ones to reach out to them. A pool of healthy individuals results in a stable risk pool, which will collectively benefit everyone in the pool. This allows the LTCI planning concept to succeed where the Class Act failed.

Are some of your clients no longer in good health?

This is where innovation outside of traditional LTCI now plays a role. There are several new products ranging from life insurance with long term care riders to chronic illness riders to short term care insurance and, finally, to substandard annuities designed to help stretch the resources of those who cannot qualify for the stand-alone LTCI solutions. These plans complement each other if you or your long term care expert partner first perform a health assessment of the client. Regardless of your client's health, there exists a plan for them—even for a client already in poor health or for those already receiving care.

Ever heard an advisor recommend that the client self-insure the LTCI risk?

This probably falls in the category of hoping that it won't happen, and hope is not a plan at all. Although LTCI now can deliver the full cost of care for an unlimited length of claim, you may want to consider buying a slimmer plan—even for an affluent client. Consider some of these advantages:

- The family will have guidance at time of claim to construct a plan of care.
- LTCI benefits buy time and leverage with the care provider.
- LTCI benefits are received tax-free.
- Avoiding unexpected costs of selling assets with deferred tax liability or selling illiquid assets at less than their fair market value, such as a home, to pay for care.
- Preserving assets for the healthy spouse or children.
- Premiums may be paid with an implicit tax savings when funding through a business or by using existing non-qualified life insurance or annuity cash values instead of paying with after-tax cash.

Parts two and three of this series will focus on these last concepts where amazing new tax opportunities exist to further incentivize clients to plan for their full LTCI coverage while they still have the most available options.