Making Sense of Long-Term Care Insurance ***Planning Options***

The COVID/2020 Edition

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Making Sense of Long-Term Care Insurance Planning Options — The "COVID"/2020 Edition!

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EXECUTIVE SUMMARY

The private financing/insurance space for long-term care (LTC) planning continues to evolve. Clients planning for the possibility of an extended or chronic or LTC event have more options today than ever before.

For some advisors, this may seem counterintuitive, as some pundits often focus on the fact that there are fewer carriers offering traditional LTC Insurance (LTCI) than in the past (which is true), rather than the actual number of products to mitigate the financial impact of an extended care event.

However, to conclude that LTCI is not worth clients' time, simply because of that decreased number of traditional LTCI carriers, would be shortsighted at best and border on malpractice at worst.

That proliferation of insurance product choices (e.g., linked-benefit products and life insurance products with living benefit riders, etc.), combined with sometimes biased notions about the ongoing value proposition of traditional LTCI, puts advisors in a precarious position of pitting solid, fact-based recommendations against the emotional "pull" of some of the newer products, for potentially the wrong reasons, and to the potential detriment of clients.

The unfortunate end result of this dynamic is that clients (and advisors) may become paralyzed and make NO plans for an event that could have the most serious consequences to their best-thought-out retirement and financial plans, and their loved ones' financial security.

The purpose of this paper is to provide advisors with an objective, meaningful overview of those various private insurance options, along with some numeric examples, so that they can approach client LTC/chronic care conversations confidently, rationally, and most importantly, objectively.

INTRODUCTION

Do any of these anecdotes sound familiar:

- *"I heard stand-alone LTCI is going away."*
- *"All the carriers are getting out of the LTCI business."*
- *"I'm scared about LTCI rate increases, and I hear they will continue."*
- *"I don't like buying insurance I may never use (e.g., LTCI)."*

In this paper, we will endeavor to provide readers with a realistic approach to each of these concerns, without expressing preference for any specific product solution.

We will present a balanced review of the various insurance options, so advisors will have a sort of "road map" to use when consulting with clients, to determine the most suitable solution(s) in their respective situations. In fact, advisors may determine that there is actually more than one solution at a given time, for a given client.

Despite the objective approach we will endeavor to take, we can't ignore human behavior. As such, for clients who may hold the belief that, for example, traditional LTCI is an unsuitable product, we must counter that belief with facts and logic for it to be reconsidered. We will present an example that may help readers do just that.

We will also provide a brief update of the LTCI planning world in light of the COVID-19 situation.

It is also important — in fact, vital — that our readers approach this paper with one overarching idea in mind. That is, regardless of which product(s) may ultimately be best suited to a given client's needs (if any product at all!), the one thing that HAS NOT changed, IS NOT changing, and WILL NOT change (anytime soon), is the need for our clients to plan in advance for the potential of an extended care event.

WHAT ARE THE CURRENT CHOICES?

Here we will give an overview (not necessarily an in-depth treatise) of the current market as it relates to the myriad choices in the private LTCI universe.

- **Traditional (stand-alone) LTCI** is the longest-tenured private insurance solution on the market today. It is considered a "pure" insurance product in that, in most instances, it does not provide for a benefit at death in the event the policyholder has not had an extended care/LTC event. However — and this is one of the misconceptions regarding traditional LTCI — it is possible to purchase a "return of premium" (ROP) rider with traditional LTCI, and when structured properly, it can actually be priced quite reasonably. (We will provide a hypothetical example later.)
- Traditional LTCI **typically has four main decisions** in its plan design:
  - The desired daily (or monthly) benefit amount
    - The amount up to which the policy may pay when a covered event occurs
  - Elimination Period (EP)
    - The number of days that the policyholder must pay for care ("Service Day" EP) or allow to pass ("Calendar Day" EP) before the policy begins to pay its daily or monthly benefit
  - Benefit Period (BP)
    - The number of years, typically two to six (lifetime or unlimited benefits may be available on a VERY limited basis), for the policy to pay, and the time period used to calculate the policy's benefit "pool"
      - See re: "pool of money" below
  - Inflation option
    - Either in the form of an automated increase each year at a fixed percentage, or an option that allows the policyholder to purchase additional coverage every so often, without demonstrating insurability, or a variation of the above.
- **Benefit payment method** — LTCI policies may pay their LTC benefits either as "expense reimbursement" (the insured demonstrates that s/he has paid for care and the policy reimburses him/her for that amount up to the policy maximums), "indemnity or cash" (the insured needs to meet benefit qualification trigger(s) but the entire daily/monthly benefit is paid regardless of actual expenses incurred), or a combination of the two.

