

# Integrating Life and LTC

## **National LTCi Producers Summit October 18, 2005**

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NATIONAL LIFE  
GROUP™

# Agenda

- Simple Facts about LTC
- Other Solutions to LTC issues
- Private Sector Solutions
- Integrating Life/LTC
  - ⇒ Sales Ideas

# Reasons to Buy LTC Insurance

- Helps protect the client's retirement savings and family assets
- Helps protect the client's family
- Provides choices and control
- Peace of mind
- Independence
- Favorable tax treatment

# The Government is on Our Side

Message of the HIPAA legislation:  
the federal government has been encouraging the purchase of LTC insurance.

# Today's Changing Demographics

People age 65 and older numbered 35 million in 2000, an increase of 3.7 million or 12% since 1990. By 2030, the number of older persons will be about 70 million.

About one in every eight Americans, or 12.4% of the population, is age 65 or older.

Over 2 million people celebrated their 65<sup>th</sup> birthday in 2000 (5,574 per day).

In 2000 persons reaching age 65 had an average life expectancy of an additional 17.9 years (19.2 years for females and 16.3 for males).

**Source:** *A Profile of Older Americans: 2001*, Administration on Aging, U.S. Department of Health and Human Services.

# Today's Changing Demographics

In 2000 there were 20.6 million women age 65 or older and 14.4 million men age 65 or older (a ratio of 143 women to every 100 men). The female to male ratio increases with age, ranging from 117 women to every 100 men for the 65-69 age group to a high of 245 women to every 100 men for persons 85 and over.

***Source:** A Profile of Older Americans: 2001, Administration on Aging, U.S. Department of Health and Human Services.*

# Today's Changing Demographics

Between 1984 and 1999, the median net worth of households headed by persons age 65 or older increased by 69%. The median net worth of older persons in 1999 was \$157,600. Median net worth was higher for older married heads of households (\$234,000) and older persons with some college education (\$301,000).

**Source:** *Older Americans 2000: Key Indicators of Well-Being*, Federal Interagency Forum on Aging Related Statistics

# Today's Changing Demographics

About 70 percent of married people ages 51 to 61 have four-generation families -- including elderly parents and children who have had children.

*Source: National Institute on Aging, 1994.*



# Today's Changing Demographics

The number of over-age 85 Americans projects to be 18 million (4.6 percent of the U.S. population) by the year 2050.

***Source:** Anne R. Carey and Jerry Mosemak, "Coming of Age in USA," USA Today, June 2, 1997, p. 1A.*

# Today's Changing Demographics

There are currently 33 million (one in every five registered voters) members of AARP, the American Association of Retired Persons. Membership age begins at 50. Since baby boomers started turning 50 on January 1, 1996, AARP will gain a prospective new member every eight seconds for the following 18 years.

**Source:** "Washington's Second Most Powerful Man," *Fortune*, May 12, 1997, p.123.

# Long-Term Care Use and Costs

Nearly one quarter (22.9%) of all American adults age 65 or older are functionally disabled or in need of some form of LTC. By the year 2040, it is projected that the population of adults needing assistance with 3 or more ADL's will increase by 90%.

**Source:** *Family Caregiving in an Aging Society*, 1999 report from the Administration on Aging

# Consider This Rapidly Unfolding Social Phenomenon

Roughly 2.8% of the U.S. population – 7.6 million people – received formal home care services in 1998. Of these 68% were age 65 or older and 62% were women.

*Source: 1998 National Home and Hospice Care Survey, U.S. Department of Health and Human Services*

# What is the Current Cost of LTC?

- The national average cost for a private room in a nursing home is about \$4,654 per month (\$55,848 per year).

*Source: The Costs of Long-Term Care: Public Perceptions Versus Reality, AARP 2001*

- Home Health Care expenses can average between \$90 and \$150 per day

*Source: National Health Care Financing Review, 1991*

# The Private Sector Solution

- Almost 6 million Americans have turned to private long-term care plans to protect their assets.<sup>1</sup>
- But after growing at huge growth rates during the 1990's, individual LTC sales have slumped over the past few years.
  - \* Mergers
  - \* Exits from marketplace
  - \* Premium increases

<sup>1</sup> **Source:** HIAA, *Long-Term Care Insurance in 1996*

# But, even with millions of LTC policyholders there are still some fundamental problems:

- Individuals hate to “lose”
- Individuals may feel wealthy enough to self-insure their possible LTC need
- Individuals may feel the “wait-and-see” approach is viable
- Individuals may want to combine various coverage (life/LTC) under one policy type

