Agents & Tax Pros Guide to Qualified Long-Term Care Planning

January 29, 2013 Webcast

For Agent & Financial Advisor Use Only

SOS 2013
SCHOOL OF SUCCESS

Barry J. Fisher & Susan M. Blais

Barry J. Fisher Insurance Marketing

(818) 444-7730

www.bjfim.com

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America's Long-Term Care Insurance Experts℠

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Today's Conversation

- **Warner Pacific School of Success Intro – "Dean" Joe Navarro**
- **Is long-term care planning a client concern?**
- **The power of TAX-FREE**
- **Are tax deductible premiums meaningful?**
- **Advantages of small group long-term care insurance**
- **Important industry updates**
- **BJFIM + Warner Pacific = LTCi Sales Success**

What Is Long-Term Care?

- **"Chronic Illness" (not medical – acute -- in nature)**
  - ***Not paid by health insurance, Medicare or Medicare Supplements***
- **Generally accepted definition (insuring clause) – HIPAA 1997**
  - ***The inability to perform 2 of 6 of the activities of daily living***
    - **Eating, bathing, dressing, toileting, transferring, continence**
  - ***Suffering from a severe cognitive impairment***
    - **Alzheimer's disease/dementia**
- **Long-term care "risk management" means providing liquidity to pay for the costs of services that an individual needs when they can no longer care for themselves**
- **High probability event as one gets older**
  - ***Incidences at younger ages particularly due to catastrophic accidents***
- **Cost of high quality care at home or facility continue to rise**
  - ***Texas -- $40,000 to $60,000***
  - ***Colorado -- $45,000 to $85,000***
  - ***California -- $47,000 to $94,000***

Contributing Factors Leading to an Increased Need for Long-Term Care

- **People living longer lives, and the longer we live, the more likely we are to need long-term care**
- **Advances in science and medicine help people manage, but seldom cure, serious diseases**
  - ***Cognitive issues like Alzheimer's and dementia are increasing***
  - ***Average length of claim has increased to 3.6 years from 3.9 years***
  - ***71% of current claims are for women***
- **Managed care has shortened hospital stays**
- **Family members unable to care for relatives**
  - ***Geographic separation***
  - ***Two-career families***

Are Your Clients Concerned?

Realities on Main Street

Marc Faber, PhD Economics

Gloom, Boom, Doom Financial Newsletter

- **Money on deposit experiences negative interest rates in real terms**
  - ***Low interest rates adjusted for cost-of-living increases are NEGATIVE***
  - ***Driven by the Federal Reserve's artificially low interest rates***
- **Promised government retiree benefits unlikely (in real terms) due to rapid growth in 65+ population**
  - ***Look at European demographics (birth rates)***
- **State & private pension funds are seriously underfunded**
  - ***In 2011 the underfunded levels of S&P 500 companies' defined pensions reached and epic $354.7 billion***
  - ***Total unfunded liabilities for private & public estimated between $1 and $2 trillion***

RASMUSSEN REPORTS

Just 40% Expect to Get Full Social Security Benefits

46% Think Their Pay Will Be The Same A Year From Now

Just 16% See A Better Future for Today's Children

Rasmussen Consumer Index

54% Say The Economy Is Getting Worse

Consumer Mindset – 55+

Retirement 3.0 Sun Financial Group

- **People seek financial solutions that won't lose value and can help their money go the distance**
- **The "ideal" retirement investments or insurance**
  - ***65% -- Guaranteed not to lose value***
  - ***60% -- Protects income from market loss***
  - ***60% -- Covers the cost of long-term care***
- **The "ideal" financial advisor**
  - ***77% -- Speaks in terms client understands***
  - ***75% -- Listens and understands what's important to client***
  - ***72% -- Protects client from major risk***
- **Planners Vs. Deniers (my terms)**
  - ***Ageless Explorers***
  - ***Cautiously Contents***
  - ***Lives for Todays***
  - ***Worried Strugglers***

