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A Refresher on Today's Long Term Care Planning Options

Financial Experts Network – November 2, 2021

tom@financialexpertsnetwork.com

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REMINDER:
November is Long Term Care
Insurance Awareness Month!

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Agenda



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- ✓ The current LTC “state of affairs”
 - ✓ LTCI past and present – what’s changed?
 - ✓ Current state of public LTC financing
- ✓ Current LTCI planning options
- ✓ What is the “best” LTCI solution?
- ✓ (2) case studies
- ✓ My “ask?” Suspend your preconceived ideas for the next 60 minutes



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Is Public Financing of LTC a “perfect world?”



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- Changes in Medicare & VA
- Changes in Medicaid
 - Extreme pressure on the system
 - Expansion in fed tax bill?
- What does the future hold?
 - Is a public-private solution in our futures?
 - CLASS Act; LTC Commission
 - WA Cares Fund; other states?



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Let's Recap Recent LTCI History



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- ′ The LTCI system is not “broken” BUT...
- ′ LTCI carriers got it wrong
- ′ Underwriting (*dominated by “Self-Nominators”*)
 - ′ Conditions; decline rates
- ′ Interest rates
 - ′ Why is that important?
 - ′ Where do insurers invest premiums?
- ′ Lapse rates
- ′ Claims severity
- ′ Was it their “fault?”



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2009 LTCI Decline Rates by Age*

Ages	LTCI Decline Rate 2009	
<50	8%	
50-59	12%	
60-64	16%	
65-69	22%	
70-74	27%	
75-79	32%	
80+	44%	



* LifePlans, Inc. & aaltci.org

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2009-2019 LTCI Decline Rates by Age*

Ages	LTCI Decline Rate 2009	LTCI Decline Rate 2019
<50	8%	16%
50-59	12%	21%
60-64	16%	24%
65-69	22%	32.5%
70-74	27%	44%
75-79	32%	51.5% (A75+)
80+	44%	n/a



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History of the 10 Year Treasury Yield – 1960 to today



IMPORTANT Current Considerations



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- The importance of “rear-view mirror” vs. “windshield” thinking
 - E.g. past policies do NOT = new policies
 - Recent SOA study on rate expectations

Figure 15: Probabilities and Average Size of Rate Increases, by Year

Pricing Point Year	Probability of a Rate Increase	Average Size of Rate Increase
2000	40%	34%
2007	30%	18%
2014	10%	10%

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IMPORTANT Current Considerations



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- ✓ The importance of “rear-view mirror” vs. “windshield” thinking
 - ✓ E.g. past policies do NOT = new policies
 - ✓ Recent SOA study on rate expectations
- ✓ New Normal #1:
 - ✓ *Most of your clients can NOT afford true catastrophic LTCI coverage*
- ✓ New Normal #2:
 - ✓ MOST of your clients *can* afford some level of *MEANINGFUL* coverage



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Food for Thought!



- 75% of LTCI claims begin at Home or in an Assisted Living setting
 - Only 23% of claims start in a Nursing Home!
- 69.5% of LTCI claims END at Home or in an Assisted Living setting
 - Only 29.5% END in a Nursing Home!



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So...why is that important/ useful?



- We should talk MORE about Home care than Nursing Home care when discussing LTC planning
- We should not base all LTCI policy designs on cost of care in a Nursing Home, and no co-funding
 - As we did for YEARS



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Ok, so...what are my client's LTCI choices today?

a.k.a. how ELSE has the LTCI world changed?

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Traditional LTC Policy

LTC benefit only (unless ROP)
Premiums not guaranteed (usually)
Full LTC underwriting
4 Choices: BP, Amount, EP, Inflation
HSA eligible/ tax deductible
Reimbursement based (may have cash rider)

Traditional LTC Policy

LTC benefit only (unless ROP)
Premiums not guaranteed (usually)
Full LTC underwriting
4 Choices: BP, Amount, EP, Inflation
HSA eligible/ tax deductible
Reimbursement based (may have cash rider)

Linked Benefit Life

LTC benefit + Death Benefit + ROP
Premiums generally guaranteed
May offer more liberal Underwriting
Choose benefit period & inflation
May or may not be HSA eligible/deductible
Cash indemnity or reimbursement based

Traditional LTC Policy

LTC benefit only (unless ROP)
Premiums not guaranteed (usually)
Full LTC underwriting
4 Choices: BP, Amount, EP, Inflation
HSA eligible/ tax deductible
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Linked Benefit Life

