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Long-Term Care Planning & Insurance for High-Net-Worth Clients

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*“I hope I die before I get old.” –
My Generation – The Who, 1965*

Most of the boomers were just coming of age when Pete Townsend wrote *My Generation*. Now, 50 years later, most of us are still alive and will probably live for another 20, 30 or perhaps 40 years. We are living longer, but not necessarily better. While advances in medical technology and pharmaceuticals are keeping us alive longer, lifestyle-related chronic health conditions are taking their toll. Many are too busy living in the sandwich generation¹ to focus on planning for the future.

For most boomers, the burning question is “Will I have enough?” For many living beyond their means, saving too little or mortgaging their retirement to pay for college expenses, the answer is probably “no.” Even for those who have amassed well over a million dollars, concerns about long-term care costs create real uncertainty.

I witnessed both my parents experience the downward spiral brought on by dementia. The burden of sustaining their lives was huge—emotional, physical, psychological and financial. Then in 2011, a close friend

asked me to assist him in obtaining reliable long-term care insurance, a type of insurance with which I was only somewhat familiar. I agreed to explore the available options for the 74 year-old retired executive in earnest.

My research revealed stark realities about how many Americans spend their final days. I discovered there is a “huge hole” in the health care plan of nearly every American. A lifetime of working and saving can easily disappear in a matter of months. Living longer, for millions of Americans, may be one of the greatest crises facing our society today.

I am an independent life and health producer specializing in long-term care planning and insurance for high-net-worth clients. In my practice, I rely on the existing and evolving array of insurance products currently available to design creative risk transfer solutions for my clients. The industry volatility over the last several years has presented me with both challenges and opportunities. Sales of new long-term care insurance policies were plummeting, as reluctant consumers now had compelling reasons not to buy.

A SHIFTING ADVISOR'S PERSPECTIVE

For decades, the majority of expert advisors to the wealth management industry have been saying that long-term care insurance is not right for wealthy clients, mainly because they can afford to self-insure. Therefore, many advisers have been known to tell clients with \$2 million to \$3 million or more of invested assets that they don't need to worry about developing a strategy to fund a long-term health care risk because they have more than enough money to cover it on their own.

This advice has been changing. As fiduciaries, many advisers are probing this assumption a little further to see if it is really

prudent. They are beginning to realize a sound plan for their client's retirement includes a long-term care strategy that addresses two critical components.

- To assess the financial impact a long-term health care event may have on the individual's retirement portfolio.
- To evaluate the emotional impact the event would have on family or friends.

Because they are not comfortable talking about the second component, many advisers focus solely on the first issue. The impact on the caregivers cannot be overlooked in long-term care planning.

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For these reasons, I focus on collaborating with RIAs and trust companies. While they are fiduciaries and have a legal obligation to do what's in their clients' best interests, they don't understand long-term care planning and insurance.

Over time, I have earned the confidence and trust of a growing number of fee-only advisors. Over time, I have educated them with regard to LTC planning and insurance. Many now see me as an extension of their team and afford me the "transfer of trust" they enjoy with their clients.

CREATIVE SOLUTIONS,
AN EXAMPLE OF A
DIVERSIFIED RISK
MANAGEMENT
PORTFOLIO

Advisors and their clients are beginning to understand that transferring a portion of their long-term care risk to an insurance company makes good sense. They understand the leverage, tax advantages, instant liquidity and professional care coordination that insurance affords them.

What they don't understand is paying a large premium every year for the rest of their lives for a product they hope they never need and that the insurance company can unilaterally increase.

What my clients really want is a policy that:

1. Has no elimination period
2. Provides a combination of indemnity and reimbursement benefits

3. Has guaranteed benefits whether care is needed or not
4. Has guaranteed premiums that can be flexible
5. Keeps pace with inflation

That one policy, unfortunately, does not exist. For most of my clients what provides the most effective solution is not one policy. In fact, a combination of policies provides the richest benefits that will cover a broader range of possible claim scenarios. "Diversified risk management portfolios" are individually tailored to the needs and preferences of each client. In this example, we show a couple with four different policies.

Let's take a couple in their late 50s, both reasonably healthy non-smokers, with \$5MM liquid assets. I design **two identical traditional LTCI policies** underwritten by a carrier that offers an option to receive a portion of the monthly benefit in cash.

- \$5,000 monthly LTC benefit
- 24 month benefit period
- Waiver of elimination period for home health care
- Shared benefits rider
- 3 percent compound inflation rider

The lifetime premium is reasonable because the benefits aren't rich. The use-it-or-lose-it objection is blunted with a shared benefits rider because of the high probability one spouse will need care. Concerns about rate increases are minimized by the relatively low premium and

agreement that interest rates will likely rise, permitting the carrier to earn more on invested premiums.

For him, I design a **hybrid Universal Life policy**, with accelerated death benefit LTC rider. I may use a GUL, IUL or current assumption contract, depending on the couple's budget, overall objectives and preferences. The design may have a single premium, a limited pay or lifetime premiums and the following features:

- \$500,000 death benefit and LTC benefit pool
- 4 percent acceleration
- \$20,000 monthly LTC benefit
- 25 month benefit period
- No inflation

Because probabilities suggest that he is likely to need care and die before her, and because the length of time he may need care is two years+/-, this approach provides him with the maximum leverage and her with the maximum residual death benefit if he needs care and a \$500,000 addition to her LTC pool of dollars, if he dies without needing care. Because there is no inflation protection with hybrid policies, the LTC benefit is grossed up to offset inflation.

Alternatively, a similar policy with a chronic illness rider may be presented if indemnity is preferred and there are no concerns about permanency or the discounting of the death benefit.

