Part 4

Which Long-Term Care Insurance Products and Plans Work Best?

"A good plan, violently executed now, is better than a perfect plan next week."

—George S. Patton

Private long-term care insurance sold by an insurance company is often the best solution to the problem of potential long-term care expenses.

There, we've come right out and said it. A few moments have passed and a thunderbolt has not struck! With all of the negative press the insurance industry receives day after day, you can trust that there will be many people you talk to who will be skeptical when you propose this planning idea to them.

Yet—what are the alternatives?

This book has discussed how neither Medicare nor Medicaid are viable LTC choices for most Americans who have the financial wherewithal to plan ahead. Essentially, when it comes to funding your LTC plan, the only options are to save, invest or insure.

Many individuals believe they'll have the discipline to set aside dedicated funds for a protracted care event. The *New York Times* cautioned "If you have no interest in turning over your money to (insurance) companies who have gotten it so wrong, I salute you. But if the insurance company professionals can blow the projections, you certainly can, too. So you had better have a plan, and a backup plan, too, for when your forecasts inevitably go awry."[1]

Self-insurers should be confronted: they are in denial and often haven't considered the consequences of this decision:

- Although he might have saved enough for his own care, what impact would it have on his wife's future retirement? And if she later needed care, would there be enough?

- Without a plan, which assets would he liquidate first? Has he considered the capital gains taxes, income taxes, and potential surrender charges? What if the market is down when he's forced to sell?

- His capital is likely earmarked for legacy purposes—an inheritance, charitable cause, etc. Your client doesn't want to invade assets that were meant to fund something else.

- Setting aside money exclusively for long-term care costs means investing conservatively. Had your client purchased LTC insurance, he could've invested aggressively. The opportunity cost doesn't just apply to the premiums—it also applies to the cost of care itself.[2]

- While LTC insurance provides peace of mind, those saving on their own can never be certain they've saved enough, soon enough. They don't know if they are earning a high enough rate of return, or if the need for care will strike tomorrow.

- Those who use their own money for care tend to be reluctant purchasers; thus, will your client get the care he needs? He may not get the proper care if he knows he has to bear the entire freight, which is not safe or suitable.

Consumers and financial advisors often hesitate to pull the trigger on long-term care insurance for a variety of manufactured reasons. The products aren't ready yet. The pricing is still iffy. Insurers are leaving the market. "Wait and see" is a common mantra for those who bother to address this need in their financial planning efforts.

Ironically, in some ways the long-term care insurance you could buy twenty years ago (which is no longer available today) was better and less expensive than the products currently on the market. When interviewing prospective clients, if ever someone asked whether I believed in this product enough to own it myself, I would always trot out my own policy on the spot. If you intend to make a career in this business, you must be a passionate believer in the products you sell—this means owning a policy on yourself and your partner.

If someone looked a little closer, they'd say: "I want what you have." Oops. The Health Insurance Portability and Accountability Act (HIPAA) provisions passed by Congress in 1996 eliminated the policy I own.

How about the price? No, I couldn't do that, either. As insurers have become more confident and regulators more determined to hold policy pricing to the highest standard, rates for every new product introduction have been higher than the last.

Given this history, what is everybody waiting for? Godot? He's not coming, and neither is a return to the policies and pricing of yesteryear. Postponing the decision to buy may make perfect sense if you are looking at a new television or computer at Costco. Innovative technology tends to be priced highest at the beginning and dips deeply just before the next great version of a product is released.

Long-term care insurance is not in high-definition. It does not have a generic version of itself. It rarely makes sense to wait for the next upgrade—LTCI version 2.0. Deferring this decision actually costs your client money. The product he thought might improve suddenly is never again available, replaced by a different, less liberal model. We've seen this happen repeatedly within the last few years as policy options we've lived with for the last decade have one by one been suspended from sale or more-tightly defined:

- Limited-Pay modes
- Lifetime Benefit Periods (and in some cases, Ten Year Benefit Periods)
- Survivorship Riders
- Cash Benefit Riders
- Unisex Rates
- Informal Caregiver Benefits

Even worse, your client's health worsens and then long-term care insurance is permanently off the table as a solution.

Part of your due diligence as a financial advisor is to evaluate a client's suitability for an insurance solution to this financial problem. In the process, you will analyze the client's ability to afford the premium—not just today, but for several years—because the need for monetary assistance may be a long way off.