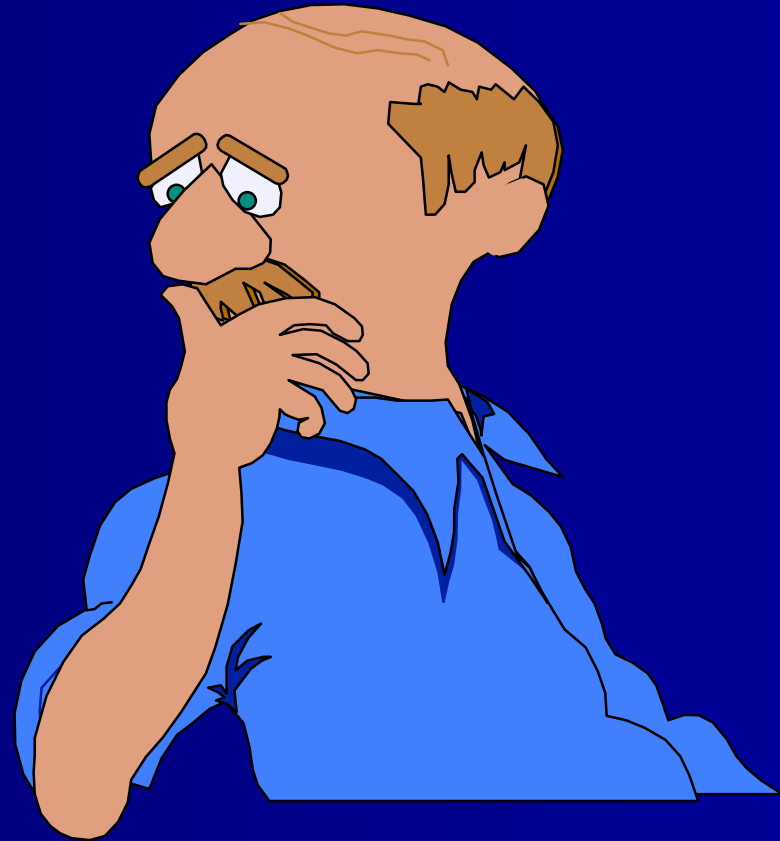
# Individuals hate to “lose” and also act unpredictably

Although it may not be readily apparent, let's analyze a little bit of behavioral finance to highlight these points



# Mental Accounting – What theoretically should be true, always isn't.

- You decide to see a play that cost \$100.00.
- At the theater you find you have lost a \$100.00 bill.
- Do you still buy the \$100.00 ticket and attend the play?



# Mental Accounting – What theoretically should be true always isn't.



- On the way to the theater you discover you've lost the \$100.00 theater ticket.
- Do you buy another ticket?

# No Difference

- The event cost \$200.00 either way!
- The fact that we even thought about it is evidence mental accounting exists!
- Proving that individuals don't always act rationally.



# *Aversion to Ambiguity*

- People prefer the familiar to the unfamiliar
  - ⇒ \$1000 or even gamble toss of \$0 or \$2000
  - ⇒ 100 Poker chips -- 50 Black/50 Red
    - \$1000 or draw black and get \$2000
- What would most people choose?

# ***Aversion to Ambiguity***

- What about if the bag contained 100 chips but you don't know how many red and black chips there are?
- What would you do?

# *Aversion to Ambiguity* relating to LTC

- Do that many people want to purchase the unknown?
  - ⇒ What will the stand-alone LTC really cost?
    - Current versus guaranteed premiums
    - Bad press about premium increases
  - ⇒ Will I ever utilize the policy protection coverage?

# ***Loss Aversion***

- Suppose you face a choice:
  - ⇒ Guaranteed loss of \$7,500, or
  - ⇒ Taking a chance with a 75% chance of losing \$10,000 and a 25% chance of losing nothing
- What would most people take? Why?

# ***Loss Aversion***

- Most people select the “gamble”. Why? People hate to lose.
- **A loss has about *two and a half times* the impact of a gain of the same magnitude**

*Kahneman and Tversky*



# How do you as a planner help your clients overcome a loss?

- Say the “*magic*” words” --  
**“TRANSFER YOUR ASSETS”**
- Can the LTC purchase be made by a client by “transferring assets” rather than strictly viewed as an expense? Yes, with the integrated life/LTC approach

# *Regret*

- Regret is more than the pain of loss. It is the pain associated with feeling responsible for the loss.
- **Example:** Drive the same route to work everyday. One day, you take a different route and get into an accident. How do you feel? What route will you take to work from now on?

# Problem for financial planners...

- Helping make the decisions for a client can lead to you being “blamed” in the worst case or not getting the credit in the best case.
- Would your clients feel regret if they pay premiums on a stand-alone LTC contract and never need the benefit? And who will be held responsible?

# Individuals may feel wealthy enough to self-insure...

- What if you can show individuals a way where their LTC premium payments will earn a small return and cause little or no estate dilution compared to the self-insured option?
- In effect, your client gets the best of both worlds -- estate preservation with LTC coverage.

