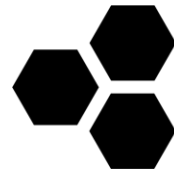


2022



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# LONGEVITY PLANNING

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ADDRESSING LONG-TERM CARE (LTC) RISKS



M Financial Group®

# DISCUSSION TOPICS

- LTC Planning Basics and Considerations
- LTC Market (Traditional Coverage) Brief History
- LTC Insurance Options
  - Product Types, Pricing Influences
- LTC Insurance Market
  - Carriers Options and Leading Solutions
- Common LTC Discussion points

# **LONG-TERM CARE PLANNING**



## **BASICS AND PLANNING CONSIDERATIONS**



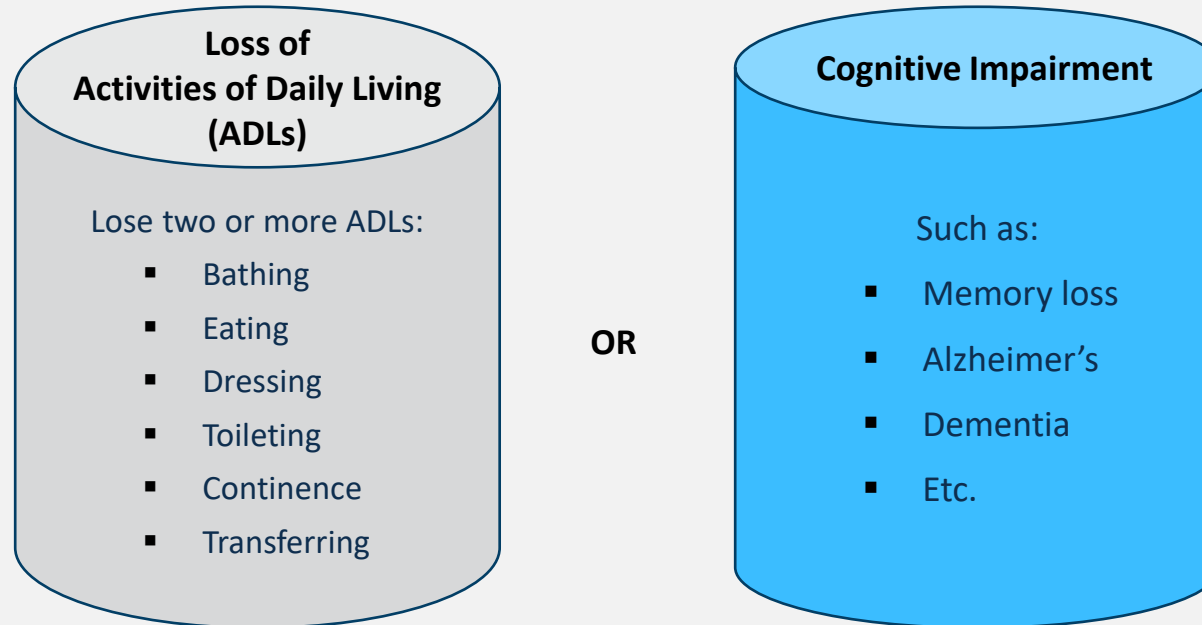
# WHAT IS LONG-TERM CARE?

- Long-Term Care (LTC) is the assistance you need when a serious illness or disability renders you unable – physically or cognitively – to perform one or more of the Activities of Daily Living (ADLs) for a lengthy period of time.
- Assistance is delivered in a variety of settings.
- LTC is not medical care.
- LTC is not limited to nursing homes.

**Establishing a plan for care, by using insurance or not, is important as those without a plan cause friends and family to be impacted by the consequences – financially, emotionally and physically.**

# LONG-TERM CARE BENEFIT QUALIFICATION

- To be eligible for LTC benefits an individual must usually incur a:



Tax-Qualified plans require a physician to verify the condition will last at least 90 days (Does not need to be permanent). See insurance policy for exact contract language.

# PLANNING CONSIDERATIONS

## SOURCES OF CARE

Long-Term Care is more than Nursing Home Coverage...