Consumer Mindset – 55+

Retirement 3.0 Sun Financial Group

- **Many have not recovered from recession**
- **Plan to work "in some manner" five more years**
  - ***Age 64 Vs. Age 69***
- **Expect less government help**
- **Financial peace of mind 6x more important than accumulating wealth**
  - ***Protecting assets is 5x more important than higher returns***
- **49% expect to provide financial help to families**
- **Top longevity worries**
  - ***73% -- Serious health problems***
  - ***59% -- Being a burden on family***
  - ***49% -- Running out of money to live comfortably***

LTC Planing Can Mitigate These Concerns

Consumers are Concerned
AgeWave.com & Genworth Financial 2010

- **People are over five times more worried about being a burden on their family than dying**
- ***Uninsured medical expenses are the top financial worry among men and women age 55+***
- **Almost two-thirds of people will actually need some long term care, such as home care, assisted living, or nursing home care, after they reach age 65, but only 35% of people believe they will need such care**
- ***People rank Alzheimer's as their single greatest fear among disabling diseases in later life***
- **People greatly underestimate the financial, social, and lifestyle impact of caregiving responsibilities**
- ***When someone needs long term care, a wide circle of primary caregivers, secondary caregivers, other family, friends, and community members often provide the care and are impacted by the responsibilities***
- **When asked what is most worrisome about being burdens on their family, people said they are most concerned about protecting their families from the financial pressures of providing for their long term care.**

How Do High Net Worth Clients Pay for LTC?

- **Savings & investments**
  - ***How much does someone have to earn to put $1 in?***
    - **Federal & State Income Tax (can be 50%+)**
    - **Payroll and other extraneous taxes**
  - ***How much does it cost to get the money out?***
    - **Depends on sort of investment**
    - **Erosion of assets due to inflation (Faber)**
    - **Maybe investments didn't work out or timing is bad**
    - **Loss of income (cash flow) when assets are liquidated**
- **Qualified Funds**
  - ***No income tax in means income tax coming out possibly at higher rates***
- **Real Estate**
  - ***How easy is it to sell, refinance or leverage during tough economic times?***

Economic Impact of Asset Liquidation

SHRINKAGE

Due To

Bad Markets

Taxes

Loss of Income

The Logical Solution = Long-Term Care Insurance

Power of Tax-Free Benefits

In Long-Term Care Planning

- **100% of every policy benefit dollar goes to pay for the cost of services**
  - ***There's NO SHRINKAGE!***
- **Premiums paid in today's dollars, (as opposed to asset liquidation tomorrow), purchase 100% dollars often indexed in some fashion for inflation**
- **Tax-Free long-term care benefits mean:**
  - ***Well spouse's lifestyle won't be economically impacted by caregiving event***
  - ***Family members can focus on care as opposed to making diminishing ends meet***
  - ***Family members can "keep their day job"***
  - ***Estate planning goals can be achieved***

Who Is Our Client?

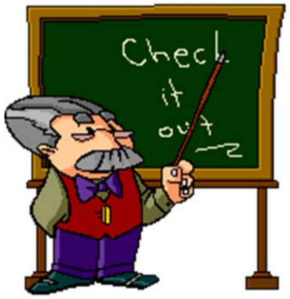
- **People with assets (High Net Worth Individuals)**
  - ***How liquid will they be when they need care?***
    - **Real property**
    - **Value of business**
    - **Qualified plans – IRA's, 401(k), pensions, etc.**
    - **Savings & investments**
- **Generally ages 50 to 65 and in reasonably good health**
  - ***Average age of issue for traditional LTCi = 56***
  - ***Average age of issue for linked (life/annuity hybrids) = 66***
- **Planners not Deniers**
  - ***Value comprehensive coverage, tax-free benefits and understand the value proposition of long-term care insurance because someone explained it***
- **$3,000 to $5,000 per person premium won't change lifestyle**

Eleven Words To Long Term Care Sales Success

Have you taken care of your long-term care planning yet?

