

LONG-TERM CARE INSURANCE: LATEST TRENDS & DEVELOPMENTS

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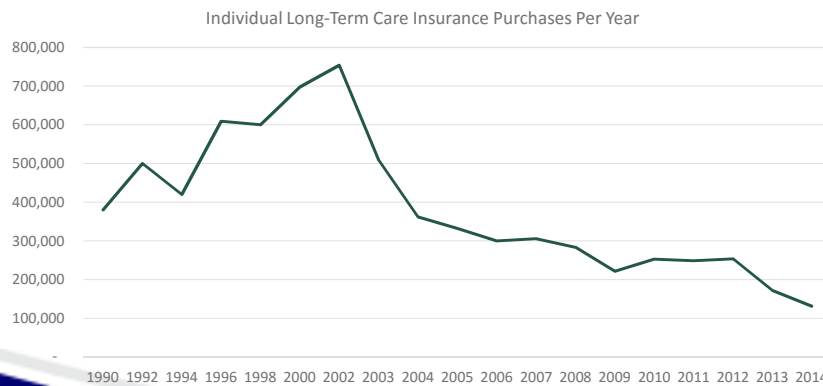
CHANGING MARKETPLACE FOR LTC INSURANCE

- Insurers have struggled for profitability
 - Significant changes to policy design ongoing
- Premium increases on existing policies
- Rising premiums for new coverage
- Popularity of LTC partnership policies
- Emergence of hybrid LTC policies

REVIEWING THE BASICS

- Daily Benefit
- Benefit Period
- Total Benefit Pool
- Elimination Period
- Benefits triggered by:
 - Inability to perform 2 out of 6 activities of daily living
 - Cognitive impairment

DECLINING SALES



Source: LifePlans Inc.

STRUGGLING PROFITABILITY

– Significant Industry Consolidation

Company	2013 sales policies	2013 sales premiums (\$M)	2013 in-force policies	2013 in-force premium (\$M)
Genworth Financial	53,974	\$133.80	1,209,869	\$2,508.80
Northwestern LTC Insurance Co.	27,933	\$67.90	197,373	\$477.60
Mutual of Omaha	20,795	\$46.60	148,516	\$303.60
John Hancock Financial Services	13,305	\$36.20	604,889	\$1,394.90
Transamerica Life Insurance Co.	11,104	\$23.80	261,673	\$479.50
MedAmerica Insurance Co.	8,707	\$16.70	88,216	\$153.00
Bankers Life and Casualty	7,248	\$12.00	283,996	\$476.30
New York Life Insurance Co.	5,631	\$16.30	137,626	\$235.80
MassMutual Financial Group	5,035	\$13.40	80,862	\$213.90
State Farm Mutual Insurance Co.	4,459	\$9.90	132,316	\$200.50
Life Secure	4,459	\$7.20	26,560	\$31.90
Thrivent Financial	4,137	\$11.40	124,277	\$190.00
Knights of Columbus	3,586	\$4.60	38,823	\$50.60
Total	170,373	\$399.80	3,334,996	\$6,716.40

Source: Investment News & LifePlans Inc.

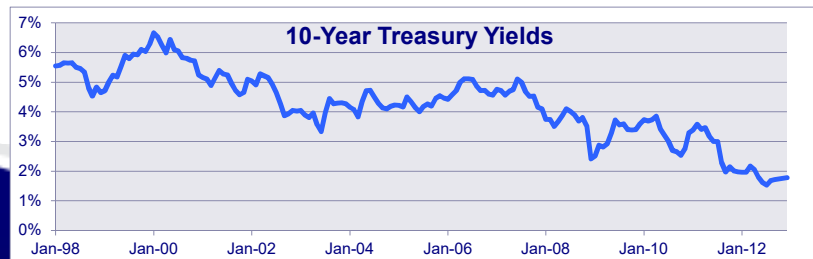
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STRUGGLING PROFITABILITY

- Overestimated lapse rates
 - 5%+ anticipated, 1%-3% occurring
 - Results in higher claims despite normal utilization
- Overestimated interest rates



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STRUGGLING (TO REGAIN) PROFITABILITY

- Changes to Underwriting
 - Underwriting becoming tighter
 - Paramed exams in future like life insurance?
 - May require blood & urine samples?
 - Few options for guaranteed-issue group
 - Wider range of underwriting classifications
 - Important to shop around for price and underwriting

STRUGGLING (TO REGAIN) PROFITABILITY

- New pricing & design for new policies
 - Limited-pay policies gone – annual-pay only
 - Most indemnity policies gone
 - “Cash” riders available, but at significant cost
 - Limited (e.g., 30%) cash option for home benefits?
 - Lifetime benefits gone
 - Shared policies & “short-fat” more popular now

STRUGGLING (TO REGAIN) PROFITABILITY

- New choices for inflation protection
 - 3% compound instead of 5% compound
 - Simple inflation option less common
 - Inflation-adjusted (typically CPI-U)
 - Future Purchase Option
 - Guaranteed, but purchased at future rates!
- Gender-based premiums almost fully rolled out now

STRUGGLING (TO REGAIN) PROFITABILITY

- Outright pricing changes
 - Adjusting discounts
 - Smaller price breaks for couples
 - » Albeit with increased flexibility for “couples”
 - Limited discounts for group coverage
 - Reduced commissions for agents

STRUGGLING (TO REGAIN) PROFITABILITY

- Outright pricing changes
 - Premium increases on existing policies
 - Increases from 25% to as much as 90%
 - Older policies (1997 – 2007) most impacted
 - » So far?
 - Significantly higher pricing on new policies
 - Future premium increases don't help profitability!

