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LONG TERM CARE PLANNING
IS IT IMPORTANT AND WHAT OPTIONS ARE AVAILABLE?

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As baby boomers transition into retirement, the cost of care rises and life expectancies continue to increase, Long Term Care (LTC) is becoming a critical concern for families. In some cases, there is a legitimate concern about running out of resources and depleting a lifetime of savings. In others, parents are worried about becoming a burden for their children or losing the ability to live at home. LTC insurance products have evolved considerably in the past several years to provide clients with multiple choices to meet this emerging need.

LTC insurance plays a vital role in protecting against an unforeseen illness. This is not dissimilar from Disability Insurance. The key difference is Disability Insurance is designed to replace income lost as a result of illness during working years and LTC Insurance is designed to offset the costs incurred because of an illness, typically after retirement. In many circumstances, Disability and LTC insurance work in tandem with one another – LTC insurance covers the risk after the Disability Insurance terminates at retirement.

Three Types of Clients

In our experience, there are three potential buyers for LTC insurance:

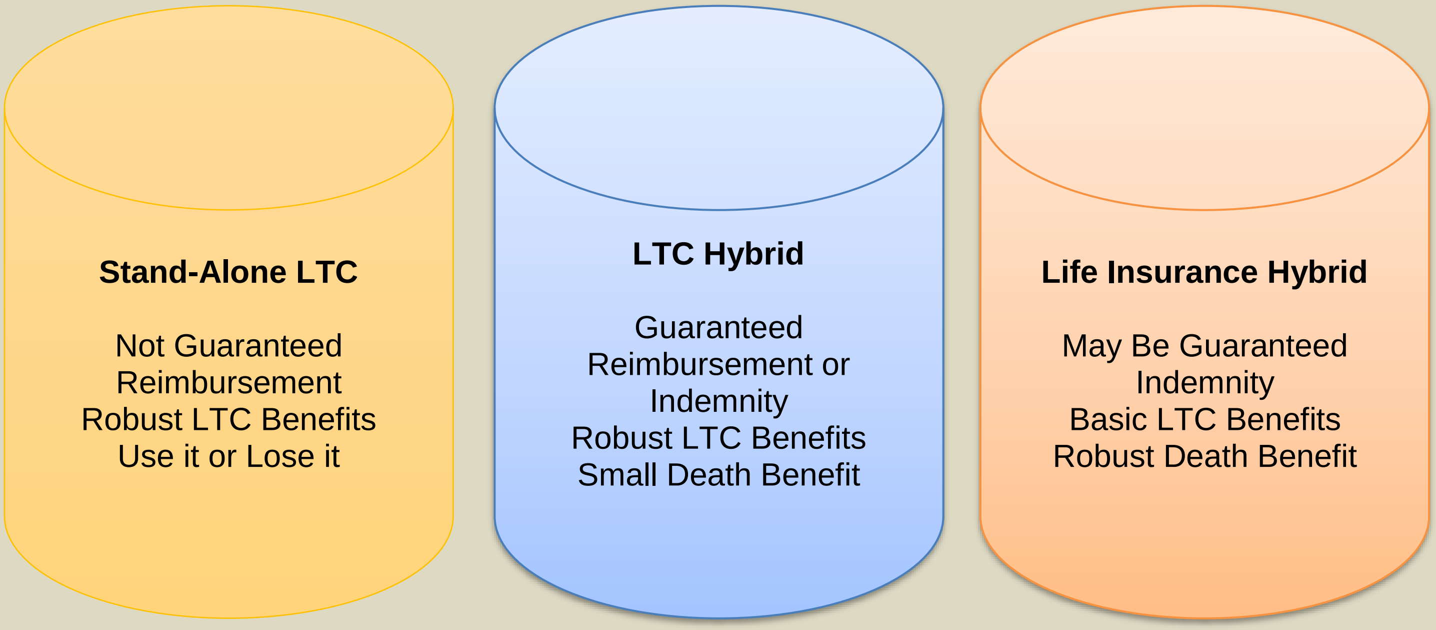
- Buyer #1 – Families with modest resources
  - These buyers have the greatest need because of the high likelihood they will liquidate their life savings in the event of an extended illness
  - Because of their limited cash flow, they typically cannot afford the proper coverage
- Buyer #2 – Families with greater resources but not enough to “self-insure”
  - These buyers have a risk of liquidation of substantial assets in the event of an extended illness but will likely not use up all of their assets
  - They have sufficient resources to properly fund an LTC policy
- Buyer #3 – Wealthy families with sufficient assets to self-insure
  - These families will not use a substantial portion of their estate for LTC needs – with or without insurance
  - LTC for this buyer is a hedge against self-insuring and often a psychological purchase

Since LTC products first came on the market, they have evolved to where there are now 3 basic product alternatives. The following section summarizes these alternatives.

