The Long-Term Care Dilemma

New Options to Help Clients with Their Financial Health

by Chris Coudret, CLU®, ChFC® and Bruce Moon, CLU®, ChFC®, CASL®

> Consider four options for advising your clients regarding their LTC insurance needs

A recent press release headline was an attention-grabber for anyone in the business of creating financial security for their clients. It read, "Americans Ignore Need for Long-Term Care Planning Despite Knowing More about the Risks."

A summary of a survey representing a cross-section of the United States, there were other results that were interesting, but the most startling item was this: "Although most respondents said they thought LTC insurance would be the best way to cover long-term care needs (61 percent), only 11 percent reported having purchased it." (Source: 2011 John Hancock Long-Term Care Survey)

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Existing LTC insurance solutions obviously have not been attractive in the marketplace. Backing this up was qualitative research that OneAmerica commissioned late last year. Among those who had purchased LTC insurance, some said the coverage is "exceeding expensive," while a non-buyer stated that, "the downsides of buying are greater than the risk of self-insuring."

Why are consumers so willing to risk their financial health by not covering what could be the single largest exposure to their portfolio? Perhaps our industry hasn't done a great enough service to consumers by providing them with other options that could meet their needs.

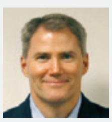
Four areas warrant exploration to help our clients find the right answer to their LTC insurance needs, and you may not have heard of any of them.

1. LIMITED (OR SINGLE) PAY SOLUTIONS

Clients have many insurance policies for which they will pay for the rest of their lives (e.g., homeowners, auto insurance, Medicare supplement). There are "paid up" approaches to LTC insurance that research shows is appealing to the consumer. Some use a single premium, which allows the client to reallocate an existing asset with no ongoing out-of-pocket expenses. Other options offer 10-pay or 20-pay periods that also put a finite date on paying for the coverage.

2. MAXIMIZING SPOUSAL DISCOUNTS

Statistics show that in 2010, spouses/partners both purchasing LTC insurance made up 57 percent of the market (Source: American Association for Long-Term Care Insurance, 2011 LTCi Sourcebook). But what kind of a discount are consumers really getting? One innovation that has gained traction is the option to buy one policy for a couple to get the most out of the situation where both spouses are insurable. Many companies offer a discount for buying two policies, but to our knowledge, only one company has an actual joint option.



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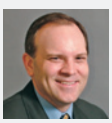

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3. GUARANTEED PREMIUM PRODUCTS

As referenced earlier, there are limited pay options that not only help the client know when the policy is paid up, but also help to mitigate (or, in some cases, eliminate) future rate increases. The recent qualitative research previously referenced in this article showed that consumers were well aware that health LTC insurance products were subject to rate increases. In one situation, a consumer is now paying 70 percent more than their original premium. Think about it: $2,000 to $3,400 means a $1,400 increase (more than $100 per month)—painful for any client, but especially those who are on a fixed income. If rate increases are an objection, evaluate products that may use a guaranteed premium structure.

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4. ANNUITIES WITH LTC COVERAGE

Some clients are stubborn enough to believe they can self-insure against the risk of long-term care expenses. And, perhaps in some instances—with enough wealth—they can. But for others, it just isn't true. For the self-insurers among our client base, a new form of LTC coverage utilizing fixed interest deferred annuities may be the answer. Most of these products require a single premium and then combine the use of the client's own money with an LTC fund available from the insurance company. Underwriting is typically easier on these products than the health-based LTC insurance option because the first money being used is the client's, not the insurer's. Additionally, favorable tax treatment since 2010 has allowed consumers to receive income tax-free long-term care benefits from these products.

Americans love to procrastinate, and purchasing LTC insurance is likely one of the most difficult decisions to be made. As an advisor, you can provide your clients with the most current information on product choices and options so your clients will be able to recognize which makes the most sense for them. If 61 percent truly believe LTC insurance is the best solution, our industry needs to work more diligently, utilizing all of the products and features available in the marketplace to expand the percentage of consumers who purchase this important protection.