



**LONG TERM CARE INSURANCE  
WHERE ARE WE GOING?  
BY JOHN LIGHT**

There was a time in the not too distant past that our Advisors and Agents looked upon Long Term Care Insurance as a new market savior; perfect for the senior clientele that most of our Producers were either working with or trying to develop. The need was automatic, easily understood by the consumer and benefit requirements were generally easy to establish.

We assembled a cache of carriers, dug in and waited for the business to roll...and waited...and then waited some more. We just never seemed to get a handle on it. High cost and tough underwriting seemed to be the basic deterrent to the sale in providing the solution to the high costs of Long Term Care expense.

Now, two events have once again spurred our enthusiasm for the business; a new answer to the problem and an upheaval in the traditional “use it or lose it” single policy approach.

The upheaval began several years ago when major carriers of Long Term Care coverage made unexpected moves with enormous implications in the marketplace.

Companies have left the business and others have raised their rates substantially. New products have been introduced and other products have been pulled from the market. The profitability of long term care insurance products is in a re-evaluation phase. Products have been tweaked and some of those tweaks have included commission adjustments.

John Hancock suspended sales of its group LTC product and announced rate increases of up to 40% on its inforce individual policies.

Met Life stopped writing LTC coverage all together while Genworth withdrew their Linked LTC product; another half dozen carriers also announced across the board rate increases on their LTC line. Incidentally, Genworth has just begun releasing their latest round of rate increases.

In tandem with these massive pricing changes some carriers introduced a new tactic in addressing these needs. As the Accelerated Benefit provisions and LTC Riders entered the marketplace finding attractive acceptance, the “use it or lose it” argument disappears as does the threat of untenable rate increases.

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A more realistic approach to providing claim dollars is now prevalent. Price increases are having a huge impact on the ability of seniors to afford LTC insurance that covers the entire risk. Now, the sensible approach seems to be the concept of providing supplemental claim funds for the handling of costs. Guaranteed premiums allow for lifetime coverage without the threat of intolerable rate increases.

This new way to insure long term care uses permanent life insurance as a base and allows the policyholder to **accelerate the death benefit** to pay for qualifying LTC expenses of the Insured. This modernized version of LTC coverage brings a more palatable solution for some consumers.

- Any benefit not needed for LTC needs will be paid as a death benefit to the beneficiaries.
- Products are available with guaranteed premiums or adding a rider to the base policy.
- Life Insurance has a new use – living benefits the insured can use if LTC needs arise.

### **UNDERSTANDING THE DIFFERENCES**

All LTC and Chronic Illness Riders on life insurance pay benefits as a tax-free acceleration of death benefit via 101(g). However, that's where the similarities end. The differentiators determine which types of claims qualify for benefits, how benefits are paid out and how riders are charged.

Riders with the classification of 7702B offer more comprehensive coverage. To qualify for a claim, the client needs to meet the basic requirements related to chronic illness. That means a physician must certify that the insured, for a period of at least 90 days, is unable to perform at least two Activities of Daily Livings (ADLs) or suffers from severe cognitive impairment. This definition allows temporary claims to be covered as well, so conditions such as mild strokes, orthopedic repairs, side effects of certain cancers, etc., would qualify for a LTC claim on this type policy. Keep in mind LTC riders are available for an additional charge, generally require underwriting and will add to the policy premium cost.

The main differentiator among 7702B LTC riders is whether the rider pays by an indemnity model or reimbursement model. Reimbursement plans, no matter what the stated maximum benefit is, will never pay more than the qualifying LTC expenses incurred. Qualifying expenses in reimbursement plans do not include the costs of home modification, medical equipment (i.e., walkers) and other potential expenses that go along with LTC needs.

Indemnity plans pay the maximum benefit the policy allows, regardless of, and without reference to, expenses. While some plans may require a licensed service to be involved in the care, no bills or receipts are needed to justify the cost of care. Indemnity plans allow for a wide array of flexible solutions because excess benefits not needed to pay for care can be used for any purpose.

**Chronic Illness riders classified only as 101(g):**

Some riders are classified as 101(g) only. These riders all use the indemnity model of benefit payment. However, the term “long term care” may not be used in marketing these products. Thus, you will see these riders generally referred to as “accelerated death benefit for chronic illness” riders. In addition, the physician must certify the chronic illness “is likely to last the rest of the insured’s life.” In other words, the condition must be non-recoverable. For this reason, temporary conditions would not be eligible for claim.

The main differentiator among chronic illness riders is whether the rider is paid for by an additional charge added to the policy or is included as a policy feature with no underwriting, discounting the total death benefit to provide the chronic illness benefit.

Some companies “include” a chronic illness rider feature as part of the policy, with no underwriting and at no additional charge. But keep in mind, no charge does not equate to free. Instead of charging for the rider, the death benefit is discounted when the rider benefits are actually needed. Because of this, benefits cannot be determined until a claim is filed. The discounting of benefits is based on several variables, including age, sex of the insured, premium class, as well as current interest rates and policy cash values at time of claim. The younger you are when filing a claim, the more the death benefit is discounted. While some may argue this method spares people never needing qualifying chronic care services from paying rider charges, those needing benefits may not understand at the time of the claim why the total policy death benefit paid is not the amount at policy issue.

Long Term Care shopping now requires a layered type approach. That means purchasing benefits at younger ages while still in top-notch health in smaller amounts for coverage where the probability is that it won’t be used for some time in the future. Even at younger ages, most prospects find it too expensive to pay the premium on a policy to cover the ultimate claim -- consider this recent study that determined the daily cost of a nursing home stay varied from \$133 to \$581; that’s \$49,000 to \$212,000 per year based on geographical location. The average stay for a 65 year old who is not currently disabled was 26 months. Add 3% inflation increase over a 15 year period and you could be looking at potential claims in the \$500,000 to \$900,000 range.

In addition, and not to be overlooked, even if a client can afford a policy there’s no guarantee he’ll get it. With fewer players in the market, LTCI carriers have their pick of customers, and they’re going for non-risky applicants in top-notch health.

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Not to be overlooked are the emotional and health considerations that accompany long term care responsibilities. When considering that caregivers are often an elderly spouse or a daughter/son who is “sandwiched” between taking care of an elderly parent as well as his or her own children, there is little time for the caregiver to focus on his or her wellbeing.

The impact of an uninsured long term care event, whether in a facility or in one’s home, can have ramifications felt for generations. So whether clients are about to retire, in the accumulation phase of retirement, or sandwiched between taking care of parents and their own children, now’s the time to address their long term care risks with proper planning and protection.

**FOR MORE INFORMATION**

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