Launching LTC Sales

Ignite Client Interest With Innovative New Strategies

Making the Move from Disability to LTC:

Where Does One Need End and the Next Begin?

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Does your client's need to protect their income against disability stop when their working years end? Consider this; the probability of getting a disabling illness grows exponentially with each passing year, what changes is the nature of the risk. While many people are concerned about protecting their income during their working years, most have not thought the issue through for their retirement years. A comfortable retirement, free from worry and want is one of the Holy Grails of our society. Yet, most consumers leave their retirement plans wide open to a long-term care event, which is far more likely to occur as they age.

It has been said that there are two ways to make money – "people at work and money at work." In our working years, disability income insurance can protect cash flow if we are unable to earn an income for some period of time due to a sickness or injury. In retirement, the focus is on protecting income from the various retirement plans and savings that we have been able to accumulate.

A 2001 Zogby International survey revealed that Baby Boomers did not expect their lifestyle or spending habits to change much in retirement. Therefore, the income derived from various sources, such as qualified plans, investments, and Social Security would still be expected to support a lifestyle that goes beyond pinching pennies. Based on inflation in the long-term care sector, the average 55 year-old Baby Boomer can expect to face an annual long-term care expense of more than $250,000 per year by the time they reach age 82. If the typical long-term care claim is four to five years, today's

55-year old needs to think about the $1.2 million dollar doughnut hole in their retirement plan, according to a 2004 Milliman study.

Do consumers view LTC as disability coverage? Opinion surveys performed by various industry groups over the past few years suggest that Baby Boomers who have purchased long-term care, view it as disability coverage in retirement. While many of us have shied away from positioning LTC insurance as disability-income protection, many consumers are focused on the end result of the benefit.

Unfortunately, the disability income policy your client purchased at age 35 cannot protect their retirement income when it is not in force or has become obsolete. Therefore, they run the risk of having their retirement income devoured by the cost of care, which can have a devastating effect on people's lives.

When does your client's disability income policy become obsolete? Many disability policies terminate or become conditionally renewable when the insured reaches age 65. Another factor to consider is that the insured's occupation may have changed since they purchased the policy or they may have taken an early retirement or phased out of active participation in their business. You must also consider the definition of disability in light of the client's changing lifestyle to ensure that the policy they purchased in their 30's or 40's will still pay a benefit.

Another consideration for the client is the cost of the policy compared to the benefit they are likely to receive. According to data from an insurance carrier, the mid-to-late 30s is the typical age of issue for disability income protection with premiums ranging from $2,600 to $3,000 per year based on a white-collar occupation class and a $5,000 per month benefit. The value of your client's disability income policy diminishes as they get older, while their likelihood of disability increases. So, when your 37-year-old client purchases a policy that pays benefits to age 65, they are getting a protection package worth about $1.7 million (not adjusting for COLA in the event of claim). But, it is only worth about $600,000 when they reach age 55 and only worth about $300,000 when they reach age 60.

We're not suggesting that agents advise their disability insurance clients to discontinue their policies at any specific age. But, we do believe that agents have an obligation to discuss the changing nature of the risk as their thirty-something clients reach their 50's. This age appears to be the crossing-point among the decreasing benefit of the DI policy, the most cost-effective time to purchase long-term care insurance, and the client's transition from their primary occupational activities. If you wait too long, your the client may be left with a disability policy that is of limited value and be unable to qualify for or afford a long-term care insurance policy.

Have a straightforward conversation with your clients as they reach their early 50s that includes a clear differentiation between occupational disability risk and the long-term care disability risk. Just as you provided your 37-year-old client with $1.7 million of income protection years ago, you should explain that your transitioning client should have a similar amount of retirement income protection when they are likely to need long-term care around age 83. What would this look like and what would it cost?

The client could attempt to accumulate $1.7 million by saving and investing. A 55 year-old client would need to need to invest nearly $300,000 today in order to accumulate $1.7 million at age 83. With the annual installment approach, they would need to set-aside about $21,000 per year for 28 years. Keep in mind that the affluent client would need to earn nearly twice these amounts before investing because they have to pay income taxes on their earnings.

A simpler and more cost-effective solution is to transfer the risk by purchasing a long-term care insurance policy that provides $1.7 million of coverage when they are most likely to need care in their mid-80s. Our 55-year old client can get a LTC policy for $3,000 to $3,500 per year. The proposed LTC policy would have a current value of about $420,000 and would grow to more than $1.7 million by age 83.

A comprehensive long-term care insurance policy provides tremendous advantages over the "do-it-yourself" method. Additionally, there is a double tax advantage to the LTC policy since the premiums are tax deductible for business owners and the benefits are always received tax-free!

It would be inappropriate to suggest that long-term care insurance replaces the need for disability income protection for working men and women in their 50's. The qualification for benefits differs greatly between both policies. Your Baby Boomer clients may need to own both types of policies as they transition from their "people at work" years to their "money at work" years.

We are suggesting that you need to discuss income protection when clients are in their working years, when they are transitioning out of them, and after they have finished them. Additionally, you should propose long-term care insurance with the same enthusiasm you give to extolling the virtues of disability income and other protection programs. The nature of the disability risk changes as we age, but the need to protect income does not. Long-term care insurance is as good a value as the disability policies that we have been selling for decades. By helping your client understand the risk and need for long-term care insurance, you can indemnify their retirement income and lifestyle as you provided for their occupational income protection in the past. ❑

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