# Is the “wait-and-see” approach really viable?

- Many financial publications state that it’s better to hold off buying LTC insurance until age 65 and “invest” the premiums that would have been paid until that point in another vehicle
- Something like the “buy term and invest the difference” approach

# However,

- It's estimated that at age 50, 10% of the US population can't qualify for LTC insurance
- By age 80, the estimate increases to 50%
- ***By the time someone really recognizes the need, they may not be able to get the coverage***

# Individuals may want to combine various coverage under one policy type

- Fulfills a natural need
  - ⇒ Individuals tend to want “umbrella-type” policies
  - ⇒ What’s happening with the investment houses today?  
***They want to gather assets.***

# The Big Question...

We know that people generally act irrationally with certain decisions...and with relation to LTC, we know that individuals need it...so how do we solve this problem?



# An Integrated Life/LTC Product:

- Minimizes
  - ⇒ The Mental Accounting Problem
  - ⇒ Aversion to Ambiguity
  - ⇒ Loss Aversion
  - ⇒ Regret

# Integrated Life/LTC Product Designs

## ■ Product Design

- ⇒ Available on WL, UL, EIUL, Variable product chassis.
- ⇒ UL/EIUL/VUL may have strong guarantees or not
- ⇒ Product chassis differences allow customer to choose what's important to them.

# Integrated Life/LTC Product Designs

- What's Important to the Customer
  - ⇒ Guarantees of Premium/DB
  - ⇒ Guaranteed cash values
  - ⇒ Payment options
  - ⇒ Current cash/DB accumulation

# Integrated Life/LTC – One Example

- Limited-pay/full-pay whole life insurance contracts with LTC riders which have:
  - ⇒ Guaranteed policy and rider premiums\*
  - ⇒ DB growth can be used to increase LTC benefits\*
  - ⇒ LTC riders can mimic stand-alone LTC products
    - Extended coverage (50 months, lifetime, 5% compound inflation rider)
  - ⇒ A benefit of some sort will always be paid

\* *Depending on company specific product design*

# NL LifeCare's LTC Riders

- Guaranteed level premium.
- Guaranteed renewable.
- Guaranteed paid-up LTC.

# Basic Integrated Life/LTC riders:

- Benefit paid reduces the death benefit by the amount of the payout
- Maximum monthly benefits
  - ⇒ Option 1 = 1% of death benefit per month for 100 months
  - ⇒ Option 2 = 2% of death benefit per month for 50 months

# Extended Integrated Life/LTC riders:

- Provides benefit after basic benefit amount has been accelerated.
- May extend LTC benefit additional 50 months or insured's life.
- 5% Compound inflation available.

# Company Specific Example

- Rider issue amount \$50,000 - \$1 Million
  - ⇒ Attached to a whole life, universal life, equity-indexed universal life or variable Monthly benefit universal life insurance policy
  - ⇒ Basic LTC Protection (ACR) - \$500 – \$20,000/month
  - ⇒ Extended Coverage (CCP) - additional 50 months
  - ⇒ no maximum payout under lifetime rider



# CCP Life Comparison

- Look at stand alone LTC policies with similar benefits
- Ages 45, 65, 75
- \$100/day benefit
- Lifetime benefit period

Company	Product	age 45	age 65	age 75	Elim. Per.
Allianz	Generation Protector	\$ 478	\$ 1,286	\$3,480	60
GE Capital	Classic Select Individual	936	2,096	6,096	30
John Hancock	Custom Care II	606	1,714	4,536	60
John Hancock	Essential Care II	542	1,571	4,152	60
Lincoln Benefit	SeniorLinc Premier	388	1,372	3,468	30
MedAmerica	Simplicity	492	2,410	7,569	60
Prudential	LTC3	1,173	2,354	5,724	90
<b>NLV</b>	<b>NL LifeCare *</b>	<b>296</b>	<b>1,326</b>	<b>3,506</b>	<b>60</b>
All base		2,662	7,255	14,145	

\* Based on \$150,000 LifeCare with ACR 2%/CCP Life

For Agent Use Only

# Long Term Care Services

- LTC riders pay out a benefit when
  - ⇒ insured is certified as chronically ill, and
  - ⇒ incurs expenses for qualified long term care services, and
  - ⇒ satisfies 60 day elimination period\*

*\* Based on company specific design -- may be 90 days or other period*

# Long Term Care Services \*

- Benefit based on insured being in a
  - ⇒ nursing facility
  - ⇒ assisted living facility
  - ⇒ receiving home health care
  - ⇒ adult day care - one half benefit amount

*\* Based on company specific design*

# Long Term Care Services\*

## ■ Benefit payment

- ⇒ amount paid out in any month cannot exceed unreimbursed QLTC expenses
- ⇒ no monthly carry-over
- ⇒ only reimbursements under Medicaid and other government programs used to determine unreimbursed costs

*\* Based on company specific design*

# Long Term Care Services\*

## ■ Triggering events

- ⇒ unable to perform 2 out of 6 ADL's for at least 90 days
- ⇒ benefit paid if insured is chronically ill
- ⇒ requires substantial supervision due to severe cognitive impairment
  - hands-on or stand-by