For her, I design a **single premium life-linked policy**, which may have no elimination period, or a 90 day elimination period only for facility care. A return of premium rider is typically included. The policy also includes the following features:

- \$180,000 death benefit
- \$540,000 initial LTC benefit pool
- \$7,500 monthly LTC benefit
- two year base acceleration benefit, with four year LTC extension of benefits rider
- 3 percent compound inflation

With her typically outliving him, having no natural caregiver and a significantly greater life expectancy, a six year benefit period is appropriate. There is a sufficient death benefit payable if she never needs care and a small residual one if she does. Inflation protection is included.

Clients and advisors like the flexibility and limited exposure to rate increases. He feels good about protecting her and not forcing other family members

I have earned the confidence and trust of a growing number of fee-only advisors.

to have to step in. She feels confident that she will be able to care for him and will be provided for after he is gone.

There are as many variations on the theme as there are clients, with ages, health histories, state approvals, sources of premiums and client preferences all helping to dictate the solution design.

PRODUCT INNOVATION

In order to gain a better understanding of the challenges and opportunities faced by the actuarial community, I spoke with Douglas Burkle, ASA, MAAA, Life & Linked Benefits Design Leader at Genworth. Doug has been a leader in the linked and hybrid product space for the last 21 years, first at Lincoln Financial where he designed and priced the MoneyGuard product line and now at Genworth, where he designed and priced Genworth's Total Living Coverage (TLC).

When I asked Doug why it seems carriers are more comfortable pricing linked benefit products and hybrids than traditional LTC insurance, he said his company, and perhaps two others he knows of, are equally comfortable pricing both types of products. They understand the dynamics of linked benefit products and are able to administer them because they have so many years of experience administering LTC claims.

"A carrier that wants to get into the business via a hybrid product, that's acceleration-only, has a choice to make. If they don't have the claims experience and systems capabilities, they will tend to want to administer as an indemnity because it's a lot easier, and go with a chronic illness product. They may also lack agents who have gone through the required CE and have the licenses necessary to sell a LTC reimbursement product."

I then asked Doug what trends he sees in the industry and with his competitors. He said with linked benefit products the trend is toward flexible premiums because there are a limited number of people who can afford a single premium product. I pointed out that even considering the time value of money, the leading carrier selling a flexible premium linked benefit policy seems to be charging an excessive premium for that flexibility. Doug suggested as the rest of the market catches up, the competition will cause carriers to decrease their flexible premiums so they are more in line with their single premium, thus benefiting the consumer.

In addition, he said "there has been a big ramp up over the last couple years of hybrid products (chronic illness and qualified long-term care acceleration only). If you look at the entire industry portfolio of linked and hybrid, or what we call combination marketplace, from 2008 through 2014 there has been around a 33 percent compound annual growth rate of new premium sales."

"Another area that is being looked at is the annuity-linked product market. As carriers anticipate a better interest rate environment, and there is more room within the interest crediting rate, then you can afford the long-term care rider charges. So, that's a market with growth potential once interest rates go up a little." When I expressed interest in a fixed index annuity with a LTC rider, Doug said because of the higher potential crediting rate, we may see movement there first.

When I brought up how chronic illness riders are making it easier to sell permanent life insurance, Doug pointed out that there has been a lot of debate about the chronic illness products that use an actuarial discount method, where policy owners may not exercise the acceleration option because the discount might be too large and they may just wait for the death benefit to be paid in full. At least two carriers he knows of state in their marketing materials that the age the client goes on claim, is approximately the percentage of the death benefit the client will receive. For example, if the client goes on claim at age 80, they would receive 80 percent of the death benefit. Doug believes carriers will begin to offer the option of an extra premium charge in return for a dollar-for-dollar payout when the insured becomes chronically ill. This will allow the policy owner to know the LTC benefit pool they are paying for.

I brought up that the industry is now promoting products with more limited benefits in response to consumer push back that LTCi is unaffordable. Doug said he expects we will continue to see cheaper products being rolled out to get the price tag down. He also said he thinks there will be a lot of innovation, with carriers tweaking all aspects of the traditional products. Some will be successful, and some not, and it will take several years to sort things out.

In my experience, carriers that fully underwrite life-linked policies offer the policy owner



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significantly more LTC leverage than those who rely only on simplified underwriting (telephone interview and prescription drug check). I asked Doug about this and he explained that with full underwriting, you get a better risk profile and can produce 20 percent to 25 percent more leverage than with simplified underwriting. My preference is for managing my clients' expectations and taking the time to go through full underwriting to get maximum LTC leverage. I understand from conversations with some of my BGA colleagues that many agents prefer simplified underwriting because they get faster policy issue and commission payment.

When I asked Doug about the future, he stated he thinks that most agents still think there is a strong future for traditional LTC insurance because it still affords the most leverage in the case of a long-term care

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event, but you do have the main objections (use-it-or-lose-it, non-guaranteed premiums) and they are both answered by a linked benefit product.

To bring our conversation to a close, I circled back to my target market, high-net-worth clients. Doug said many high-net-worth individuals understand the concepts of leverage and risk management. While they may have the ability to self-insure, they may lack liquidity. In addition, many are in the position they are in because of a fiscally conservative

lifestyle. They purchase long-term care insurance policy because it allows them to practice what they have been taught to do throughout their lives: minimize risk, work with experts and avoid selling assets below their value.

The LTC insurance industry should consider creating products that offer more guarantees and more flexibility. Things like more carriers offering linked products with the option to get better leverage through full underwriting, more hybrids with true LTC riders, chronic

illness riders that offer full acceleration and traditional LTC insurance that is non-cancelable. While this is only a small sampling of ideas, this should give you something to think about. Our combined mission is critical. Time is of the essence. ■

ENDNOTE

¹ <http://www.usatoday.com/story/news/nation/2015/05/21/pew-aging-family-support-america-germany-italy/27578831/>



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