- LTC Facility or Home Care:
  - Nursing Home
  - Assisted Living Facility
  - Adult Day Care
  - Community Care Center
  - Home Health Care
  - Informal—Family and Friends (Typically not eligible for insurance reimbursement)



Most care is provided at home and most prefer to “age in place”

- One in four adults were unpaid family caregivers to an adult or child in 2009 (65.7 million people)<sup>1</sup>

1. National Clearinghouse for Long Term Care, Department of Health and Human Services,  
[http://www.longtermcare.gov/LTC/Main\\_Site/Understanding/Service\\_Delivery/Caregiver.aspx](http://www.longtermcare.gov/LTC/Main_Site/Understanding/Service_Delivery/Caregiver.aspx)

# PLANNING CONSIDERATIONS

## COST OF CARE

### National Averages for Care (United States)—2021

Facility Type	National Average (1 yr)	National Average (Monthly)	National Average (Daily)	Change Since 2020	5 Year Avg. Annual Growth
Nursing Home: Private <sup>2</sup> Room	\$105,405	\$9,034	\$297	2.41%	3.25%
Nursing Home: Semi-Private Room <sup>2</sup>	\$94,900	\$7,908	\$260	1.96%	2.93%
Assisted Living Facility <sup>3</sup>	\$54,000	\$4,500	\$148	4.65%	4.40%
Home Health Care Aid <sup>1</sup>	\$61,776	\$5,148	\$169	12.50%	5.92%
Adult Day Care <sup>2</sup>	\$20,280	\$1,690	\$78	5.41%	2.78%

Source: Genworth Cost of Care Survey, conducted by CareScout®, 2004-2021.  
<https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

# PLANNING CONSIDERATIONS

COST OF CARE—CURRENT VS FUTURE RESIDENCE

RETIREMENT LOCATION SHOULD BE FACTORED INTO PLANNING



Facility Type / Geographic Area	Nursing Home-Private Room <sup>2</sup>	Nursing Home-Semi-Private Room <sup>2</sup>	Assisted Living Facility <sup>3</sup>	Home Health Care Aide <sup>1</sup>	Adult Day Care <sup>2</sup>
Tampa, FL	\$9,885	\$8,927	\$3,350	\$4,862	\$2,123
Philadelphia, PA	\$12,897	\$11,437	\$5,685	\$5,339	\$1,777
Lawrence, KS	\$8,578	\$7,239	\$4,538	\$4,767	n/a
Los Angeles, CA	\$11,269	\$9,125	\$5,250	\$5,911	\$1,652
Seattle, WA	\$11,984	\$9,916	\$6,750	\$6,769	\$2,600

Source: Genworth Cost of Care Survey, conducted by CareScout®, 2021.

<sup>1</sup> Based on annual rate divided by 12 months (assumes 44 hours per week)

<sup>2</sup> Based on annual rate divided by 12 months

<sup>3</sup> As reported, monthly rate, private, one bedroom

<https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

# PLANNING CONSIDERATIONS

## When Events Occur

RISK OF A CARE EVENT INCREASES WITH AGE.  
GENDER AND LONGEVITY IS ALSO A FACTOR.

Age	Men	Women	Total
Under 50	0.1%	0.1%	0.2%
50-59	0.3%	0.6%	0.9%
60-69	2.6%	3.9%	6.5%
70-79	9.8%	14.5%	24.3%
80+	23.2%	44.9%	68.1%
<b>Total</b>	<b>36.0%</b>	<b>64.0%</b>	<b>100.0%</b>

**While claims often occur after typical retirement age, a catastrophic disability could occur earlier than expected.**

# PLANNING CONSIDERATIONS

## Family Medical History

FAMILY HISTORY MAY BE A FUTURE PREDICTOR.

	Nursing Home	Home Health Care	Assisted Living	Total
<b><u>Top Cause of Claim</u></b>				
By Claim Count	Alzheimer's (25.2%)	Cancer (14.6%)	Alzheimer's (37.2%)	Alzheimer's (20.7%)
By Average Claim Payments	Alzheimer's (\$61k)	Stroke (\$40k)	Mental (\$58.7k)	Alzheimer's (\$76k)
By length of Claim	Alzheimer's (610 days)	Nervous System (454 Visits)	Mental (613 visits)	Alzheimer's (765 days)
<b><u>Leading Cause of Claim</u></b>				
Male	Alzheimer's (26%)	Cancer (17%)	Alzheimer's (36%)	Alzheimer's (22%)
Female	Alzheimer's (25%)	Arthritis (17%)	Alzheimer's (37%)	Alzheimer's (20%)
Under Age 65	Nervous System (21%)	Cancer (28%)	Alzheimer's (39%)	Cancer (27%)
Age 65-74	Alzheimer's (27%)	Cancer (21%)	Alzheimer's (43%)	Alzheimer's (19%)
Age 75+	Alzheimer's (25%)	Alzheimer's (16%)	Alzheimer's 36%)	Alzheimer's (22%)