The media coverage of long-term care insurance has led many to believe that they cannot afford it. Nothing could be further from reality. Data show that as many as 45 percent of individuals under age sixty-one who purchased partnership-qualified long-term care insurance as recently as five years ago paid less than $1,500 a year (30 percent paid less than $1,000)[3]. With today's average buyer just age fifty-nine, this may be more the rule than the exception.[4]

Although affordability has always been a recurring objection, the potential for rate increases down the road has surfaced as an increasing source of concern over the last decade. Many clients want to lock in a premium forever. Because this product is still evolving, insurers simply cannot price a contract once and for all for each buyer. If they did, the cost would be so exorbitant as to possibly preclude sales. One major insurer recently made the bold assertion that LTCI should be treated more like health insurance: we were wrong to imagine rates could be accurately forecast thirty years ahead of time (given the complexity of the variables). Instead, we should move forward on the premise that rates will rise a few points every few years. After all, our auto insurance, homeowners, and health all rise to keep up with inflation, and no one gets too bent out of shape? Why should LTCI be any different?

The industry has also responded with combo products, which are becoming an increasing part of sales. The ability to lock-in a premium on a combo plan has been one of its most touted benefits—we've even heard one carrier describe combo products as noncancellable (off the record) in support of their premium stability. Consumers are enamored of combo products, so be sure to emphasize all of the quality features they contain, while remaining balanced about their shortcomings as well.

One thing is certain: waiting will not help anyone with this problem. Rates will go up for new business if a client decides to buy the policy at age sixty rather than fifty-nine. Only by purchasing a policy today can your client save money *and* lock in a lower premium (that could be subject to rate hikes ahead). Waiting will only exacerbate the concern; it will not change it.

The mother of one of the authors bought a policy in 1990. She knew the premium could increase in the years ahead, but she also realized that delaying the decision would not make the policy cheaper. She understood the need, so she went ahead and bought the policy.

She has been through more than twenty rate renewals since that purchase. Her rates remain the same as the day she bought the policy. She is distinctly pleased with herself for making the right decision when she did. She could have waited, but she ended up spending far less for coverage by acting on it the day she was convinced of the need to own it. She has earned a Ph.D in long-term care insurance premium awareness.

A recent study of rate increases by Milliman, Inc., and reinsurer Gen Re surveyed thirty-four carriers and their rate increase history. Of those, 59 percent had filed at least one rate increase in the preceding thirty-six months, and almost 65 percent had filed for one rate increase at some time.[5] Carriers who staked their claim for thirty years on never having had a rate increase finally ended the streak by filing not just one, but a series of increases. Another insurer—at one time rated higher than any other in the industry—went on to file double-digit increases that were among the highest of the industry. We live in an age where there's only two kinds of companies: those who've had a rate increase, and those who will.

The same externalities impacted the same books of business over the same time periods. Every company has experienced lower-than-expected lapse ratios, lower-than-expected interest rates, higher-than-expected morbidity, and lower-than-expected mortality. Of these, lapse rates have played the greatest role.

The good news is that policies introduced today enjoy the benefits of yesterday's experience: they are priced with the most conservative lapse, interest rate, morbidity and mortality experience. Thus, it is theoretically harder than in any time in history to lose money on these blocks. Particularly, if interest rates rise (and they should, at some point in the future), profit margins should rise. The other upshot is that we may even see a return of some LTCI carriers into the market.

We have written before that there's never been a better time to buy (or sell) long term care insurance, calling it a *Golden Age*. We enumerate the reasons here:[6]

- The companies selling today have more experience than at any time in history, some nearing forty years, with all the attendant actuarial data that comes with it.

- Claims-paying is at an all-time high ($7.5 billion paid in 2013, to more than 273,000 beneficiaries). Where once it was uncommon for a carrier to pay $1 million a day, there are now several carriers in this elite club.

- We have access to more benefits and features than ever before, including innovative riders and new financial vehicles like asset-based combination products.

- Buyers today benefit from a wide range of consumer protections such as timely payment of claims, contingent nonforfeiture, independent third-party review, and MAE pricing, which extends to the way rate increases are implemented.

- There are now more than a half dozen carriers offering short-term care, a product expertly designed to address the twin objections of affordability and high declination rate.