- Note: The daily or monthly benefit, multiplied by the BP factor, helps the policyholder arrive at a total benefit amount, typically referred to as the **"pool of money."** The concept of a "pool of money" will be useful to consider when we compare LTCI options later.

The newer-generation LTCI solutions to come to prominence in the market in recent years generally fall into two main categories:

- **"Linked-benefit"** (life, and/or, in some states, annuity policies with an LTC rider — In these policies, the policyholder has a "base" policy of either a life insurance policy or annuity, with an additional rider that allows for payment of benefits for a chronic or LTC event, typically as a multiple of the premium paid.
    - These policies can be funded by either a lump sum, or sometimes, modal (e.g., 3, 5, 7, or 10 years, to age 65 or even lifetime) premium payments.
    - Some products pay their LTC benefits on a reimbursement basis, while others may pay on an indemnity or cash basis (see descriptions above).
- **Life insurance with an "acceleration" (aka "living benefit") rider**— These are generally life insurance policies similar to those that have been on the market for some time, except that they use special riders, which allow the death benefit/face amount to be accelerated in the instance of a chronic illness or LTC event. These products are generally funded on a lifetime-premium basis, but also may be paid on a limited-pay basis.
    - Some riders pay their LTC/chronic illness benefits on a reimbursement basis, while others may pay on a cash or indemnity basis.
    - Some of these products allow for up to the entire death benefit to be accelerated to pay for care (typically with an added premium for the rider), while some use a "discounting" method at the time of the LTC/chronic illness claim to determine a percentage of the death benefit which can actually be accelerated at time of claim (and do not necessarily charge a separate rider premium).
    - Finally, it is important to be familiar with the benefit "triggering" language in the riders. True LTC riders (under Section 7702[B] of the IRC) are modeled after traditional LTCI. Thus, they typically require a triggering event to have at least a 90-day expectation of continuance to allow for acceleration. Some carriers' chronic illness riders (under Section 101(g) of the IRC, and in some states) may require an "expectation of permanence" to trigger the benefit.

WHY SUCH GROWTH IN THESE NEWER POLICY TYPES?

The proliferation of the two newer types of policies above has been fueled largely by two main factors:

- The recent volatility in traditional LTCI rates (both new business and in-force policies)
- The concern expressed occasionally about "What if I never use it?" (e.g., my LTC benefit).

Those two factors have also led some advisors to, at best, minimize focus on, or at worst, abandon altogether, traditional LTCI when helping clients and prospects plan for extended care needs.

The reality is that traditional/stand-alone LTCI still — even despite the recent spate of premium rate actions, both on new business and existing blocks — remains the most cost-effective and pure "benefit-per-premium-dollar" insurance option to cover these costs.

Also, as mentioned previously, it is indeed possible to put an optional rider on a traditional LTCI policy (the nature of those riders may vary) that allows for a "return of premium" to the policyholder's estate, in the event LTC benefits are not needed. In addition, a recent LTCI Pricing Study done by the Society of Actuaries[i] indicates that pricing on today's LTCI policies may be more stable than at any time in the past.

HUMAN NATURE RULES!

In the Introduction section of this paper, we alluded to some of the concerns expressed by clients and prospects (or even advisors) related to LTCI. Let's examine some of those concerns and consider reasonable answers to them.