Long-Term Care Planning

Elevator Talk



- **It is very likely that you will live a long life**
  - ***The longer you live the longer you'll live!***
- **It is very likely that you will need long-term care**
  - ***Once you pass age 65, the likelihood of needing care increases to 70%***
- **It will be very expensive and the cost today is not your problem**
  - ***It is the inflated cost sometime in the future – 20 or 30 years from now that you must plan ahead to provide***
- **YOUR CHOICES ARE CRYSTAL CLEAR**
  - ***You will pay out of your hard earned savings & retirement money***
  - ***You will become a ward of the state***
  - ***Or you can transfer the risk to an insurance company***
- **You take the risk or let the insurance company do it!**

LTC Cost "Formula"
How Much Coverage Is Needed

- **What is the cost of care in your region today?**
  - ***Genworth or John Hancock Cost of Care Surveys***
  - ***Online & Ipad Apps***
- **How old are you today?**
- **When are you likely to need care?**
  - ***Age of claim incidence is falling due to better home care coverage***
  - ***Ages 79 thru age 85 is a good target***
- **What is the long-term care rate of inflation?**
  - ***Historically two times consumer price inflation***
  - ***Encourage purchase of 5% compound inflation protection NOW!***
  - ***Product re-pricing will encourage 3% compound or 5% simple***
- **How long does the typical claim last?**
  - ***98% of claims close in 5 years or less***
  - ***Most plans sold today in the 4 to 6 year benefit period***
  - ***Ultimately, it's all about the POOL OF MONEY!***

BJFIM
Pool of Money Advantage

Five Minute Long-Term Care Presentation

Planning for Long-Term Care Expenses

An illustration to help you understand several options for creating an "expense account" to protect your retirement income and assets

Client Name: Confidential Client Age 59			
Planning Scenario	**A**	**B**	**C**
Your Current Age	59	59	59
Projected age when care begins	81	81	81
If you want an insurance company to pay:			
Up to this amount, if care begins today	$200/Day	$200/Day	$200/Day
For up to minimum covered years *1	3.00 Years	4.00 Years	6.00 Years
LTC Expense Account available today *2	**$219,000**	**$292,000**	**$438,000**
Inflation protection built into coverage	5% Compound	5% Compound	5% Compound
Benefit, if care begins at projected age	$585/Day	$585/Day	$585/Day
Future Expense Account available at projected age *3	**$673,198**	**$920,401**	**$1,452,508**
Premium	**$2,700**	**$2,900**	**$3,600**
Premium Duration	**Annual**	**Annual**	**Annual**
If you decide to pay for care yourself:			
To have the same expense account at projected age			
(assuming this annual after-tax rate of return)	4%	4%	4%
You would need to invest this lump sum today	**$262,429**	**$351,592**	**$532,500**
or invest this much each year until the projected age	**$17,461**	**$23,394**	**$35,431**
If you invest the premium until projected age	**$2,700**	**$2,900**	**$3,600**
You will invest this much	$59,400	$63,800	$79,200
Total value of this fund (if grows at above annual rate)	**$96,168**	**$103,292**	**$128,224**
Projected days of care covered by this fund*4	**164**	**177**	**219**
Compared to days of care covered by insurance	**1095**	**1460**	**2190**

* Notes: See attached Explanation of Key Assumptions and Projections. This illustration is a sample of potential insurance value versus self-funding, and may not reflect the total actual expenses of your long-term care (LTC). It excludes any co-payments or self funded care not covered by the policy or investment fund illustrated. Upon request, your advisor will provide you reports projecting various scenarios of care cost greater than amounts illustrated above.

Acknowledgement of Review

I acknowledge that this report has been explained to me. I understand I can choose to; (1) create a LTC expense account paid for by an insurance company, or (2) pay for any long-term care myself, I (circle one) ELECT TO / ELECT NOT TO apply for long-term care coverage at this time. I (circle one) WOULD LIKE / WOULD NOT LIKE a follow-up no later than ____________ fill in date, if applicable).

Signed ______________________________________ Dated ________________

The financial calculators and reports are for illustration purposes only and projections of hypothetical situations. They are not intended to be financial, tax, or legal advice, nor are they an illustration of any specific product or contract.