- Having been repealed, the CLASS Act served only to raise awareness of the need for adequate long-term care planning, while reinforcing government's inability to shoulder the full burden. The Affordable Care Act served up negligible alternatives except pressure to trim Medicaid.

- Partnership programs provide *lifetime* benefit periods for the price of *limited* and waive the need to sell the former.

- Where 5 percent compound inflation protection was once the only (and highly expensive) option, there are now a dozen new, less expensive but no less effective inflation options.

- The price of a policy is as affordable as ever: in 1995 it averaged $2,153 per year (inflation-adjusted); by 2010, the average policyholder paid just $2,283 per year[7]. During these fifteen years the average age has come down and the typical plan design has become more modest, but rates have not entirely kept pace with the Consumer Price Index either.[8]

Other analysts concur: the market continues to grow, with Boomers crashing into retirement age. The lack of alternatives still puts long-term care insurance on a financing pedestal to address this problem, and this is not likely to change in the future.[9]

As long-term care insurance trailblazer Phyllis Shelton stated, "Medicaid is destroying state budgets like a computer virus and it's only going to get worse unless we STEP UP and sell long-term care insurance fast enough to build a reserve of private-pay dollars for long-term care that will take the burden off the states."[10] In essence, every long-term care insurance policy you sell helps the Medicaid program stay afloat.

After one of the major carriers announced its decision to suspend new long-term care insurance sales (MetLife), producers were understandably rattled. To help steady nerves, the other major carriers sent letters out to their distribution. MedAmerica's letter (written by then-President Bill Jones), is instructive:[11]

> "With the recent announcement of a major carrier's decision to discontinue sale of their individual LTCI [long-term care insurance] products and rate increase actions becoming more common, some agents and distributors may be wondering about the future of the LTCI industry. Let's all remember one important fact: The best way for most people to manage the LTC risk is through the purchase of insurance. And they need you to help them with that decision.
>
> The need to manage the long-term care risk still exists and still remains the responsibility of the family. No action that any carrier takes will change that. Your role in helping families address the LTC risk remains unchanged, and it is still a critical role that needs to be fulfilled by you.
>
> Carriers don't define our industry, you do. Your actions, or inactions, toward helping clients address this need is what defines our industry. Now is the time to remain resolute in staying with the mission of helping families manage the unfortunate consequences of a long-term care event when it occurs."

Hear, hear!

Prepare to study the various long term care product solutions in Chapter 15. As financial advisors, you're in a position to make or break this industry. Consumers are relying more than ever on expert guidance on matters like this.

It's time to deliver on this promise.

Endnotes

1. Ron Lieber, "Ignore Long-Term Care Planning at Your Own Peril," New York Times, November 4, 2010.
2. For a brilliant analysis of the opportunity cost of care, see "Financial Rationale for Long-Term Care Planning," by Ralph Leisle, CLU, ChFC, CASL, Copyright 2008, Society of Financial Service Professionals, January 2008.
3. DEHPG Report (All US Year-End 123109) Registry Table 8, Premium Amount by Purchase Age — Buyers Under Age 61.
4. "Exiting the Market: Understanding the Factors Behind Carriers' Decision to Leave the Long-Term Care Insurance Market," Marc A. Cohen, Ph.D., July 2013. Page 33.
5. Amy Pahl, "Long-Term Care Insurance Rate Increase Survey Findings," Disability Newsletter (December 2010): 3.
6. "This is the Golden Age of Long-Term Care," Stephen D. Forman, July 16, 2012. www.producersweb.com
7. "Who Buys Long-Term Care Insurance in 2010-2011?" Copyright 2012, by America's Health Insurance Plans.
8. For a more complete discussion of long-term care insurance rates relative to rising income and net worth, see "LTCI is Too Expensive—the Importance of Controlling the Narrative about Price," Stephen D. Forman, January 23, 2013. www.producersweb.com
9. Jaime L. Brockway, "Best days for Long-Term Care Insurance Sector Lie Ahead," Insurance & Financial Advisor, November 22, 2010.
10. Phyllis Shelton, "Trends in Long-Term Care Insurance," Life Insurance Selling (November 2010): 26.
11. MedAmerica, A Message from Bill Jones, President of medAmerica, November 19, 2010.