*\* Based on company specific design*

# Tax-Free QLTC Benefits

- Acceleration of DB [IRC §101(g)]
  - ⇒ due to chronic illness - ACR
- Long Term Care Benefits [IRC§7702(B)]
  - ⇒ CCP

# Sales Ideas utilizing the integrated Life/LTC approach

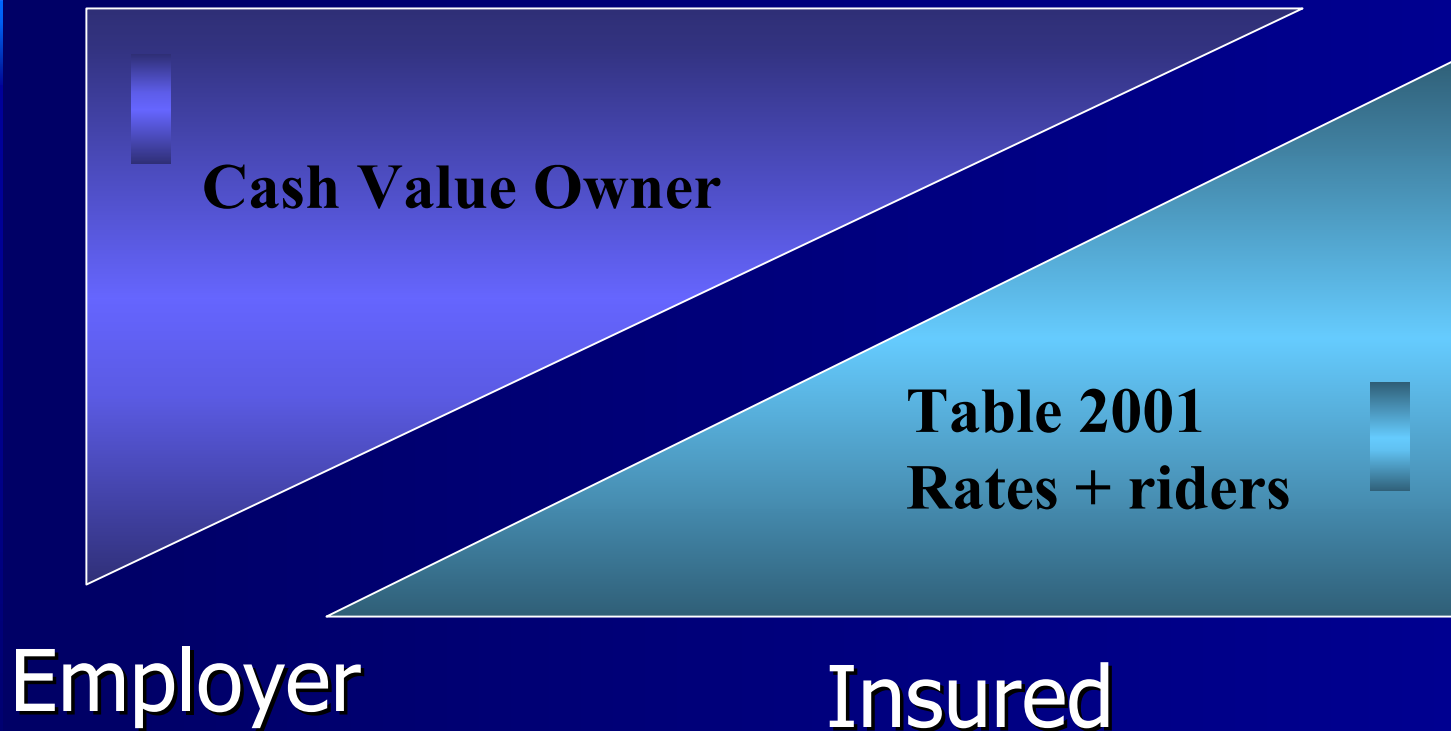
- Split dollar arrangements
- ILIT considerations
- Self-Insure Option or “Transfer Your Assets”