# PLANNING CONSIDERATIONS

## Duration Risk



### DISTRIBUTION AND DURATION OF LONG-TERM CARE SERVICES

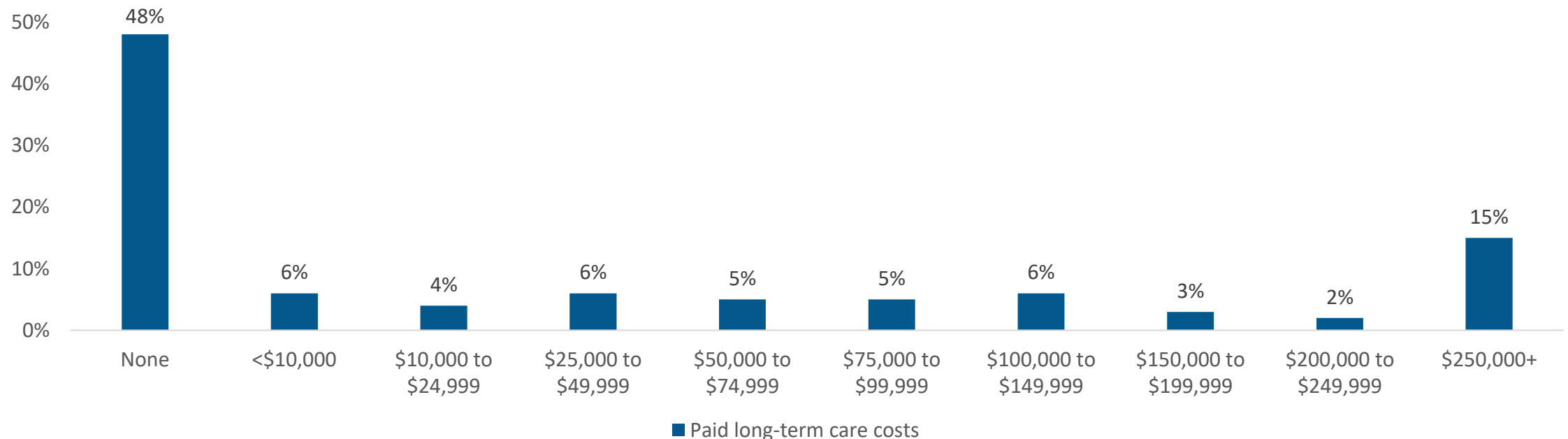
Type of care	Average number of years people use this type of care	Percent of people who use this type of care
<b>Any Services</b>	<b>3 years</b>	<b>69%</b>
<b>At Home</b>		
Unpaid care only	1 year	59%
Paid care	Less than 1 year	42%
Any care at home	2 years	65%
<b>In Facilities</b>		
Nursing facilities	1 year	35%
Assisted living	Less than 1 year	13%
Any care in facilities	1 year	37%

# PLANNING CONSIDERATIONS

## Total Expenditure



PERCENTAGE OF RETIREES BY EXPECTED LONG-TERM CARE COSTS FOR PEOPLE TURNING AGE 65 BETWEEN 2015 AND 2019



# FUNDING CARE

## Self-Funding



- Self-funding may be an option, however....

***Income*** pays for care, NOT assets, so consider:

- Liquidity
  - Will assets need to be liquidated to pay for care?
  - Are there additional costs to liquidate?
    - Taxes, market timing issues, fees, etc.
- Retirement Portfolio Impact
  - Will principal be eroded that is needed to generate retirement income?
  - Will care expenses take away from other planned expenses?
    - Everyday lifestyle needs, future spouse expenses, charitable expenses.
  - Impacts to a surviving spouse or other dependents?