- ***"I heard stand-alone LTCI is going away." OR "All the carriers are getting out of the LTCI business."***

The recent instability in the LTCI pricing market has led some traditional LTCI insurers to make the difficult decision to leave the market. Many of these carriers are public companies, whose focus may not be on LTC planning. As the rates of return (or other properties) of their respective LTCI blocks of business may not meet the financial objectives of those carriers, they have, on occasion, decided to exit writing new LTCI business (but must, of course, continue to administer the existing business on their books, or outsource it to a firm that will).

None of us can predict the future. Is it possible that other LTCI carriers may make the decision to exit the new business LTCI market? Of course.

What we do know, is that LTCI is here NOW. There are a number of quality carriers still actively underwriting LTCI, and whom have publicly indicated their desire to stay in the market for the long term.

As advisors, we have an obligation to objectively present those solutions currently available in the market and allow clients and prospects to decide for themselves whether LTCI is the right solution for them, and if so, which of the policy solutions may be the best fit.

- ***"I'm scared about LTCI rate increases, and I hear they will continue."***

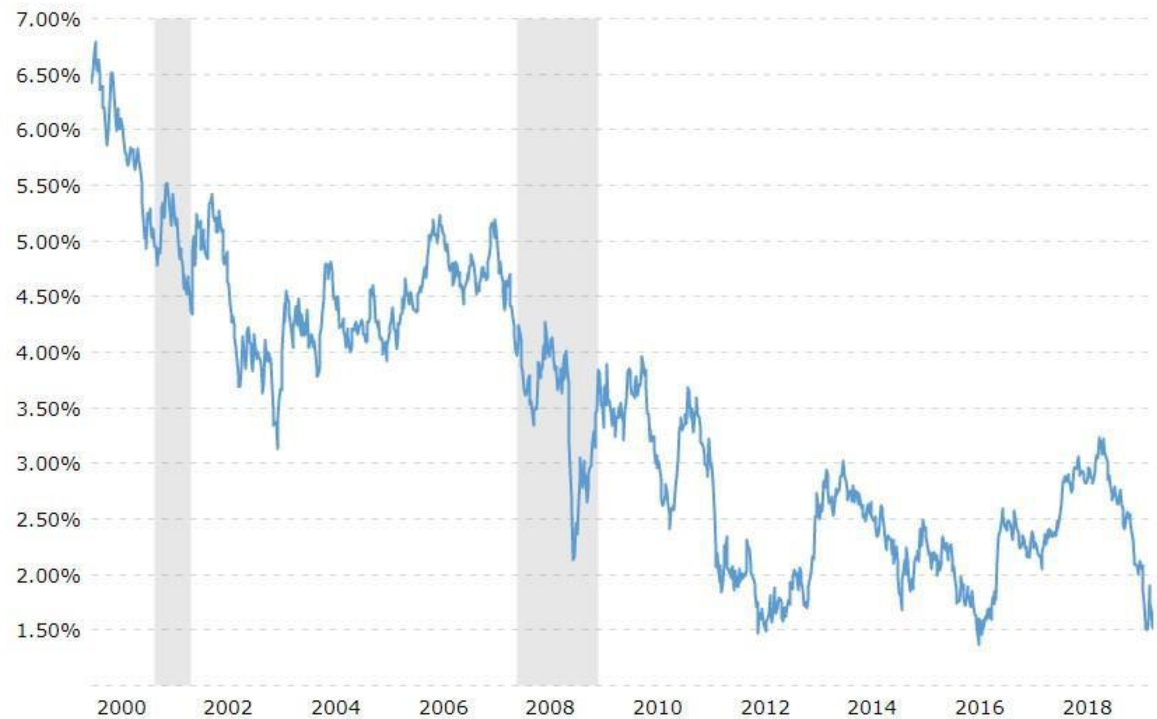
It is no surprise that the recent rate actions — on both new business and in-force LTCI policies — have taken the industry by surprise, and have led to many people (especially LTCI policyholders, and perhaps, their advisors) to express concern that the industry "got it wrong" when they originally priced the policies.