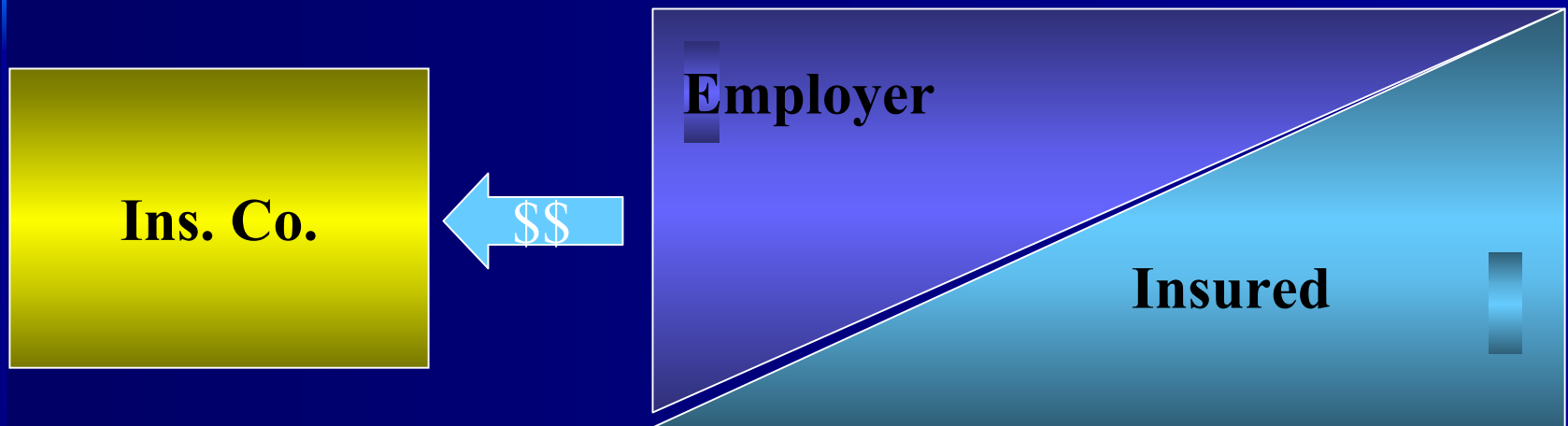
# Split Dollar offers Unique Planning Opportunities

