

It's Time for Long-Term Care Insurance to Enter The 21st Century

by Barry J. Fisher, CSA, LTCP

Can an insurance product with its roots in the 1970s satisfy the long-term care needs of Baby Boomers? Could the “stall” in long-term care insurance sales be a result of the confusion caused by antiquated benefits that Baby Boomers just don't perceive as valuable? Think about it. The policies we sell were designed for 72-year-old grannies. Today, the average age of issue is 59. When long-term care insurance was developed, life expectancy was in the mid-to-high 70s. Now, demographic experts predict that many of us in our 50s are likely to live into our 90s; maybe even the 100s. Is there any question why companies are trying to beat a retreat from lifetime benefits?

Let me be clear. I am not saying that the policies that we have been selling to clients in their 50s are not viable or valuable. If a consumer can afford lifetime benefits, more power to them. What I am saying is that the industry must rethink product design, message, and selling techniques for long-term care insurance to transcend its paltry market penetration of only 10% of those 65 and over.

Due to the glacially slow nature of new product design and regulatory approval, it is up to us on the front lines to re-tool this product to meet the needs of the Baby Boomer. In the short run, we will need to sort through the clutter of existing products and clarify the value of long-term care insurance to the consumers we work with. We can only hope that the insurance companies will follow suit with some innovative thinking of their own!

What can we do to help consumers understand the value of long-term care insurance? In recent years, there have been a number of industry studies on why consumers purchase long-term care insurance. The biggest concerns are retirement income protection, choice, quality-of-care,

and worry for probable caregivers. However, none has focused on the one policy benefit that makes all others possible – the amount of money in the policy when the insured needs care.

Without a clear picture of the policy's monetary value at likely time of claim, the intrinsic value of the policy is obscure and the premium being charged makes no sense. Without this information, the consumer has difficulty deciding whether to buy insurance or try to solve the problem themselves. Agents and financial planning professionals who are unsure of the product's value default to the path of least resistance — they sell the products they know, stay out of trouble, and don't rock the client's boat.

When stripped to its basic element, the value of every long-term care insurance policy should be crystal clear. The customer is purchasing a pool of money that will be available to pay for their long-term care costs sometime in the future, regardless of the company you propose, elimination period you recommend, the policy's method of payment, or any number of other arcane benefit options. When this core benefit becomes clear, the premium makes sense, and the client can easily choose between two options -- transfer the risk or “do-it-yourself.”

Do it Yourself?

How much would a person have to earn to put \$1 in a do-it-yourself fund? The answer is between \$1.30 and \$2. This is because to have a dollar to invest the consumer must pay taxes first. Depending on their tax bracket, the more affluent client might have to earn two dollars just to save one. Some might not even consider this notion because we've been numbed to the impact of state and federal taxes, not to mention Social Security and self-employment taxes. Regardless, the “do-it-yourself” will pay more attention to your

message if you raise this issue at the outset of your conversation.

Once someone has \$1 to invest, what do they need to earn on that money to have enough to cover their needs when they are likely to need care? Let's say you have a 57-year-old client who feels that he or she needs ready cash of \$1.25 million to \$1.5 million to self-insure long-term care needs at the likely first claim age of 83. To have \$1,360,000 on a lump-sum basis, this client would need to invest about \$25,000 or about \$3,400 per year for 26 years at a consistent 15% after-tax rate of return on investment. If this client were paying federal and state taxes at a rate of 40%, they would need to earn a before-tax rate of return of 21%! If you think that these rates of return on investment are feasible in our current economic environment, please stop reading this article.

In today's investment environment, around 6% is a reasonable after-tax rate of return on investment. With this assumption, in order for the 57-year-old client to have \$1,360,000 at age 83, they would need to make a lump sum contribution of \$264,000 or an annual contribution of \$19,000. Of course, the annual contribution presumes that the client will be able to make that payment year after year – a scenario that they may or may not want to commit to. Also, what happens if this client is married? Wouldn't they need to consider doubling these contributions in order to ensure benefits for their spouse as well?

Transfer the Risk

What would it cost to transfer the risk? Assuming reasonable health, a 57-year-old client could purchase a \$200 per day, five-year long-term care insurance benefit with 5% compounded inflation protection for around \$3,300 per year (This does not take into account spousal discounts). This plan would give the client \$1,360,000 of

tax-free benefits at age 83. The premium may also be deductible, but I'll save that for another article.

So how would I present this do-it-yourself or transfer the risk choice to the client? Let's review the facts: Based on the current cost of care in their area, a 57-year-old client would like to have between \$1.25 million to \$1.5 million in a fund by the time they are likely to need care at age 83. They are in the 40% federal and state tax brackets and are consistently earning 9% before-tax and 6% after-tax on their investments.

In order to have the \$1,360,000 in a do-it-yourself fund at age 83, the client would need to earn about \$370,000 before-taxes to have \$264,000 for a lump-sum contribution. They would have to have \$27,000 before taxes to have \$19,000 for an annual contribution (referenced above) just to invest their way to their do-it-yourself fund. They could give an insurance company about \$3,300 per year (which may be tax deductible depending on the client's circumstances) and be guaranteed to have \$1,360,000, tax-free at age 83 to pay for their long-term care needs. Which makes more sense to you?

The long-term care insurance policies we sell today can be the 21st Century's solution for retirement income protection for today's Baby Boomer. However, we need to think beyond the constrained, traditional views of LTC insurance and the notion that only policies with lifetime benefits have value. Some coverage is better than none and it make a lot more sense than trying to do-it-yourself. By using straight talk and simple examples, you can reach consumers who think long-term care insurance is too expensive or who haven't thought about it at all. □

Barry J. Fisher, CSA, LTCP, is a principal of Paradigm Insurance Marketing – a long-term care, annuity, and life insurance brokerage general agency in California. He developed "The Less Than Lifetime Solution Calculator and Selling System." He is one of the nation's leading authorities on long-term care insurance and has been a well-known figure in the California health insurance field for the past two decades. He was the founding president of the American Association for Long-Term Care Insurance and a past-president of the California Association of Health Underwriters. He can be reached at barry@paradigmmins.com.