
A Case Study of Long-Term Care Product Alternatives



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Overview

Long-term care (LTC) insurance is offered in three major varieties:

1. Standalone (individual) LTC insurance
2. A “Hybrid” of life insurance and LTC insurance policies
3. LTC riders added to individual life insurance policies

This study reviews these three alternatives for a hypothetical 55-year old male in the state of Oregon.

Disclaimer

Please note that LTC options and pricing vary widely from state to state, and among various ages and underwriting conditions. In addition, carriers and products have many variations, including benefit qualification triggers, underwriting and claims processes, and product features.

It should also be noted that because the alternatives have significant differences, this study is not meant as an “apples-to-apples” comparison. Where possible, we have done our best to equalize the design among the various alternatives. This study is meant for educational purposes only and should not be used as guidance for any specific client. Always take into account the individual facts and circumstances of a client’s unique situation and tailor the design of any plan to best meet the client’s needs.

The Facts

- 55-year old male
- State of Oregon
- Nonsmoker, in good health

The Needs

- LTC Insurance with a \$12,000/month benefit
- \$450,000 of minimally funded life insurance death benefit to age 120

Assumptions

- Producer compensation was not considered
- LTC benefit need is primary (products were designed to match a \$12,000 monthly LTC benefit)

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ALTERNATIVE 1

Standalone LTC Insurance Policy and an Individual Life Insurance Policy

Standalone (Individual) LTC Insurance Policy

Carrier	John Hancock	Mutual of Omaha	Genworth	Transamerica
Product	<i>Custom Care III</i>	<i>Care Plus My Way</i>	<i>Privileged Choice Flex</i>	<i>TransCare II</i>
Elimination Period	90 Days	90 Days	90 Days	90 Days
Underwriting Class	Preferred	Preferred	Preferred	Preferred
Premium Period	Life	Life	Life	Life
Inflation Protection	Guaranteed Purchase Option	None ¹	None	Deferred
Marital Status	Single	Single	Single	Single
Benefit Form	Reimbursement	Reimbursement	Reimbursement	Reimbursement
Benefit Period	5 Years	5 Years	5 Years	5 Years
Home Health Care	100%	100%	100%	100%
Maximum Benefit	\$12,000/Month	\$12,000/Month	\$12,000/Month	\$12,000/Month ²
Benefit "Pool"	\$720,000	\$720,000	\$720,000	\$730,000 ²
Annual Premium ³	\$3,290.30	\$2,849.86	\$3,054.58	\$2,770.38

Individual Life Insurance Policy

Carrier	Prudential	John Hancock	Pacific Life	Nationwide
Product	<i>UL Protector 2011</i>	<i>Protection UL-G 12</i>	<i>Prime UL-NLG</i>	<i>Marathon® No-Lapse Guarantee UL</i>
Underwriting Class	Preferred Non-Tobacco	Preferred Non-Smoker	Preferred Plus Non-Smoker	Select Preferred Non-Tobacco
Death Benefit	\$450,000	\$450,000	\$450,000	\$450,000
Annual Premium	\$5,603	\$6,676	\$6,674	\$5,957
Premium Paid to	Age 120	Age 115	Age 120	Age 120
Guaranteed	For Life	For Life	For Life	For Life

Total approximate annual premium for Standalone LTC and No-Lapse Guarantee: \$9,000
Net Present Value of Premiums from Age 55 to Age 120: \$146,602⁴

Additional factors that may make this an appropriate choice:

- Client seeks more choice in the design of their policy, including the maximum benefit period, premium paying period, elimination period, Cost of Living Adjustment features, and optional benefits.
- The need for life insurance is separate and distinct from the need for LTC insurance, and the client wishes the benefits to remain independent of each other.
- Tax-deductibility of premiums is appealing to client.⁵ The tax laws on deductions for standalone LTC premiums are much clearer than they are for hybrid LTC products or LTC Riders.

¹ Mutual of Omaha policy offers a "Future Purchase Option" at an extra cost, which allows the policyowner to increase the maximum monthly benefit without evidence of insurability. Subject to carrier guidelines.

² Benefits are paid daily—actual premium is for \$400/day benefit with a maximum of \$730,000.

³ Premium rates for standalone LTC insurance policies are not guaranteed and may change over time.

⁴ Assumes six percent discount rate for NPV calculation and is based on an approximation of \$6,000 of life insurance premium and \$3,000 of LTC premium paid to age 120 (65 years).

⁵ The deductibility of LTC insurance premiums is dependent on many factors including, but not limited to: the form of insurance, the filing form of the premium payor (married, single, corporation), and IRS deduction limits. This study is not intended to provide tax or legal advice. Clients should consult with their professional tax advisors prior to the purchase of any LTC insurance.