Version 2.1W
Barry Fisher, LTCP
BJFIM/Paradigm Insurance Marketing - (818)444-7730
Confidential Client Age 59
1/20/2013

Tax Deductibility Disclaimer

We Are Not CPAs

We Are Not Giving Tax Advice

Check With Your Tax Professional

Tax Qualified Long-Term Care Insurance

Tax-Free Benefits

- **Policies that reimburse for incurred cost of qualified long-term care services are 100% tax free**
- **Polices that pay regardless of incurred expenses are 100% tax-free up to a daily per diem limit of $320 (2013)**
  - ***Amount indexed annually by about 4% - 5%***
  - ***Amounts in excess of $116,800 per year will be taxed as ordinary income unless justified by incurred expenses***
    - **Per diem and Cash Benefits (Indemnity)**

Individual Tax Deductibility

Qualified Long-Term Care Insurance Premiums

- **Premiums paid for qualified LTCi can be included in unreimbursed medical expenses based on age specific table published annually by IRS** IRC Sec 213(d)(10)

- **2013 maximum premium deductions** (indexed annually by @ 4% - 5%)

◦ ***Age 40 or less***	***$ 360***
◦ ***Ages 40 to 50***	***$ 680***
◦ ***Ages 50 to 60***	***$1,360***
◦ ***Ages 60 to 70***	***$3,640***
◦ ***Age 70 +***	***$4,450***

- **In 2013, an individual taxpayer (and spouse) can deduct unreimbursed medical expenses in excess of 10% of their adjusted gross income**
  - ***Must itemize their deductions***

How Would This Work?

A Very Simple Example

- **Taxpayer with $100,000 adjusted gross income would need to exceed $10,000 of unreimbursed medical expenses, qualified long-term care expenses and/or LTCi premiums to get any tax deduction benefit**
- **If the taxpayer incurs $100,000 of QLTC expenses $90,000 would be deductible**
  - ***Document qualification as chronically ill***
- **The owner of a QLTCi policy can include the age banded limit in their unreimbursed medical expenses**
  - ***Medicare supplement premiums, deductibles, co-insurance, dental expenses, etc.*** *(IRC Sec 213(d))*
  - ***Amount in excess of $10,000 would be deductible***
    - **Example: H & W each age 65 could apply up to $7,280 of QLTCi premium to unreimbursed medical expenses ($3,640 x 2)**
      - ***Added to other reimbursed medical expenses may push client past threshold***

Health Savings Accounts

- **Taxpayer can access funds in an HSA up to the age-banded limits:**
- **2013 maximum deductions** (indexed annually by @ 4% - 5%)
  - ***Age 40 or less*** ***$ 360***
  - ***Ages 40 to 50*** ***$ 680***
  - ***Ages 50 to 60*** ***$1,360***
  - ***Ages 60 to 70*** ***$3,640***
  - ***Age 70 +*** ***$4,450***
- **Not subject to 10% AGI limits**

Employee Benefits

- **Premiums for QLTCi paid by an employer for an employee are deductible as A & H insurance**
  - ***IRC Sec. 7702B(a)(3)***
    - **No Sec. 125 or Flexible Spending arrangements**
- **Benefits received are not taxed as income**
  - ***IRC Sec. 105(b)***
    - **Accident & Health Insurance NOT Disability Insurance**
- **Can "discriminate" (or be selective) of employees**
  - ***Salaried employee who <u>does not</u> own more than 2% of the company*** *(IRC Sec. 105(h)) – 2%+ = Owners, Stockholder-Employees*
- **Stockholder-Employees must be careful!**
  - ***The IRS can challenge tax benefits claimed under a plan that covers only stockholder-employees on the grounds that the plan is not for employees***
  - ***MUST establish a <u>class</u> of employees that can be rationally segregated from other employees other than their status as stockholders***
    - **Job title or description, salaried vs. hourly, etc. etc.**