The raw reality is that the industry did indeed get it wrong. One could make the argument, however, that in order to "get it right," LTCI carriers must have been able to predict the future in ways virtually NO ONE in the financial industry did. Regardless of our conclusions about who got what right, or when, there are a few things we need to keep in mind relative to those rate actions and the likelihood they may continue in the future.

- First, it is VITAL that we take a "windshield," versus "rearview mirror," approach to LTCI pricing on new policies. That is, we must keep in mind that the economic factors (which we'll discuss) that led to the unstable LTCI pricing have been largely mitigated by the industry's response to those factors. And that response is reflected in new policies being issued today. In other words, just because a policy written 10 or 15 years ago may incur/has incurred an increase (or increases) does NOT mean a new policy being issued today will similarly incur an increase later. Interested readers are once again encouraged to review the November 2016 LTCI Pricing Study done by the Society of Actuaries (see page 5 and footnote i) on current versus past LTCI pricing, and the Society's expectations on potential rate activity on new policies in the future.
- Second, by extension, what factors led to the rate actions taken by LTCI carriers? While we don't have adequate space in this paper to fully explain the forces behind the increases, we can (at the risk of simplifying a bit) suggest there were three main factors:

- **Interest rates** — All insurance carriers are required, to varying degrees, to invest policyholders' premiums conservatively. One of the most common investments of insurance carriers is intermediate and/or long-term bonds, both corporate and U.S. Treasury. And, the durations of those bond portfolios are such that, as older (higher-yielding) bonds in the respective portfolios have matured over time, they needed to be replaced, and have been replaced, by newer (lower-yielding) bonds, as interest rates have dropped precipitously in recent years. As the bond rates have remained significantly lower, and have done so for an extended period of time, the impact has been tremendous upward pressure on the cost of insurance rates on ALL insurance products, including LTCI, which is especially sensitive to those low interest rates. A quick look at the chart below indicates what that unprecedented interest rate environment has looked like between just 2000 and 2019 (which, arguably, NO ONE could have fully anticipated).

10 Year U.S. Treasury Performance History — 2000-2019



Source: U.S. Treasury

- **Policy persistency** — This refers to the percentage of policies still "on the books" over an extended time period. LTCI has, comparatively speaking, a much shorter experience time frame than other types of insurance (for example, life or disability income insurance). It has become widely known that, while LTCI actuaries predicted that persistency on LTCI policies would be on par with life or disability insurance at rates of, perhaps, 94 percent to 95 percent, the real experience with LTCI has been that a much higher percentage of LTCI stays on the books over time. In fact, estimates are that between 98 percent to 99 percent of LTCI policies remain on the books over the long run! The net result of that, of course, is that, while it is good to know that a higher percentage of our clients may have the coverage in place when needed most, increased persistency leads to a much more significant issue — higher claims than anticipated!

- **Claims frequency and severity** — Compounding the increased claims as a result of the higher persistency on LTCI, there has also been a higher raw percentage of policyholders who have actually claimed, and for longer time frames, on their LTCI than was originally anticipated.

Taken together, the factors above have collided to create a sort of "perfect storm" of LTCI pricing and have resulted in the rate actions environment we've experienced in recent years. However, as mentioned, it is VITAL that we keep in mind that this is a historical ("rearview mirror") perspective. These factors have been taken into consideration with today's newly issued LTCI policies. As a result, while still possible (LTCI is, by structure, a "guaranteed-renewable" but not "noncancelable" product), future increases are now much less likely ("windshield" perspective) than with past policies.

LET'S LOOK AT A COMPARISON

It is somewhat difficult to do an "apples-to-apples" comparison of traditional LTCI to the other LTCI-based planning options (linked-benefit or life policy with a rider). However, we'll do our best to get as close as we can here and focus on two of the most common ongoing, lifetime premium payment design options on the market today.

