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So You Think The Only Proper LTCI Sale Includes Lifetime Benefits?

Get Over It!

Blasphemer! Heretic! Iconoclast! These are words now being used to describe a small but growing number of long term care insurance veterans, such as myself, who are advocating the sale of LTCI policies with less than lifetime benefits. "Barry," they say, "you've been telling us all these years that lifetime benefits are the best; why are you asking us to think outside our comfort zone?" Allow me to answer with the following thoughts:

- While lifetime benefits may be optimal, affordability is becoming an increasing issue in long term care insurance.
- Long term care insurance premiums continue to rise because: cost of care is increasing faster than inflation (thus we need to sell higher daily benefits to keep pace) and new business premiums, particularly for lifetime benefits, continue to rise disproportionately in relation to other benefit periods.
- Sales are flat industry wide.
- Current selling strategies are not appealing to potential buyers of long term care insurance.
- Lifetime benefits are not the "third rail" of long term care insurance; some coverage is better than none!

Okay, now come off the ledge and talk to me. In a perfect world, everyone would purchase a policy with a daily cash benefit that meets or exceeds the current cost of care in their area, zero-day elimination, 5 percent compound inflation, limited-pay option, non-forfeiture/return of premium, *and* lifetime benefits. In California a husband and wife, both age 58, would pay about $45,000 per year for a benefit package like this. How many of your clients can afford this perfect world?

Front End or Back End—You Decide!

Clearly, agents and consumers need to make choices. Your charge, as an insurance professional, is to help your prospects get the best value for the money they have to spend. What we heretics are suggesting is that if you need to figure out which part of the risk to self insure, it makes sense to roll the dice on the potential back end of the claim, not on the "sure-thing" front end.

Some brokers might say, "I don't want a client's benefits to run out; therefore, I'll sell an inadequate daily benefit, but for life." I'd say you are likely selling a benefit they may never use. For the client who doesn't live in the perfect world, or who is unwilling to commit to a huge premium, I would recommend an appropriate daily benefit tied to local costs in the area, 5 percent compound inflation protection, a reasonably short elimination period (no more than 90 days) with a benefit period adjusted to fit the budget. This way, the insured will know that:

- They can cover the front end of the claim completely if they desire.
- They can choose to cover part of the front end of the claim with insurance and

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their own funds. (They are not required to use 100 percent of their benefits up front. They can manage their policy in conjunction with their other income and assets and use the policy as needed. Remember, we're selling a pool of money.)

- The time that the policy "buys" them allows the insured and family the luxury to create an orderly and economical plan of care which may include a host of resources and options.

In essence, what you've done is sold a long term care insurance policy as a "chunk" of money that they can use, as needed, to deal with their long term care event. It may not be perfect, but *some coverage is better than none.*

Speculation Leads to Procrastination

When a consumer purchases a life insurance policy, does he really know whether he is purchasing enough, too much or not enough? Not really. Even the best life insurance or estate plan is built on certain assumptions that may or may not occur. One objection faced by many agents trying to sell long term care insurance is the perception that no claim will take place; therefore, the policy is not worth the price. Agents and consumers juxtapose life insurance and LTCI by saying, "At least we know we're going to die." Do people purchase term life insurance knowing that they're going to die during the term of the policy, or are they gambling that their need for life insurance will disappear prior to their death? As term life rates continue to fall, who do you think is winning this gamble?

One thing we do know is that if you live long enough, you are likely to need some amount of long term care. Alzheimer's Association statistics indicate that if you make it to age 85, you have a one-in-two probability of suffering some form of dementia. You won't get odds like these in Las Vegas! Do you think term life insurance premiums would be as low as they are if the insurance companies had to pay claims on 50 percent of the policies they write?

