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White paper

Finding a good fit for linked benefit LTC sales

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Linked benefit long-term care (LTC) policies have been around for quite awhile now and have become a popular form of insuring LTC. Until recently, these policies were better known as "asset based" LTC insurance. The most common way to purchase these policies was with a single premium where an "asset" — either low yielding and/or no longer needed in its current position — was repurposed into LTC coverage. In addition, the single premium policy had an immediate return of premium feature, which allowed the insured to get their money back at any time they changed their mind. Thus, the asset stayed on the client's net worth statement.

This solution was generally reserved for more affluent people who had "sleeping assets" that would not be missed as an income source. While multi-pay scenarios up to ten pay schedules were available, up until the last few years, most policies were purchased with the single pay option. For many years, this design was offered by just one insurance carrier. The appeal to clients was being able to purchase LTC coverage that guaranteed the cost, the LTC benefits, and provided a guaranteed death benefit that would fund cost recovery should the policy never be needed to pay for long-term care expenses.

As the popularity of this type product has grown, other insurance companies have entered this well received LTC market space. However, between the persistent low interest rate environment that forced re-pricing and reduction of benefits, and client's interest in more flexible options for purchasing this type insurance, there have been changes that open more purchase opportunities and maintain and/or improve recent benefit pricing.

- Immediate Return of Premium on single pay policies has been eliminated by most carriers. After years of experience, it was discovered very few people cashed in their policy, therefore adjusting this feature allows for improved benefit pricing
- Promoting multi-pay premium schedules is positive for insurance companies in a low interest rate environment as well as for clients looking for more flexible purchase options.
- Monthly premiums are now allowed on the multi-pay premium schedules, which provide additional opportunities for sales to younger high earners looking for monthly auto pay.

This chart may help pinpoint client profiles and funding options for this coverage.

Identifying Clients for Linked Benefit LTC

Clients with "Sleeping Assets or Cash" Age 40-75

- CD's and bonds that are maturing
- Low yielding assets
- Proceeds from selling a business
- Funds from downsizing/selling home
- Recent inheritance
- ➢ *Wants to reduce risk to spouse, family and finances from a LTC event*

Single pay to 5 year premiums

Clients closing in on Retirement Aged 55 to 67

- Peak of earning capacity with excess income for premiums
- Age 59 ½ or older who can access qualified money not needed for retirement income
- ➢ *Concerned with financial and other life-style risks to spouse*

5 pay or 10 year premiums

Retirees with IRAs, Annuities, or Income Sources to Reposition

- RMDs[1] from IRAs (after tax amt.) not needed for income purposes
- Annuities not needed for retirement income purposes
- Social Security benefits not needed for living expenses
- ➢ *Wants to protect assets/income and reduce LTC dependence on family*

5 year or 10 year premiums

H.E.N.R.Y.s (High Earners Not RichYet) Age 40 - 55

- Has excess annual liquidity
- May have experienced providing care to a parent or grandparent
- Sees value buying earlier than later
- ➢ *Would like to insure parent for LTC to protect their own savings and retirement assets*

5 year or 10 year premiums

To further pin down product choices, ask your clients three important questions—

1. Where do you want to receive care?
2. Who do you want to care for you?
3. Would you prefer a monthly cash payment for the full LTC benefit amount and manage your own needs, or have the company reimburse only your qualified LTC expenses?

Further defining the client's needs

Many clients will likely prefer to receive care at home, and the good news is that up to 70% of initial LTC claims are for home health care.[1] Ask what type of home they have and what type of modifications would be required to remain safe and keep the home accessible. Help them choose a policy with the most leeway to make those changes.

Always ask — don't assume — that a client will want a family member to provide care. In some families it is expected, while other people will not want family members already busy with job and family responsibilities to have the added challenge of providing care. Some individuals may prefer to receive care from a licensed facility

or service while others may prefer a less expensive informal care giver. Make sure to look at policy details closely to determine if unlicensed, informal caregivers or immediate family members may be paid from policy proceeds to provide care.

Finally, make sure the client understands how claims are paid and find out which claims payment model best suits their needs. A *cash indemnity benefit* simply pays the owner the full LTC benefit amount each month — and the client pays for what they need when they need it, without expenses being monitored or approvals being needed by the insurance company. The other choice is a *reimbursement benefit* that reimburses either the policy owner, the facility, or the service provider directly — but only for the exact amount of qualifying LTC expenses covered by the policy — and other needs (like home modifications) must be approved and/or be part of the policy provisions.

Summary

Keep in mind, long-term care is paid for either from income, assets or life-style. Having LTC coverage in place is an important part of protecting assets and income from depletion and/or the life-style of a spouse if a long-term care event occurs. For clients who are thinking they can self insure, they may find the linked benefit product a good alternative for "self assuring" instead of self insuring. Some might even say these policies are for people who might be able to afford to self insure, but are smart enough not to.

[1] Reuired Minimum Distributions – amount required to be taken from an IRA starting at age 70 ½

[2] America Association of Long-term Care Isurance - AALTCI Sourcebook 2015-2016

NFM-14294AO.2 (12/17)