There are a lot of benefit structures and features that add to the complexity of LTC product alternatives. The following chart summarizes some of the key features found in most LTC products:

Feature	Description	Impact on Cost
Elimination Period	The amount of time after care begins until benefits start (typically 90 days but could be up to 365 days)	The longer the elimination period, the less the premium
Benefit Duration	The amount of time benefits are paid (typically 4-6 years)	The longer the duration, the higher the premium
Inflation Protection	Provides an increasing benefit to offset the increasing costs of care	May have a significant impact on the premium payment

Since LTC insurance first came on the market (originally as nursing home insurance) products have evolved there are now three basic product types to meet LTC insurance needs:



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Stand-Alone LTC

The benefits of stand-alone LTC products are they are less expensive than other alternatives and they have a wide range of benefit structures that may be customized to meet specific needs. However, stand-alone products have three characteristics that are concerning to potential purchasers:

- The premium is not guaranteed (we have seen annual premium increases as high as 75%)
- The benefit is a use-it-or-lose-it benefit (if you do not ever need LTC, the policy provides no benefit)
- Coverage is expensive given the probability that no benefits are received

In addition, stand-alone LTC products only provide benefits on a reimbursement basis. This means the care giver will need to submit receipts and the carrier will only pay benefits equal to the amount of receipts submitted up to the policy's maximum benefit amount.

Stand-alone LTC products are typically purchased by Buyer #1 – those with limited resources to fund their insurance need.

LTC Hybrid

Some carriers have developed products that have robust LTC benefits (similar to a stand-alone product) but also incorporate a death benefit. Because a benefit will be paid either upon qualification for LTC benefits or as a death benefit, these products are more expensive than stand-alone LTC products.

These products typically provide a death benefit equal to the premiums paid so the client or their beneficiaries will always at least get their money back. In some cases, there may be a residual death benefit even after all of the available LTC benefits have been received.

LTC Hybrid products are typically purchased by Buyer #2 – those with greater resources but still with a need for more robust LTC features.

Life Insurance Hybrid

If the primary objective is providing assets upon the death of the insured, a life insurance policy with LTC benefits may be more appropriate. In this case, the death benefit is based on a defined need such as income replacement or estate tax planning. A LTC rider is added to the policy that provides basic LTC benefits.

Because the primary concern is death benefit, there is usually limited flexibility with the LTC benefit provided by these policies.

Life Insurance Hybrid products are typically purchased by Buyer #3 – families with sufficient assets to self-insure that consider LTC a hedge and are interested in the best expected long-term value.

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Other Considerations

In addition to the different product features summarized above, there are a couple of other factors that should be evaluated when considering how LTC insurance fits into a financial plan.

Indemnity versus Reimbursement

LTC benefits may be paid on either a reimbursement basis or an indemnity basis. Indemnity benefits are attractive to many clients because the carrier will pay a fixed amount each year once the insured qualifies for benefits. There is no need to submit receipts under an indemnity policy.

Reimbursement policies require the submission of receipts and the carrier will only pay benefits equal to the receipts submitted up to the maximum monthly benefit provided under the coverage. Most insureds want to stay home as long as possible and obtain care in their home for some period of time. This structure often places the burden of submitting receipts on the family.

Most policies offering LTC benefits do so on a reimbursement basis. There are a few hybrid products that offer benefits on an indemnity basis.

Determining the Need

When considering funding LTC concerns, it is important to account for other needs and alternatives to meet the liability. As an example, existing cash accumulation life insurance policies may be used to provide non-taxable income that could offset the costs of care.

The hybrid products provide a lot of flexibility in the current market. With a good understanding of the various needs (LTC, life insurance, etc.), we can structure a benefit that meets your long-term planning objectives.

Summary

LTC planning is a critical element in ensuring hard-earned assets are preserved to provide the financial support the insured's family. Today's products offer a variety of designs and features that can be structured to meet specific objectives, whether the goal is lowest cost of coverage, increasing benefits, or including the LTC insurance in a holistic strategy. With the number of product alternatives available in the marketplace and the complexity of the various features, clients should consult an insurance professional to determine what options and strategies best meet their objectives.

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