ALTERNATIVE 2

“Hybrid” Life/LTC Option (Equalizes LTC Benefit)

Carrier	Lincoln	Genworth	John Hancock	Pacific Life
Product	<i>MoneyGuard Reserve Plus¹</i>	<i>Total Living Coverage²</i>	<i>LifeCare</i>	<i>PremierCare</i>
Modified Endowment Contract (MEC)?	Yes	Yes	Yes	Yes
Elimination Period	90 Days	0 Days Home Care 90 Days Facility	90 Days	0 Days Home Care 90 Days Facility
Underwriting Class	Non-Tobacco	Standard, No Nicotine	Non-Smoker	Non-Smoker
Premium Period	Single Pay	Single Pay	Single Pay	Single Pay
Inflation Protection	Not Illustrated	Not Illustrated	Not Available	Not Illustrated
Benefit Form	Reimbursement	Reimbursement	Reimbursement	Reimbursement
Benefit Period	5 Years	5 Years	5 Years	5 Years
Home Health Care	100%	100%	100%	100%
Return of Premium Rider	Automatically included	Included as an Option	None, but does include Cash Value	Tax-Free
Max LTC Benefit	\$12,000/Month	\$12,000/Month ²	\$12,000/Month	\$12,000/Month
LTC Benefit “Pool”	\$720,000	\$720,000 ²	\$720,000	\$720,000
Initial Life Insurance Benefit	\$613,305 ¹ (LTC Reimbursement will reduce the death benefit dollar for dollar)	\$482,119 ² (Benefit may vary to conform to Federal tax-law, LTC payments reduce death benefit payable)	\$360,000 (Actual amount payable may be decreased by accelerated benefit payments)	\$351,295 ³ (Death Proceeds will be reduced when long-term care benefits are taken)
Single Premium	\$227,874 ¹	\$181,437 ²	\$196,906	\$166,386

Additional factors that may make this an appropriate choice:

- Client is averse to ongoing premium payments and may consider a reallocation of current assets as a single premium life and LTC solution.
- Client wishes to have a Cash Value element to the policy.⁴
- Client wishes to have funds available as death benefit if LTC is not needed, and life insurance needs are secondary to LTC insurance needs.
- Simplicity of having only one insurance policy.

¹ Lincoln MoneyGuard product offers multiple premium payment options. For the purposes of this study, a single premium design was used. Death benefit begins at \$613,305 in Year 1 and gradually reduces to \$432,000 by Year 35.

² Preferred Class available; death benefit begins at \$482,119 in Year 1 and reduces to \$432,000 by Year 5. Premium amount based on four percent non-guaranteed Current Interest Rate and Current Insurance Charges; at 3.5 percent Guaranteed Interest Rate and Maximum Guaranteed Insurance Charges, at age 86, death benefit would reduce to \$377,503, Total LTC Lifetime Maximum would reduce to \$629,172, and Monthly Benefit Maximum would reduce to \$10,486.

³ Death benefit begins at \$351,295 in Year 1 and gradually reduces to \$288,000 by Year 28.

⁴ Partial withdrawals and policy loans taken from a MEC are taxable under federal income-tax law to the extent that there is any gain in the policy. An additional tax of ten percent of the taxable amount may be payable unless the owner is at least age 59½ or satisfies another exemption from payment of the additional tax. Distributions from a hybrid life/LTC policy generally will reduce the amount of funds available for LTC Benefits, payable as death benefits, and/or the amount of any Return of Premium.

ALTERNATIVE 3

Life Insurance Policy with an LTC Rider

Design Note: The LTC insurance benefit on the products illustrated cannot exceed the life insurance death benefit. For the purposes of this study, we have demonstrated a \$12,000 maximum monthly LTC benefit with a \$600,000 death benefit/total available LTC Benefit “Pool.” LTC riders accelerate the policy death benefit when the insured qualifies for LTC benefits.