- tax-free LTC premium contributions

# Collateral Assignment Split Dollar & Life/LTC

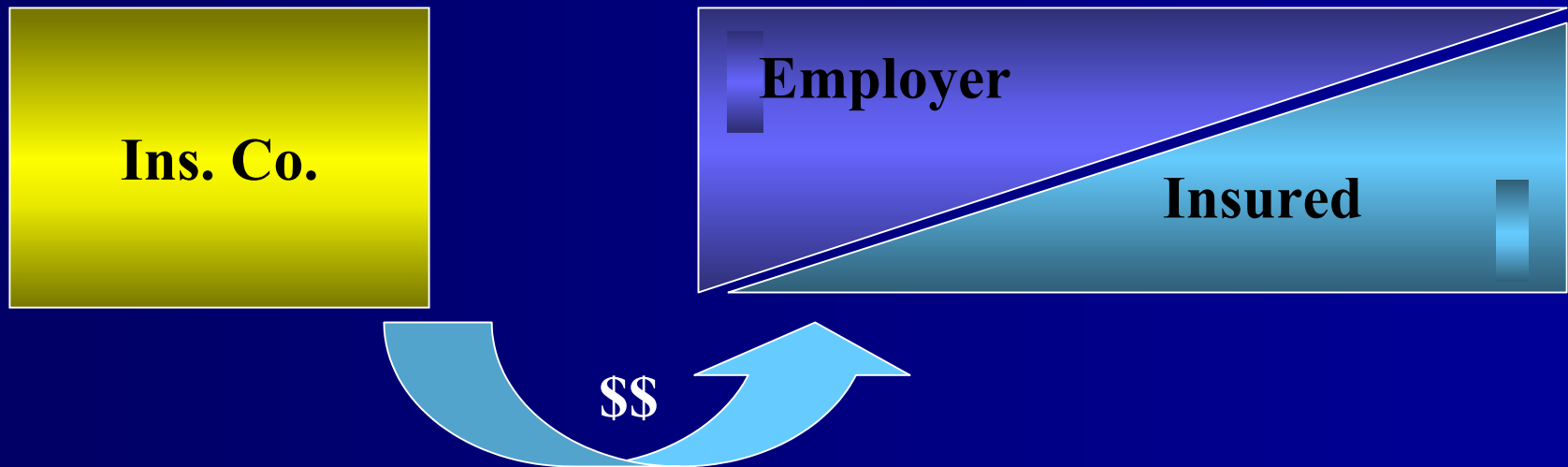


# How it works:



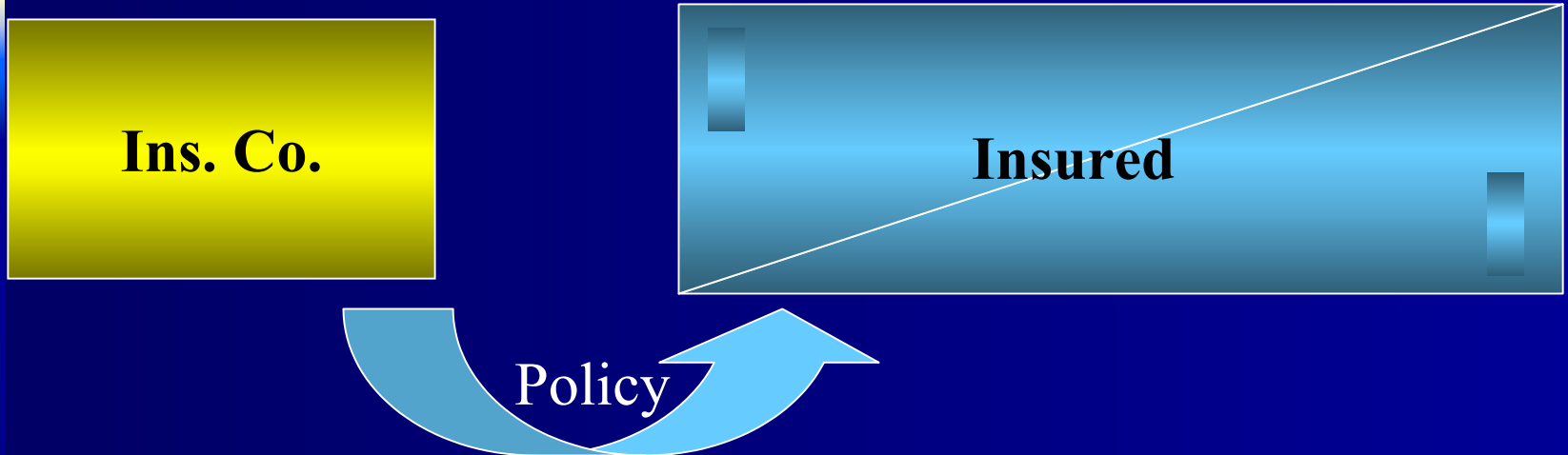
1. Employer pays life premium & rider premium
2. Employee reports as income 2001 Rates only
  - LTC premium is not taxed

# Upon Triggering Event



1. Ins. Co. pays rider benefits to insured
2. Rider benefits are received tax-free to insured

# Roll-Out Policy



## Funding Alternatives

- Forgiveness
- “Flex term” type riders at issue
- RPU prior to rollout
- Employee out of pocket

The LTC riders will never  
be approved in my state...



# **But wait ...**

Have you considered writing the business in a state where the riders are approved through a trust?

**In fact,** in certain situations, it may be necessary, if not required, that you issue the riders through a trust in another state.



# When?

- You determine an insurable interest is present
- Your client's advisor determines a trust is necessary for tax or planning purposes
- Trust will be the applicant & owner of the policy & riders
- Trust is irrevocable
- Institutional trustee is domiciled in another state

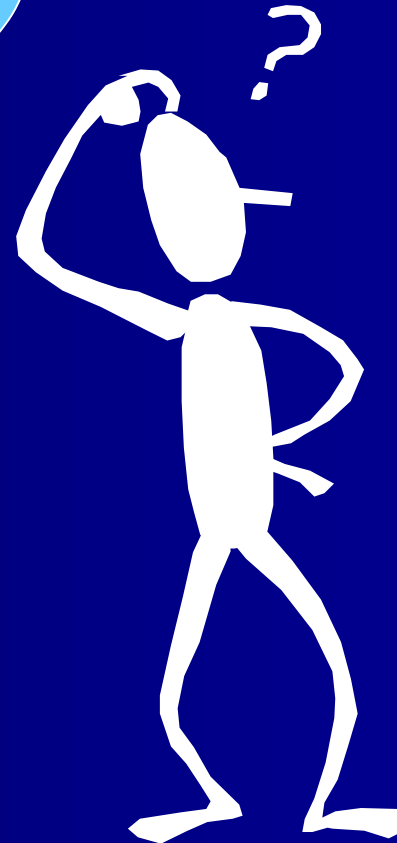
# In those situations:

- You **must** write the business on a policy form approved in the other state; and
- You must be a duly licensed agent in the other state