Consider this fact pattern:

- Male client, age 55, non-tobacco user, NY resident
- Good health
- Second-best rate class for each product: Select (LTCI); Preferred (life)
- $300,000 "pool of money" that can be drawn from to offset the cost of LTC if needed
- $200/day; $6,000/month benefit amount
- Result:
  - $300,000 benefit pool, payable at [up to] $6,000/month = 50 month/4.2-year benefit period factor
  - Note: Actual benefit period may be longer if less than the monthly benefit is used for care in a given month
- Level death benefit on the life insurance for acceleration; thus, NO inflation on the traditional LTCI (most accurate comparison)
  - Note: In the author's observation, this is one of the most misrepresented areas of comparison with LTCI products. That is, we sometimes find advisors will compare a non-inflated life insurance acceleration rider, with traditional LTCI with an inflation benefit which is, of course, an inappropriate comparison.
- ROP rider included in traditional LTCI to provide benefit to estate if LTC is not needed (most accurate comparison to life insurance death benefit)

Note: Abbreviated carrier and product information is being given here. If readers would like the detailed information on the carriers/products, illustrations, etc., please email the author at bvandy@advisorsib.com.

LTCI Comparison: Peter Planner — Age 55 Male

Traditional LTCI	Feature	Life Insurance with Rider
Mutual of Omaha SecureChoice	Product Name	Nationwide YourLife No Lapse GUL
Select	Underwriting Class	Preferred NT
$300,000	Total Available Benefit "Pool"	$300,000
4.2 Years	Benefit Duration	50 Months
$6,000/month	Benefit Amount	$6,000/month
None	Inflation Benefit	None
Aggregate premiums paid – less any LTC claims paid	Benefit at Death - From ROP benefit on LTCI - From Death Benefit on Life	$300,000 – less any amount accelerated for LTC
$240/month	**Premium**	**$403/month**
Notes: LTCI is reimbursement based, with a 40 percent "cash alternative" rider; GUL is cash/ indemnity, guaranteed premium to age 121. LTCI is based on spouse/partner discount with spouse/ partner NOT applying for coverage.		

Key Points to Consider

A key point for agents/advisors to consider — and that we alluded to earlier — is that no one LTCI product is, in itself, "better" or "worse" than another. Each client situation may be different, in terms of their financial situation, goals and objectives, their tolerance for rate volatility, and more.

Here are some additional key points agents/advisors should consider as they evaluate the various product solutions in a given client situation (Note: This is not an all-inclusive list; rather, it hits on some of the most frequently discussed points in the author's observation).

- One may reasonably conclude (as mentioned earlier in this paper) that traditional LTCI offers the most attractive "benefit-per-premium-dollar" leverage of the two solutions.
- Traditional LTCI can be designed to include a benefit rider to ensure that either (a) an LTC benefit is realized by the policyholder, or (b) if no LTC benefit is used by the policyholder, the ROP rider may allow for the aggregate premiums paid on the policy to be returned to the policyholder's estate at death, countering the "What if I never use it?" concern some may have.
- If a client or prospect is so concerned about either (a) the potential for rate increases on traditional LTCI, or (b) the amount of funds that come back

into their estate at death, a linked-benefit or life insurance policy with a rider (either on its own or in addition to an LTCI policy as a "base") may be best suited to them.

- If a client has a desire for a larger amount of life insurance death benefit—especially for other estate or legacy-planning needs — and would like to utilize a life insurance policy as a means to mitigate the "either/or" nature of wealth replacement planning, a properly designed life insurance policy with an LTCI or chronic illness rider may be the better solution.
- If tax incentives are desirable to the client or prospect — especially business owner clients and prospects — traditional LTC may offer more attractive incentives than linked-benefit or life insurance/rider combination products, at either the federal and/or state level.
  - Note: The landscape for tax incentives is beginning to change as some linked-benefit carriers are designing policies which may allow the policyowner to receive tax incentives for the LTCI portion of the premium.
- Traditional LTCI may be an attractive option for business owner clients who would like to (a) provide tax-favored benefits to employees, (b) provide either company-paid, or completely voluntary, benefits to employees, or (c) have the flexibility to provide varying levels of contributions to various classes of employees for such benefits.
- For business owner clients who may want the ability to combine some benefits (especially for key employees), life insurance can be structured in such a way as to provide a meaningful death benefit, cash values which may be used as a tax-favored retirement supplement (or other uses), as well as an LTC or chronic illness benefit from acceleration of the life insurance's death benefit. Many employers may find such designs a powerful combination.