Carrier	Nationwide	John Hancock
Product	<i>Marathon® NLG with LTC Rider</i>	<i>UL-G 12 with LTC Rider</i>
Elimination Period	90 days over a 730-day period	100 Days
Underwriting Class	Select Preferred Non-Tobacco Life, Preferred Non-Tobacco LTC	Preferred Non-Smoker
Inflation Protection	None, increase tied to any applicable increase in the HIPAA per diem amount	Does not provide inflation protection coverage. However, if the death benefit has increased or decreased at the time of claim, the Maximum Monthly Benefit Amount may increase or decrease as well.
Benefit Form	Indemnity	Reimbursement
Benefit Period	Flexible, policyowner may choose to receive less of the LTC benefit than they are eligible for, effectively “stretching” the LTC coverage period	Flexible, policyowner may choose to receive less of the LTC benefit than they are eligible for, effectively “stretching” the LTC coverage period
Home Health Care	100%	100%
Return of Premium Rider	Not available, however product may generate cash value	Not available, however product may generate cash value
Death Benefit	\$600,000 ¹	\$600,000 ¹
Max LTC Benefit	\$12,000/month ²	\$12,000/month ³
LTC Benefit “Pool”	\$600,000	\$600,000
Guaranteed Premium	\$8,884/year	\$9,472/year
Premium Paid to	Age 120	Age 115
Guaranteed	For Life	For Life
NPV of Premium ⁴	\$144,712	\$153,081

Additional factors that may make this an appropriate choice:

- Client is most interested in life insurance; LTC insurance needs are somewhat secondary.
- Client seeks flexible funding options.
- Client understands the need for LTC protection but is concerned they may never use the benefit (funds not used for LTC benefits translate into death benefit for heirs).
- Client seeks an “Indemnity” style rider (Nationwide product only).

¹ Death benefits are reduced by any LTC benefits received.

² The benefit paid is the lesser of two percent per month of the LTC Specified Amount and the HIPAA per diem amount, on a monthly basis.

³ The maximum benefit paid is two percent per month of the LTC Benefit Amount. The client may also elect a one percent or four percent option.

⁴ Assumes six percent discount rate for NPV calculation.

Summary

The following chart contains approximations of the illustrated premiums required to achieve similar results. Note that there is a wide range of death benefit/premium results for the hybrid Life/LTC products, and this table summarizes the results as averages.

Alternative	Maximum LTC Benefit	LTC Benefit "Pool"	Average Death Benefit	Average Premiums	Net Present Value of Premiums ¹
Individual LTC + Individual Life	\$12,000 Month	\$720,000	\$450,000	\$9,000/year Life Pay (\$3,000 LTC + \$6,000 Life)	\$146,602
Hybrid LTC/Life	\$12,000/Month	\$720,000	\$435,856 ²	\$193,150 Single pay	\$193,150
Life with LTC Rider	\$12,000/Month	\$600,000	\$600,000 ²	\$9,000/Yr. Life Pay	\$148,896

Alternative	LTC Benefit Customization	LTC Features and Options	Death Benefits	Underwriting Simplicity
Individual LTC + Individual Life	★ ★ ★	★ ★ ★	★ ★	★
Hybrid LTC/Life	★ ★	★ ★	★ ★	★ ★ ★
Life with LTC Rider	★	★	★ ★ ★	★ ★

★ ★ ★ = Best

Conclusions

Comparing LTC insurance alternatives purely on a premium basis may not fairly evaluate all factors that should be considered in the purchase decision. Each form of LTC insurance has its own advantages relative to other options:

- For clients who are primarily focused on the LTC need, standalone LTC insurance policies offer the most diverse set of customization options. Standalone policies also generally offer the strongest Cost of Living Adjustment options and may give the policyowner more choice as to where and how care is received. It is important to note that **premium rates in standalone LTC insurance policies are rarely guaranteed**. In addition, the lack of death benefits in these policies requires the purchase of an accompanying life insurance policy to address both needs.
- For clients where life insurance is the primary need, or for those who seek more flexible premium funding options, life insurance with an LTC rider may be the better choice. Certain designs that utilize No Lapse Guarantee life insurance can lock in premium rates for the life of the policy.
- Hybrid Life/LTC products offer a lesser degree of death benefits than individual life products with LTC riders and fewer customization options than individual LTC policies. However, they may be the easiest of the three products to underwrite, and the single premium option may be easy for clients to understand when presented as a repositioning of assets to accomplish two insurance purposes. Single pay designs can also preclude the client from being subject to premium increases in the future.

The facts and circumstances of the client's individual situation will determine the most appropriate choice. The wisest course of action may be to present clients with multiple alternatives and to present the advantages and disadvantages of each.

¹ Net Present Value calculations based on payments of average premium from age 55 to age 120 at a six percent discount rate.

² Reduced by any LTC benefits taken.

Glossary of Terms

Activities of Daily Living (ADLs)

The basic activities an individual performs on a daily basis. These generally include eating, toileting, transferring, bathing, dressing, and continence. Loss of the ability to perform two or more of the ADLs is often used as criteria for benefit eligibility.

Assisted Living Facility

A facility that provides assistance for those who are unable to perform the activities of daily living on their own, but who do not require round-the-clock care.