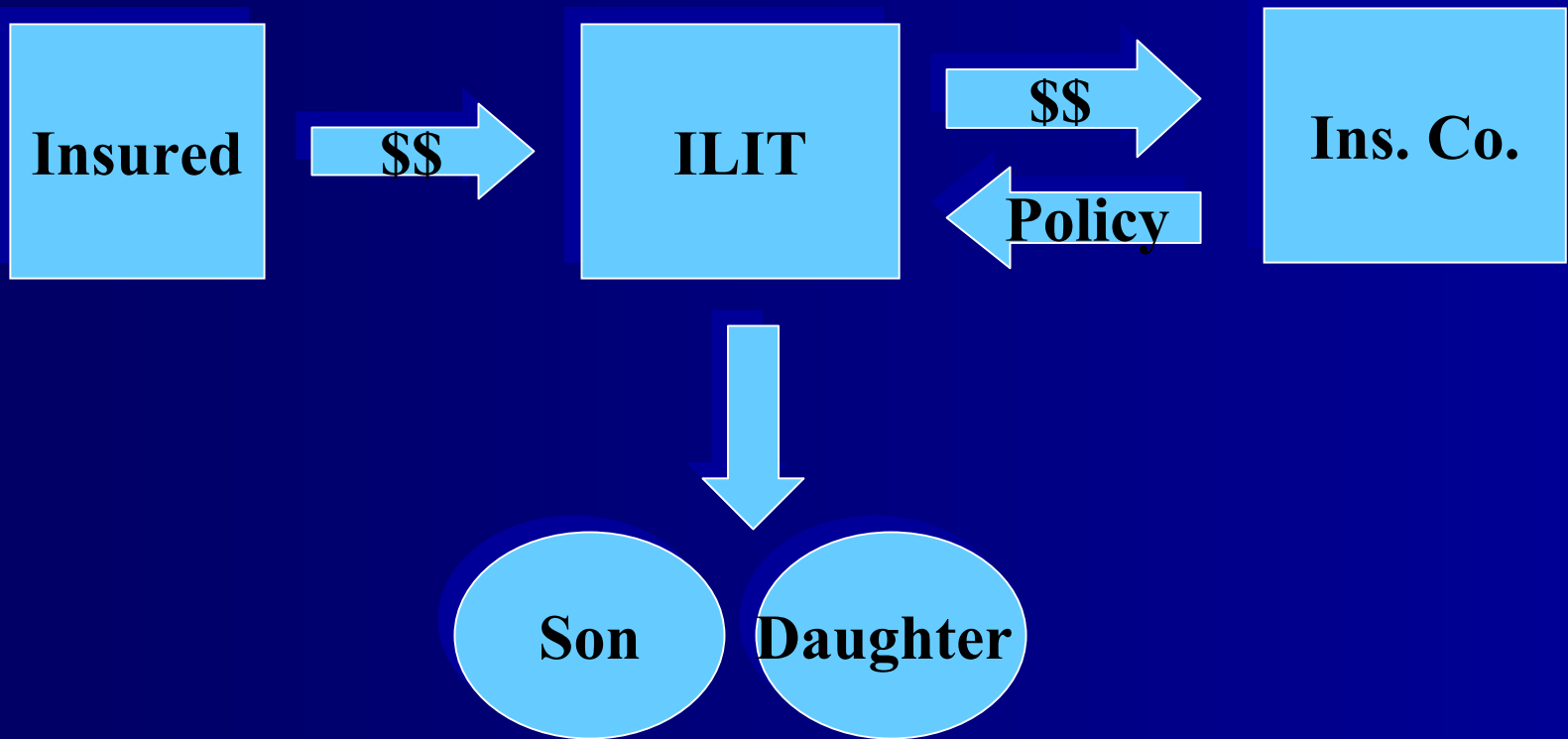
# Non-institutional Trustee

- Policy *may* be written in
  - ⇒ individual trustee's state of domicile; or
  - ⇒ insureds state of residence

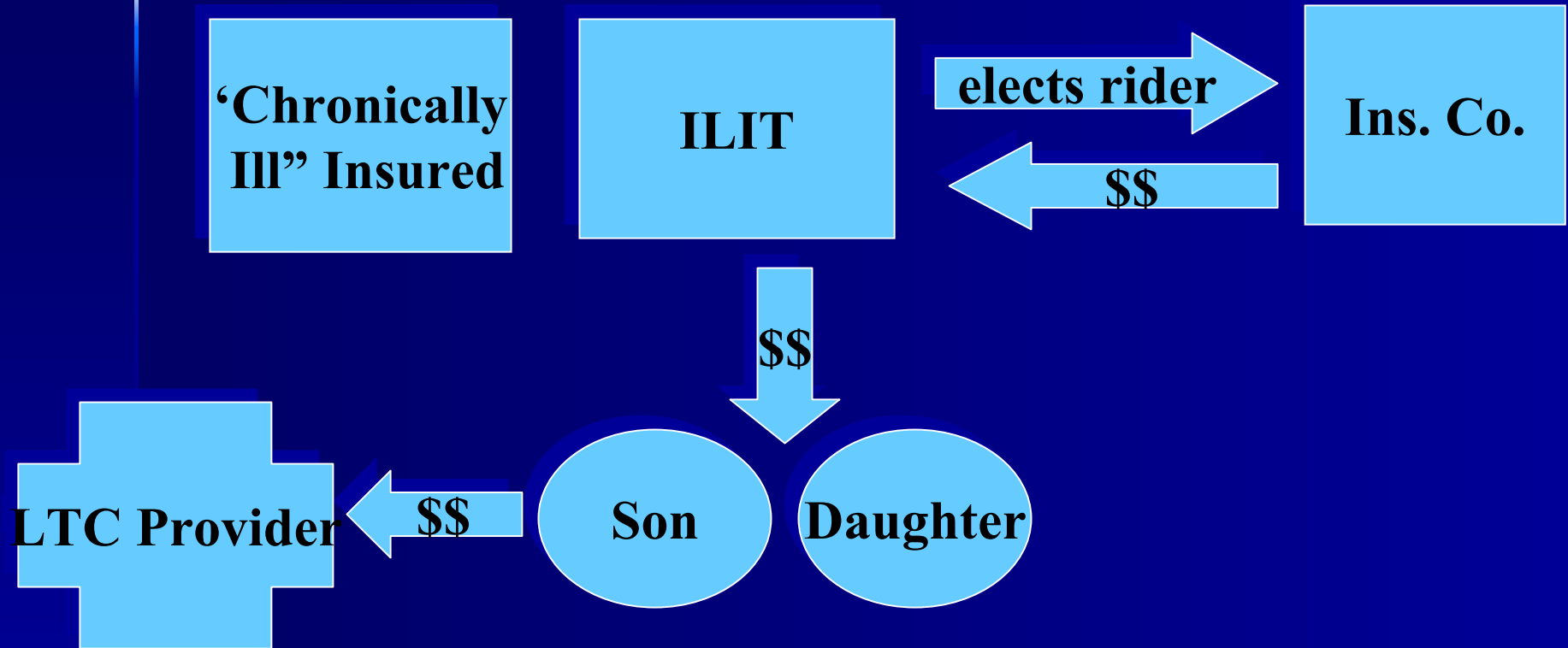
But can the insured still  
access rider benefits through  
an irrevocable trust???