# FUNDING CARE

## Misconceptions



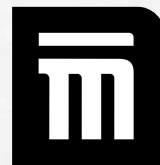
### OTHER FORMS OF INSURANCE DO NOT COVER LTC EXPENSES

- Health Insurance
  - Does not pay for LTC
- Medicaid
  - Will not help until assets are depleted
  - Only pays for nursing home coverage, not home care
- Medicare (only age 65+)
  - Only in limited situations, after being hospitalized
  - Full coverage for only 20 days
- Disability Insurance
  - These funds may be used. However disability insurance protects income allocated for normal everyday expenses
  - Coverage only while working (generally less than age 65)

# **LONG-TERM CARE MARKET**



## **QUICK HISTORY**



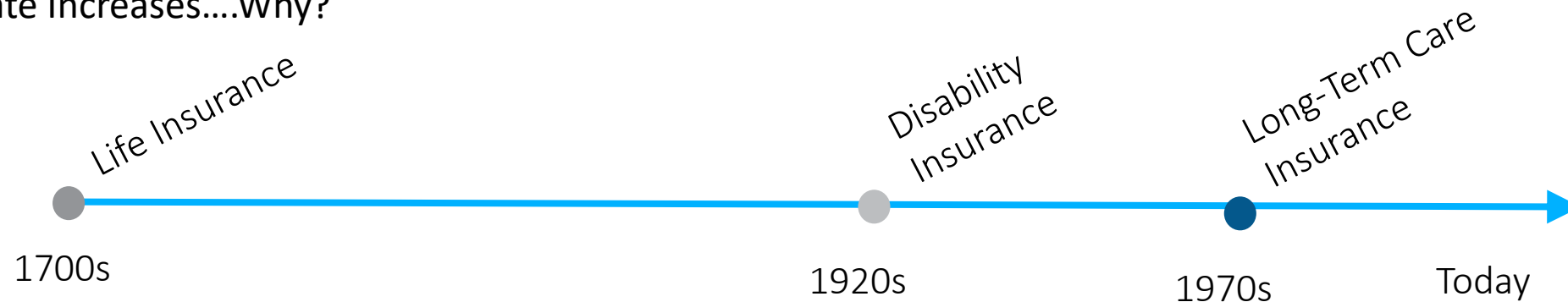
# LTC INSURANCE

## Quick History



### LONG-TERM CARE INSURANCE (LTCI) IS A YOUNG PRODUCT

- Only about 30-40 years old
- Started as nursing home only coverage....evolved to comprehensive coverage
- Traditional LTC market had over 150 carriers at it's peak
- Traditional LTCI market has been turbulent
  - Rate Increases....Why?



# LTC INSURANCE

## Lessons Learned

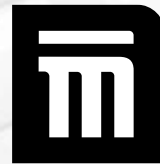
### WHAT CAUSED RATE INCREASES AND CARRIERS TO EXIT THE MARKET

Reason	Rational	Reality
Low Lapse Rates	Carriers assumed more coverage would lapse much like other insurance coverage	Coverage is highly valued with lapse rates less than 1-2%.
Higher Than Expected Claims	Carriers assumed claims would be lower based on available information	Policyholders received benefits at a higher rate. Experience shows females receiving about two-thirds of all claims leading to gender distinct rates.
Low Interest Rates	Carriers assumed that long-term interest rates would be higher	We're in a prolonged low-interest rate environment. A policy sold today needs to reserve for potential claims for 40 or more years from now.

# **LONG-TERM CARE INSURANCE OPTIONS**



**SOLUTIONS**



# FUNDING SOURCES

## LTC Insurance Today

- Traditional Individual LTC Policies
  - Guaranteed renewable term LTC policies
- Hybrid Life/LTC Policies
  - Life insurance-based policies with minimal life benefits focused on providing LTC benefits
  - Combination of: Return of Premium, Life Insurance, LTC Benefits
- Life Insurance with an LTC Accelerated Benefit Rider
  - A percentage of the face amount determines the benefit
  - Typically, 2-4% of face amount “accelerated” as the monthly benefit
  - LTC benefits received reduces benefit at death (dollar for dollar) for beneficiary

\*Limited employer-sponsored offerings also available.

# INSURANCE

## Traditional Long-Term Care

- Also known as Individual LTC or ILTC
- Pros:
  - Plan design flexibility
  - Need for life insurance is separate and distinct from the need for LTC
  - Tax-deductibility of premiums for standalone products are much clearer than for other products.
  - Lower ongoing premiums
- Cons:
  - Lifetime premium payments
  - Guaranteed renewable policies are subject to rate increases
  - If benefits are not used, no other benefits are received (no life benefit)
  - “Use it or lose it”