Business Entities

C-Corporations

Stockholder-Employees of C-Corporations ARE EMPLOYEES

Premiums are 100% Deductible

Don't Forget To Create CLASS

S-Corporations & LLC's

Stockholders ARE OWNERS

Partnerships & Sole-Proprietors

Owners ARE OWNERS

Premium Deductibility NOT Subject to 10% AGI Rule

Limited by Age Banded Annually Indexed Amounts

S-Corp, LLC, Sole Proprietors

Theory & Practice

- **We are not CPAs, tax professionals or purport to give tax advice**

- **In theory, owners of S-Corporations, LLCs, Sole Proprietors & Partnerships benefit from deductibility to the extent that their premiums fall within limits published annually in IRC Sec. 213(d)(10)**
  - ***2013 maximum deductions*** *(indexed annually by @ 4% - 5%)*
    - **Age 40 or less** **$ 360**
    - **Ages 40 to 50** **$ 680**
    - **Ages 50 to 60** **$1,360**
    - **Ages 60 to 70** **$3,640**
    - **Age 70 +** **$4,450**

- **The Client & CPA may decide to play by the rules**
  - ***Premiums may get listed as employee or officer "health benefits"***
  - ***Buried under "insurance" line under deductions***

- **Don't get bogged down on this!**
  - ***Premiums for business owners either wholly or partially deductible***
  - ***Benefits are always tax free***

Tax Deductibility Summary

QLTCi Targets of Opportunity

- **Individual tax deductibility is limited to non-existent**
  - ***But you do need to have an idea of how it works***
- **Owners of Health Savings Accounts can use pre-tax dollars to pay some or all of their QLTCi premiums**
  - ***Subject to penalties if you exceed age banded limits***
- **Owners of S-Corp, LLCs, Sole Proprietors, Partners can or will deduct QLTCi premiums as A & H insurance**
  - ***Subject age banded limits or risk tolerance of CPA/client***
- **Stockholder-employees of C-Corp deduct 100% of QLTCi premiums**
  - ***Carve-out on rational class based on employment status***
- **QLTCi premium paid for employee are 100% deductible**

Benefits are always tax free

Supporting You!

- **BJFIM team has been in the LTCi small business marketplace for 20-years**
- **High level support for our brokers**
  - ***Tax Facts back-up***
  - ***Sample Corporate Resolutions***
  - ***Consumer compliant tax guides***
  - ***Conference calls/web meetings with tax advisors & clients***
    - **Face-to-Face meetings when called for**
- **Shortest distance between you and long-term care insurance sales success is the executive carve-out sale**

Simplified Business Owner Sales with Small Group

(Multi-Life)

Long-Term Care Insurance

Susan Blais

Key Features of Multi-Life

Small Group Long-Term Care Insurance

- **Individual policies: owned by employee, fully portable with no COBRA or conversion**
- **Premium discounts and simplified underwriting for qualified employer groups**
- **Simplified UW: knock-out questions, plus MIB and Rx database checks in some cases**
- **Premiums for basic coverage lower than dental insurance, with much bigger benefits**
- **Employer contribution of $10 per month ensures employee interest and enrollment**
- **Association discounts available – full medical UW**

Multi-Life LTCi Carriers

- **LifeSecure**
  - **Blue Cross of Michigan, A.M. Best rating A-**
- **MedAmerica**
  - **Blue Cross of New York, A.M. Best rating B++**
- **TransAmerica**
  - **A.M. Best rating A+**
- **Don't overlook Genworth, John Hancock, Mutual of Omaha, MassMutual for *fully underwritten* two-person carve-outs**

LifeSecure

- **Simple benefit construction**
  - **Pool of Money from $75,000 to $1,000,000**
  - **Monthly benefit of 1%, 2%, or 3%**
  - **90 calendar-day waiting period**
  - **Future Purchase Option inflation built in – others available**
    - **Offer to buy up benefits by 15% every three years**
    - **In force till age 84 or on claim**
    - **No restrictions re number of times refused**
- **Ease of quoting and administration**
  - **Online quote calculator – customized to each approved employer group**
  - **Employees can target benefits or monthly premium for self and family members**
  - **Simplified underwriting at 3 lives (up to age 69) with ER contribution**