# Yes ... here's how it works:



# Upon Triggering Event:



# Special Considerations

- Irrevocable, grantor trust
- Discretionary power of trustee
- Fiduciary duty of trustee
- Estate liquidity
- Dependence on trust beneficiaries

# Potential Tax Advantages of ILIT

- Tax free benefits to the insured/grantor trust
- Tax-free distribution to trust beneficiaries
- Gift-tax free payment to LTC provider
- Policy death benefit not included in insureds gross estate



# Self-Insure Option or Repositioning Assets

- “I am wealthy enough to self-insure my possible LTC coverage”, or
- “Transfer your assets” and “Transfer your wealth” options
  - ⇒ Product choice very important based on customer needs

# Transfer your Assets from CD to Whole Life

- F65 EPNS \$60,000 SP to \$111,245 DB



**Certificate  
of Deposit  
@ 5%**

**SPL w/LTC**

# Benefit calculation single pay whole life\*:

<u>Yr/Age</u>	<u>Guar CV</u>	<u>Curr CV</u>	<u>Illus. DB</u>	<u>LTC</u>
5/70	\$63,538	\$64,718	\$113,067	\$2,260
10/75	\$72,794	\$78,294	\$118,398	\$2,367
15/80	\$81,620	\$92,503	\$124,795	\$2,496
20/85	\$89,601	\$108,235	\$133,229	\$2,664

\* 65 Female Elite Preferred NS - \$60,000 Asset Transfer w/ACR2%  
\$111,272 Face Amount - Current Dividend Scale

# Asset Transfer CV Analysis\*

## 31% Tax Bracket

- SPL 1 w/LTC rider (NL LifeCare1 w/ACR2)
- Premium = \$60,000
- 10 Year IRR
  - ⇒ 2.70% (3.91%)
- 20 Year IRR
  - ⇒ 2.99% (4.33%)

\* Based on 65 Female Best Class

**By simply repositioning assets, your client can turn a low yielding investment vehicle into a more attractive cash value policy w/LTC benefits for up to 4 years.**

# Client Benefits

- Client “return” on SPL is 100% after year 1; by adding LTC rider CV is 100% of total premium paid by end of year 2-3.
- Guaranteed LTC benefits
  - ⇒ Benefits increase based on dividend increases
- Estate is not diluted by LTC care payments
- No 1099 reporting\*

*\* Depends on individual company product design*

**Transfer your Wealth from CD to SP EIUL**  
**- F65 EPNS \$60,000 SP to \$276,500 DB**



# Benefit calculation single pay EIUL\*:

<u>Yr/Age</u>	<u>Guar CV</u>	<u>Curr CV</u>	<u>Illus. DB</u>	<u>Proj. LTC</u>
5/70	\$39,794	\$63,974	\$276,500	\$5,530
10/75	\$2,952	\$82,064	\$276,500	\$5,530
15/80	\$ 0	\$106,923	\$276,500	\$5,530
20/85	\$ 0	\$134,475	\$276,500	\$5,530

\* 65 Female Elite Preferred NS - \$60,000 Asset Transfer w/ACR2%

\$276,500 Face Amount - Current EIUL Interest Rate 8.10%



# Client Benefits

- Maximize wealth transfer to beneficiaries if LTC not needed; maximize LTC payouts if needed.
- Cash value accumulation not a focus
- LTC benefits are guaranteed as long as life insurance contracts is in force
- 1099 reporting\*

\* *Depends on individual company product design*

# Review

- Stand-Alone versus Integrated LTC products

⇒ What are the key differences?

# Questions/Comments?