RISE OF LTC PARTNERSHIP POLICIES

- Form of LTC cost-sharing between states & individuals
- Shelters assets from state Medicaid spenddown
 - \$150/day for 3 years = \$164,250 benefit pool
 - Allows additional \$164,250 to be Medicaid exempt
- May have minimum policy requirements
 - Details (& reciprocity) vary state to state
- www.CompleteLongTermCare.com/states/

RISING POPULARITY OF HYBRID LTC POLICIES

- Also known as “asset-based” LTC
- Has existed in some form for over 10 years
 - PPA 2006 more favorable tax treatment starting 2010
 - Increasingly popular as traditional LTC costs rise
- Combines life or annuity policy w/ LTC insurance policy
 - Typically funded with single premium lump sum
 - Uses UL or fixed annuity chassis

HOW HYBRID LTC POLICIES WORK

- Cash value is invested
 - Fixed rates of return
 - Generally some specified minimum
- Cash value generally remains liquid
 - Hybrid life policies typically fully liquid
 - Hybrid annuities may have surrender charges

HOW HYBRID LTC POLICIES WORK

- Costs are subtracted from cash value
 - May include LTC costs & life costs
 - Annuity “costs” embedded in yield
 - Life & LTC costs typically guaranteed
 - LTC costs reduce policy’s cost basis

HOW HYBRID LTC POLICIES WORK

- LTC benefits
 - Paid from cash value first (“deductible”)
 - Additional LTC benefits available thereafter
- In the event of death..
 - Hybrid life policy pays death benefit (less LTC claims)
 - Hybrid annuity pays cash value

HOW HYBRID LTC POLICIES WORK

- Example
 - Hybrid Life/LTC policy... for \$100,000 premium, receive:
 - Death benefit of \$200,000
 - LTC benefit pool of \$200,000
 - LTC benefits accessed over 3 years (~\$182/day)

USING HYBRID LTC POLICIES

- Provides form of “high deductible” LTC insurance
 - Set aside (and spend down) a specified dollar amount
 - Receive “match” from insurance company for similar dollar amount
- Coverage generally less expensive
 - But largely due to high deductible?
 - Costs also less salient when deducted directly?

USING HYBRID LTC POLICIES

- Hybrid life/LTC
 - “Purchase” a set dollar amount as death benefit & LTC benefit
 - You get it if you live, you get it if you die
 - Full liquidity like “stuffing the mattress for a rainy day” but with more “leverage”

USING HYBRID LTC POLICIES

- Hybrid annuity/LTC
 - Lower cost without life insurance costs
 - Often surrender charges; no principal guarantee
 - Crediting rate often lower
 - Typically simplified underwriting

USING HYBRID LTC POLICIES

- Can be funded via 1035 exchanges
 - PPA 2006 allows exchanges from non-hybrid to hybrid
 - As long as underlying exchange was permissible!
 - Appealing for “old” unused life insurance policies
 - Park the cash value, but get LTC leverage, too
 - Also useful for highly appreciated existing annuities
 - Tax-efficient way to spend growth on care

CAVEATS/CONCERNS OF HYBRID LTC POLICIES

- Policies vary from company to company
 - Read contracts thoroughly!
 - How are benefits claimed from various pools?
 - Are all costs guaranteed?
- Generally no shared policies
- May or may not have inflation adjustments

CAVEATS/CONCERNS OF HYBRID LTC POLICIES

- Costs may be guaranteed
 - But growth rates are not!!
- May lock in cash value at unappealing rate of return
 - Less of an issue as long as rates stay low?

CURRENT WORLD OF LTC PLANNING

- Traditional policies - managing cost
 - Don't overbuy on benefit period
 - Rising focus on “short-fat” policies
 - Longer deductibles still limited value
- SharedCare continues to be popular
- Evaluate inflation riders to manage cost
 - But be cautious based on client age

CURRENT WORLD OF LTC PLANNING

- Rising premiums on new policies
 - Renders coverage underaffordable for some
 - Sticker shock for many
 - Gender-based premiums now rolling out!
 - Mitigating bite by funding w/ partial 1035 exchanges?
 - Reducing the risk of future premium increases?
- Does Partnership policy make sense?

CURRENT WORLD OF LTC PLANNING

- Hybrid policies provide some alternatives
 - Alternative form of “high deductible” policy?
 - Trading off risk of (significant) foregone upside?
 - Compare to “buy LTC & invest the rest”?

SUMMARY

- LTC insurance isn't "dying" but industry is struggling
 - New pricing improves stability, but not affordability
 - Be certain to craft recommendations in light of policies currently available
- Hybrid LTC policies provide alternative, but no panacea
 - Clients struggling to afford LTC insurance may have even less capacity to afford hybrid coverage?

QUESTIONS?

Handouts & additional materials:
www.kitces.com/AICPA162

Contact: Questions@Kitces.com