LTC benefit + Death Benefit + ROP
Premiums generally guaranteed
May offer more liberal Underwriting
Choose benefit period & inflation
May or may not be HSA eligible/deductible
Cash indemnity or reimbursement based

LTC Rider on Life

LTC benefit comes from death benefit
“acceleration”
Premiums may be guaranteed
Usually not HSA eligible/tax deductible
Variety of base policies/ full LTC UW
LTC vs. Chronic Illness
Cash indemnity & reimbursement

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4 Choices: BP, Amount, EP, Inflation
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Usually not HSA eligible/tax deductible
Variety of base policies/ full LTC UW
LTC vs. Chronic Illness
Cash indemnity & reimbursement

Linked Benefit Annuity

Single premium
Premiums guaranteed
May offer more liberal LTC underwriting
Not tax deductible/ HSA eligible
Currently, reimbursement based only
Uses owner’s \$ first, then LTC benefit pool
Limited state/carrier availability

Importance of objectivity & choice

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- Still several traditional LTCI carriers in most states
- Numerous “linked benefit” products available
- Many life products with acceleration riders available

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Long Term Care Premium Comparison

Date: 10/29/2021

Prepared for: **Peter Planner** **Patty Planner**
 State: **Pennsylvania** **Pennsylvania**
 Age: **55** **55**
 Birthdate:

Prepared by: **Bob Vandy**

Sample LTCI "Matrix"

Policy	Mutual of Omaha MutualCare Custom Solution August 2021		National Guardian Life EssentialLTC 4/1/2021		Thrivent (2016)	
Client	Peter Planner	Patty Planner	Peter Planner	Patty Planner	Peter Planner	Patty Planner
Tax Qualified	Yes	Yes	Yes	Yes	Yes	Yes
Underwriting Class	Select	Select	Premier	Premier	Standard	Standard
Facility Daily Benefit	\$200	\$200	\$200	\$200	\$200	\$200
Facility Benefit Period	4.03 Years	4.03 Years	4 Years	4 Years	4 Years	4 Years
Home Care Daily Benefit	100%	100%	\$200	\$200	100%	100%
Monthly Home Care	Monthly	Monthly	Daily	Daily	Monthly	Monthly
Home Care Benefit Period	Pooled	Pooled	Pooled	Pooled	Pooled	Pooled
Facility Elimination Period	90 day	90 day	90 days	90 days	90 days	90 days
Nonforfeiture	Contingent	Contingent	Contingent	Contingent	Contingent	Contingent
Spouse Premium Waiver	No	No	Yes	Yes	No	No
Marital Discount	Both Insured	Both Insured	Both Spouses	Both Spouses	Both Insured	Both Insured
Payment Option	Lifetime	Lifetime	Lifetime	Lifetime	Lifetime	Lifetime
Modal Factor	Monthly PAC	Monthly PAC	Monthly	Monthly	Monthly EFT	Monthly EFT
Gender	Male	Female	Male	Female	Male	Female

Long Term Care Premium Comparison - page 2

Date: 10/29/2021

Policy	Mutual of Omaha MutualCare Custom Solution August 2021		National Guardian Life EssentialLTC 4/1/2021		Thrivent (2016)	
Client	Peter Planner	Patty Planner	Peter Planner	Patty Planner	Peter Planner	Patty Planner
Other	Monthly Benefit: \$6000 Pool of Money: \$290,000 Benefit Period Years: 4.03 Assisted Living: 100% Cash Benefit: 25% Cash Benefit Amount: \$1500	Monthly Benefit: \$6000 Pool of Money: \$290,000 Benefit Period Years: 4.03 Assisted Living: 100% Cash Benefit: 25% Cash Benefit Amount: \$1500	Policy Type: Comprehensive Pool of Money: \$292,000 Waiver of Premium HC: Included Joint Applicant Rates: Yes Prem on Spouse Death: \$128.00	Policy Type: Comprehensive Pool of Money: \$292,000 Waiver of Premium HC: Included Joint Applicant Rates: Yes Prem on Spouse Death: \$211.00	Monthly Benefit: \$6000 Pool of Money: \$288,000.00	Monthly Benefit: \$6000 Pool of Money: \$288,000.00
	Premium: \$109.76	Premium: \$182.17	Premium: \$264.00	Premium: \$0.00	Premium: \$119.71	Premium: \$181.63
	Combined Premium \$291.93		Combined Premium \$264.00		Combined Premium \$301.34	
Description	Mutual of Omaha MutualCare Custom Solution August 2021 is a tax-qualified plan with pooled benefits.		Tax-qualified plan which may include pooled facility and home care benefits. For Joint Insured applicants the premium shown is for BOTH applicants.		Thrivent is a tax-qualified plan with a monthly benefit and pooled facility and home care benefit.	