LTCI in the COVID-19 Age

Readers may reasonably ask about the impact that we have seen on the various LTCI planning options in light of COVID-19. The impact of COVID — as it relates to the insurance (LTCI and life) world — can be discussed in two categories:

- Policy pricing and availability
- Underwriting (e.g., health qualification, age limitations, etc.)

From a pricing standpoint, we have seen recent new business rate-increase actions taken, or contemplated, by both LTCI carriers and life insurance carriers. Also, some carriers have discontinued certain policies (e.g., Guaranteed Universal Life, or GUL). That said, the pricing pressure and product discontinuation has mainly come from the broader economic environment results of COVID, rather than the virus itself. The biggest impact has been the ongoing pressure of a sustained low-interest-rate environment (largely driven by actions taken by the Fed earlier this year), which has put upward pressure on rates for both life and LTCI products, for the aforementioned reasons.

From an underwriting standpoint, earlier this year, we saw many (maybe most) insurance carriers limit (e.g., lower) the maximum issue age for their products. That is likely due to carrier concerns of the higher morbidity and mortality results brought about by COVID at those higher ages. In addition, and as one might imagine, carriers have been reticent to underwrite applicants who have experienced symptoms that resemble those of COVID sufferers (e.g., fevers, respiratory issues, etc.).

However, as of press time of this article, we have seen carriers loosen things a bit. Issue ages for many (maybe most) carriers have returned to pre-COVID levels. And while carriers remain understandably cautious about applicants with COVID-like symptoms, from a processing standpoint, many carriers have allowed for more “virtual” underwriting information, such as electronic medical records and other “AI-based” data, to base their decision. And many carriers have allowed for some of that information to take the place of the need for live, in-person medical exams (e.g., parameds, etc.).

CONCLUSION

Hopefully, readers have reached a number of logical conclusions regarding the realities of the current LTCI marketplace. Those conclusions should include these important final points:

- It is vital for advisors to continue to educate themselves on the market realities of the full LTCI marketplace. The popular press — while well-meaning (most of the time) — too often presents only part of the story about these important protection products, or worse, does so in such a prejudicial way as to — unintentionally, we hope — discourage consumers to do ANY LTC planning. An educated consumer is the best consumer!
- Despite the (often) negative press regarding traditional LTCI, it remains a vital, and viable, product in the planning space today. Advisors who ignore it as a potential planning solution do so at their — and their clients’ and prospects’ — peril!
- Clients who may desire/benefit from the asset protection provided by state LTCI “partnership” plans are better served by traditional LTCI meeting the requirements of their states' plans.
- The LTCI planning approach does not need to be an “all-or-nothing” approach. Clients may benefit from simply the pure shifting of

risk to an insurance carrier of even a portion of their income and/or assets. At the same time, an approach involving a meaningful traditional LTCI benefit as a "base," layered with either a linked-benefit or life insurance policy with an LTCI/chronic illness rider, can be quite attractive.

  - Such an approach not only may allay some of the concerns regarding loss of premium dollars paid, and mitigate the risk of traditional LTCI rate volatility, but also provide a potential hedge against the inflationary impact of LTC costs.

- Ultimately, the most important component to the LTC planning approach is having the conversation to begin with. Too often, clients and prospects — and sometimes, even agents and advisors — don't approach the LTC planning conversation out of fear or lack of confidence. Agents and advisors should seek out competent "subject-matter-expert" help, to help them help their clients and prospects put meaningful plans in place.

Good selling!

And, remember, YES, we are ALL in the business of selling, regardless of our method of compensation!

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i https://www.soa.org/globalassets/assets/files/static-pages/sections/long-term-care/ltc-pricing-project.pdf