Benefit Form

The method by which benefits will be paid under an LTC contract. The two primary forms are Reimbursement and Indemnity.

Reimbursement Benefit Method

Under this method, a policyowner submits receipts to the insurance carrier and is remunerated for actual expenses incurred, up to the maximum monthly benefit of the policy. Some policies allow for expenses to be paid directly to the service provider from the insurance carrier.

Indemnity Benefit Method

Under this method, a policyowner receives the stated policy benefit in cash each month. Typically, indemnity style policies require a Physician's Plan of Care and ongoing certification of benefit eligibility. This form of payment may also be referred to as a "Cash" benefit option.

Benefit Period

A period of time used to calculate the maximum amount an LTC insurance policy will pay (the Benefit Pool). It is not intended to represent the time for which benefits will be payable.

Benefit Pool

The maximum lifetime benefit amount an LTC insurance policy will pay. Some policies allow spouses to draw from this pool to pay for LTC expenses for each spouse.

Benefit Triggers

Events that trigger the payment of benefits under an LTC insurance policy. These may include the inability to perform ADLs, a cognitive impairment, or a doctor's indication that care is necessary.

Chronic Condition

A persistent medical condition which requires ongoing LTC.

Cognitive Impairment

An ascertainable deterioration or loss of intellectual capacity.

Elimination Period

The waiting period before benefits commence under an insurance policy.

Home Health Care Benefits

A provision in an LTC policy that allows the insured to receive care in their own home (as opposed to a nursing home or assisted living facility). Benefits under some policies are a reduced percentage of the benefits that would be available if care is received at a facility outside of the home.

Inflation Protection

A provision in an LTC insurance policy that provides annual automatic increases on the monthly benefit amount and maximum lifetime benefit. Inflation protection may be Simple or Compound, is usually three, four, or five percent, and may be capped at a multiple of the original policy benefit. For example:

<i>LTC Maximum Monthly Benefit at Issue:</i>	<i>\$5,000</i>	
	<u><i>5% Simple</i></u>	<u><i>5% Compound</i></u>
<i>Year 2</i>	<i>\$5,250.00</i>	<i>\$5,250.00</i>
<i>Year 3</i>	<i>\$5,500.00</i>	<i>\$5,512.50</i>
<i>Year 4</i>	<i>\$5,750.00</i>	<i>\$5,788.13</i>

Long-Term Care Insurance (LTC)

A private insurance policy that pays benefits for covered LTC services.

Maximum LTC Benefit Amount

The maximum dollar amount an LTC policy will pay each month an insured is eligible for benefits.

Medicaid

A government paid assistance program that provides benefits for people based on financial need.

Medicare

A government program for older Americans that provides limited benefits to help people recover after a hospital stay.

Non-forfeiture Shortened Benefit Period

Allows for coverage to continue on a reduced basis if the policyowner ceases paying premiums. Non-forfeiture benefits usually take the form of a policy rider at an extra cost. A non-forfeiture benefit option is required to be offered in many states.

Nursing Home

A facility that provides various levels of care ranging from skilled nursing care to non-medical assistance for patients who require help to perform the activities of daily living.

Physician's Plan of Care

A detailed description of skilled and assisted living services a physician deems necessary.

Return of Premium Rider

An LTC rider which allows all or a portion of premiums to be returned to the policyowner if policy benefits are not fully utilized.

Skilled Care

Professional care provided by trained medical personnel, including nurses, doctors, and therapists. Skilled care typically is provided in a hospital or nursing home.

Single Pay

An option to pay policy premium in one lump sum, after which no further payments are due and the policy is paid up.

Spouse Shared Care

An optional policy benefit that allows spouses to share benefits under identical LTC policies.

Tax Advantages

Potential tax savings in the form of income tax deductions on LTC insurance premiums and tax-free treatment of LTC policy benefits.¹

Tax-qualified Coverage

An LTC insurance policy that is intended to be federally tax-qualified under Section 7702B(b) of the Internal Revenue Code, thereby allowing for tax-free benefits.

¹ The deductibility of LTC insurance premiums is dependent on many factors including, but not limited to: the form of insurance, the filing form of the premium payor (married, single, corporation), and IRS deduction limits. This study is not intended to provide tax or legal advice. Clients should consult with their professional tax advisors prior to the purchase of any LTC insurance.

For More Information

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Not all products and features are available for all ages or in all states. For agent use only; not approved for client use. This study is based on the information obtained from the respective insurance carriers that we believe to be reliable and accurate. Please contact Carlson Hammond for more details about the products used in this study.

State regulations require that insurance producers must not attempt to sell LTC insurance unless appropriately licensed & appointed.