So...which one is “*best?*”

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It Depends!

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Things to Consider



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- ′ Ensure fair comparisons of LTCI vs. ?
- ′ Let's STOP calling it “*self-insuring*”
- ′ Dangers of self-funding
 - ′ Efficiency of using \$ to pay for \$?
 - ′ Income/Assets intended for other needs?
 - ′ Tapping assets in down market or w/taxes due
 - ′ Consider “ROI” of Insuring the risk!
- ′ Reimbursement vs. Indemnity
- ′ LTC vs. Chronic Illness Riders



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Case Design Considerations (our case studies will be for PA & IL)



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- Average length of care needed in U.S. today?*
- 3 years (69% of people will need SOME, so both extremes)
- 2021 Average LTC costs (Mutual of Omaha 2021 Cost of Care Survey):
 - HHC (Aide @44 hrs./week):
 - \$4450/month (PA); \$4405/month (IL)
 - ALF - \$5357/mo. (PA); \$4872/mo. (IL)
 - NH (private room) - \$11349/mo. (PA); \$8325/mo. (IL)
- We'll design @ \$6,000/month

*LongTermCare.gov

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- 2041 Median costs of care (20 years hence @ 3% inflation):
 - HHC (Aide @44 hrs./week):
 - \$8037/month (PA); \$8610/month (IL)
 - Approx. double for skilled nursing visits
 - ALF - \$9675/mo. (PA); \$8799/mo. (IL)
 - NH (semi-private) - \$20498/mo. (PA); \$15035/mo. (IL)
- We'll design @ \$6,000/month
 - Some with 3% inflation, some without
- Key point: what if I DON'T have LTCI?



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Case Study #1

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Peter & Patty Planner – see upload for detail

- PA residents; Both age 55; Teachers
- Aware of LTC (Peter's Mom)
- Financially conservative
- Don't want to burden their children if LTC needed
- Not worried about death benefit
- Understand NG nature of LTCI prems.
- Willing to “co-fund”

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Peter & Patty Planner – see upload for detail

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- ✓ \$300k home (no mortgage)
- ✓ \$100k savings
- ✓ 403(b)'s - \$300k (Peter); \$200k (Pat)
- ✓ Income - \$6k/mo (Peter); \$4500/mo. (Pat)
- ✓ Pensions (5 yrs. Hence):
 - ✓ \$2500 (Peter); \$1800 (Pat)
- ✓ Seeking most cost effective LTCI solution

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Peter & Patty – LTCI vs. GUL

Traditional LTCI	Design	Life Insurance w/Rider
\$290,000 LTC Pool	LTC benefit pool	
\$6,000 TQ LTC	Monthly Benefit	
90 days	Elimination Period	
N	Inflation?	
\$292 (both)	Monthly Premium	



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Peter & Patty – LTCI vs. GUL

Traditional LTCI	Design	Life Insurance w/Rider
\$290,000 LTC Pool	LTC benefit pool	\$300,000 Face No Lapse GUL
\$6,000 TQ LTC	Monthly Benefit	\$6,000 Chronic Illness
90 days	Elimination Period	90 days
N	Inflation?	N
\$317 (both)	Monthly Premium	\$854 (both)



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90 days	Elimination Period	90 days
N	Inflation?	N
\$317 (both)	Monthly Premium	\$854 (both)
Y – 3% compound	Inflation?	N/A
\$627 (both)	Monthly Premium	N/A



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Y – 3% compound	Inflation?	N/A
\$627 (both)	Monthly Premium	N/A
Y (less claims)	<i>BONUS?: ROP on LTCI</i>	Via Death Benefit
\$507 (both)! (no inflation)	Monthly Premium	\$854 (both)



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\$507 (both)! (no inflation)	Monthly Premium	\$854 (both)

****FYI – Traditional LTCI includes a \$292,000 pool for each PLUS a third, shared pool of \$292,000!!!****



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Our

****FYI – Traditional LTCI includes a \$292,000 pool for each PLUS a third, shared pool of \$292,000!!!****

****FYI – (3) LTCI pools (3) DOUBLE in 24 years @ 3% Inflation = \$1,752,000 Total**

So...which one is “*better?*”