LifeSecure Self-Generated Quotes

Joe Doakes and Mary Doakes
11/6/2012

New Quote | Print | Close

Quote 1						
	Joe Doakes, age 50 **State: California** Premium Option: Lifetime Payment Option Target Monthly Premium: $60			**Mary Doakes, age 47** **State: California** Premium Option: Lifetime Payment Option Target Monthly Premium: $60		
	Choice 1	Choice 2	Choice 3	Choice 1	Choice 2	Choice 3
Lifetime Benefit Amount	$356,581	$211,677	$173,905	$399,439	$235,697	$192,993
Maximum Monthly Benefit	$3,566 (1%)	$4,234 (2%)	$5,217 (3%)	$3,994 (1%)	$4,714 (2%)	$5,790 (3%)
Monthly Premium • Employer's Contribution • Your Contribution • Total Monthly Premium*	 $10.00 $50.00 $60.00	 $10.00 $50.00 $60.00	 $10.00 $50.00 $60.00	 $10.00 $50.00 $60.00	 $10.00 $50.00 $60.00	 $10.00 $50.00 $60.00
Elimination Period	90(calendar) Days	90(calendar) Days	90(calendar) Days	90(calendar) Days	90(calendar) Days	90(calendar) Days
	• Guaranteed Future Purchase Offer	• Guaranteed Future Purchase Offer	• Guaranteed Future Purchase Offer	• Guaranteed Future Purchase Offer	• Guaranteed Future Purchase Offer	• Guaranteed Future Purchase Offer

MedAmerica

- **Simplicity I (CA Only)**
  - ***Cash benefits***
  - ***Individual – tough underwriting***
  - ***Price competitive – older product***
- **Simplicity II (other states)**
  - ***Cash benefits***
  - ***Individual & multi-life (10 lives)***
- **FlexCare – individual and multi-life**
  - ***Reimbursement plan***
  - ***Individual & multi-life (10 lives)***
  - ***Shared Care – 3rd pool of money***
  - ***Combo inflation rider***
  - ***Flexible benefit design***

FlexCare Unique Features

- **Variety of inflation options**
  - ***3% and 5% Simple and Compound***
    - ***No maximum or 2x maximum***
  - ***Guaranteed purchase option***
  - ***Combination Inflation option***
    - ***5% compound till age 60***
    - ***5% simple age 61 through 74***
    - ***Benefits stop growing at age 75***
    - ***About half the cost of 5% compound***

- **Shared Care Benefits – third pool of money**
- **Simplified underwriting through age 71**
  - ***Need 10 lives for simplified underwriting***
  - ***Association plans available***

Transamerica

- **A+ financial ratings**
- **Simplified issue at 10 lives**
- **Modified guaranteed issue at 15 lives**
  - ***Three knock-out underwriting questions***
- **More rigid rules for benefit options and buy-ups**
- **Works well in employer-paid case with clear employee classes**
- **Telephone service center for application assistance – good for large employers in multiple locations**

Industry Update

- **Low interest rate environment is causing stress in L & H business sector including long-term care insurance**
  - ***Fewer carrier choices, higher in-force & new business rates***
    - **Good news consolidation seems to be at an end – expansion on the way?**
  - ***Much tighter underwriting in the coming months***
    - **Including paramed exams, blood and urine**
    - **Gender specific rates in some states – MUCH higher rates for women!**
- **Message & Opportunity is clear**
  - ***Policies are not getting any cheaper***
    - ***5% compound inflation rates are increasing 30% to 50%***
  - ***Underwriting isn't getting any easier (except for multi-life)***
  - ***Clients are not getting any younger or healthier***
- **There is no time like the present to speak to every client and prospect that you have**

Eleven Words To Long Term Care Sales Success

Have you taken care of your long-term care planning yet?

BJFIM + Warner Pacific
LTC Planning Success

- **Excel at helping agents integrate non-core products into their day-to-day insurance practice**
- **All top traditional, group and linked LTCi products**
- **Simplified sales tools**
  - ***Pool of Money Reports***
  - ***Presentations for individuals and employers***
- **Expertise of BJFIM Team**
  - ***Field underwriting***
  - ***Proposal preparation***
  - ***High level support for and with tax pros & financial planners***
- **Web support for training and clients**
- **LTCi products count toward BJFIM comp and rewards programs**

SOS 2013

SCHOOL OF SUCCESS

Webinar Series

Long Term Care

BARRY J. FISHER INSURANCE MARKETING