We do not know how long someone's long term care will last or how much it will cost. We do know, however, that if one lives long enough, he is likely to have a claim. We also know that people are living longer; therefore, more of us will be entering this "no-man's land." Since we cannot know the precise nature of the claim, why do agents feel the need to speculate with the prospect about the exact age the claim will occur, how much it is going to cost, how long it is going to last, and whether it will really happen at all? All sorts of insurance is sold without having the expectation or hope that a claim will be made. Why do agents believe they are required to answer specific questions about long term care insurance that they would never entertain with other insurance that they sell every day?

How about selling long term care insurance like we sell life insurance? What would be wrong with saying to your clients, "You need to make sure that you have $1 million available to protect your retirement income and lifestyle against the probability of a long term care event." The client has two choices: *do it yourself* or *transfer the risk.*

Do It Yourself or Transfer the Risk

How much would a 60-year-old client need to set aside today in order to have $1 million tax-free at age 83 (the likely age of a first long term care claim)? Part of the answer depends on the client's anticipated after-tax rate of return on investments and whether he makes a lump sum or an annual contribution to the fund. In this example, let's assume that this client is in the 30 percent combined state and federal income tax bracket and that, over time, he consistently earns about 9 percent before taxes on investments. This would mean that after tax, the rate of return would be 6 percent. Why are we looking for an after-tax rate of return? Because the benefits from a long term care insurance policy are received tax free—an important fact often ignored by most agents in their presentations.

At 6 percent, our 60-year-old prospect would need to make a one-time deposit of approximately $240,000 and hope that his investment advisor is consistently on target. On an annual basis, he would be required to make a contribution of just over $18,000 for 23 years and pray that the chosen investments perform as planned and that he can consistently contribute this amount. If you want to speculate about "ifs" with your client, how about focusing on these for a moment!

What would it take to transfer the risk? Show your prospect a comprehensive long term care insurance policy with a $220 per day benefit ($80,300 per year in today's dollars), 5 percent compound inflation protection, 90-day elimination period (waived for home care), with a four-year benefit period. This plan design will provide your client with $1 million of tax-free cash at age 83 to pay for long term care needs. The cost of transferring the risk: around $4,000 per year.

So which is the more economical and reliable way to provide $1 million of long term care protection for your 60-year-old at age 83? *If you chose the transfer-the-risk scenario, you have a future in long term care insurance!*

What if your client says, "I don't think $1 million is enough?" Since you have a real buying-sign here, you could suggest several alternatives: (1) a longer benefit period, (2) a higher daily benefit, (3) a combination of one and two, or (4) a lifetime benefit.

Transfer the Risk and Invest the Difference!

Or, for you financial planners who like to invest your client's money or sell an annuity from time to time, why not suggest "buy long term care insurance and invest the difference"? This client could purchase long term care insurance and invest $14,000 per year at 6 percent. By the time he's 83, not only would he have his $1 million in long term care insurance benefits, he would have a cash fund of $657,000.

Another option would be for the client to take the lump sum amount, $240,000 (minus the first year premium) and put it into an equity indexed annuity with a 10 percent withdrawal feature. By age 83, the client would have a guaranteed annuity value of $332,061 (projected value $389,379) even if he withdraws the annual $4,000 per year premium from the annuity. Or he could withdraw $8,000 per year (to pay for his spouse) and have a guaranteed value of $206,249 (projected value $246,929).

In each of these cases, you've taken the client's do-it-yourself mentality and created a long term care insurance solution that allows him to have it his way. You've also provided a reason to say *yes* and you have protected retirement income in the process.

So if you want to make more long term care insurance sales, you may need to get over the notion that lifetime benefits are the only acceptable solution. Once you embrace the view that all you are really offering is a pool of money to pay for the prospect's cost of care when he is likely to need it, you will be able to help him make a reasonable choice between the do-it-yourself approach, transferring the risk or possibly even buying long term care insurance and investing the difference. Once the prospect is given a clear picture of the alternatives and advantages that LTCI provides, you can offer him the coverage and peace of mind that he seeks.