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Case Study #2

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Carolyn Cautious— see upload for detail



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- IL resident (divorced)
- Age 62; Successful business owner
- Aware of LTC Planning Need
- Doesn't want to burden children if LTC need (they live out of state)
- May self-fund, but doesn't want to
 - Understands principle of “risk shifting”
 - Likes concept of “leverage”
- Wants premium guarantees

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- ✓ \$750k home (\$50k mortgage)
- ✓ \$250k savings; \$600k CDs
- ✓ 401(k) - \$2.5MM
- ✓ Income - \$20,000/mo
- ✓ Expects sale of business in 10 years?
- ✓ Would like to shift risk for portion of LTC
- ✓ Would like death benefit to avoid “use it or lose it”

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Carolyn – Linked Benefit vs. Life w/Rider

Linked Benefit	Design	
\$432,000 LTC Pool	LTC benefit pool	
\$6,000 TQ LTC (6 years)	Monthly Benefit	
90 days	Elimination Period	
N	Inflation?	
\$119,531 (single)	Premium	



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Linked Benefit	Design	Life Insurance w/Rider
\$432,000 LTC Pool	LTC benefit pool	\$432,000 Face No Lapse GUL
\$6,000 TQ LTC (6 years)	Monthly Benefit	\$8,640 TQ LTC (4 years)
90 days	Elimination Period	90 days
N	Inflation?	N
\$119,531 (single)	Premium	\$953/month



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90 days	Elimination Period	90 days
N	Inflation?	N
\$119,531 (single)	Premium	\$953/month
Y (3% Compound)	Inflation?	N/A
\$177,187 (single)	Premium	\$953/month
\$792,867! (\$10,215/month!)	LTC Pool @ A80	\$432,000/\$8640/month



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\$119,531 (single)	Premium	\$953/month
Y (3% Compound)	Inflation?	N/A
\$177,187 (single)	Premium	\$953/month
\$792,867! (\$10,215/month!)	LTC Pool @ A80	\$432,000/\$8640/month

Note: for a single premium of \$228,662, Linked Benefit could provide 100% ROP after 5-year vesting!



Note: Linked Benefit may provide LTC tax advantages, especially in a business setting!

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Traditional LTCI		Linked Benefit		Life Insurance w/Rider	
Pros	Cons	Pros	Cons	Pros	Cons
Best LTC benefit/premium & “leverage	Premiums not guaranteed	Strong 1035 exchange potential	Tax incentives may – or may not – be available	Strongest death benefit per premium leverage	Tax incentives may – or may not – be available
Tax Incentives	Stringent Underwriting	May offer single & multi-pay premiums	Less flexibility in designs/riders than traditional	Premiums & death benefits may be guaranteed	No Partnership asset protection
Partnership Asset Protection Potential	Lack of benefit at death (unless ROP purchased)	Premiums generally guaranteed	No partnership asset protection	More cash/indemnity options vs. traditional	Dollars used for LTC are [generally] NOT available for death benefit
Design Flexibility through multiple riders		ROP may be available (vesting may be required)	Opportunity cost of single premium funding?	May allow for 3 rd party ownership for sophisticated estate planning	Chronic illness (vs. LTC) riders may be more limited
May offer strong employer-based benefits		More cash/indemnity options vs. traditional			
		Underwriting (esp. w/annuity versions) MAY be less stringent			

Other Plan Design Considerations



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- Multi-pay options in Linked Benefit policies
 - 5, 10, 20, to age 65, lifetime?
- Second to Die Life w/LTC pool
 - Lifetime LTCI benefit??
- Using TQ funds to fund LTC need



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Areas of Opportunity



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- ✓ 1035 exchanges
 - ✓ Life & non-TQ annuities
 - ✓ Uninsurables - Annuity linked
- ✓ Non-insurance option
- ✓ Tax incentives
 - ✓ Some Linked policies now are eligible for tax incentives
- ✓ Business/Compensation planning
 - ✓ Ability to discriminate
 - ✓ Tax incentives



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Summary



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- Each LTCI option has its place
- The “new” LTCI might not be a bad thing...
- Linked Benefit designs can fill multiple needs/desires
- Life insurance with a rider may open the door to other, more sophisticated planning needs



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Thanks for Attending!

Questions?

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