**Ideal for those who want or need lower premium payments and flexibility in plan design.**

# INSURANCE

## Hybrid Life/LTC Policies

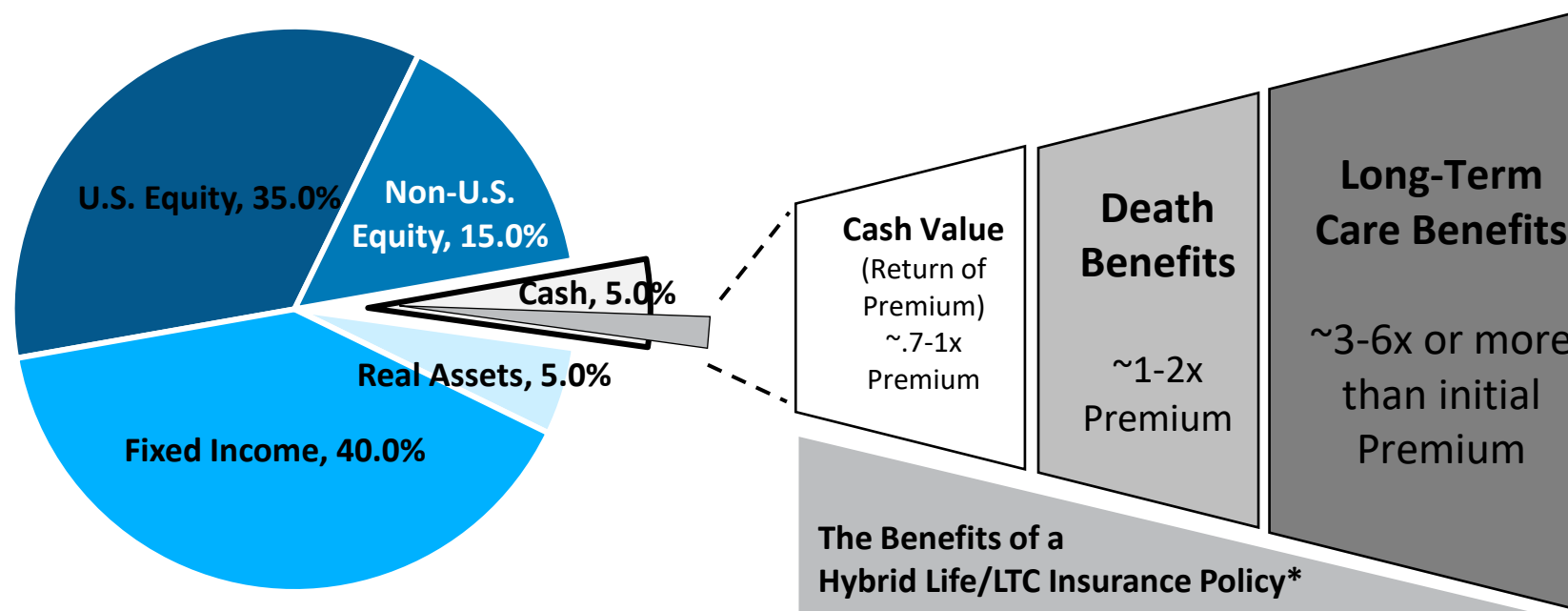
- Also known as Linked or Asset-based Life/LTC Policies
- Pros:
  - Guaranteed products
  - If LTC benefits are not used, life insurance is paid to beneficiary
  - Return of premium feature if money is needed (subject to policy terms)
  - Remains an asset on the client's balance sheet
- Cons:
  - Higher premium payment outlay (Multi-year payment are available)
  - LTC tax deductibility is not clear. These are life insurance policies.
  - Premiums put into policy is used to pay LTC benefits first, before policy leverages premium
  - Life insurance face amount is lower than other alternatives

**Ideal for those who want to self-fund and can reposition a low-yielding asset or “emergency fund” (i.e., Cash, C.D.).**

# INSURANCE

## Hybrid Life/LTC In An Investment Portfolio

LEVERAGING A LOW YIELDING ASSET BY REPOSITIONING



\*Please see the insurance policy illustration for details on the various features and benefit amounts.

# INSURANCE

## LTC Accelerated Benefit Riders on a Life Insurance Policy

- Also known as LTC Riders, Linked or Hybrid Life/LTC Policies
- Qualified Benefit riders classified as IRC Section 7702B
  - Not to be confused with chronic or critical illness benefit riders
  - IRC Section 101(g) riders may not be marketed as long-term care
- Pros:
  - Flexible premium payments
  - Allows life insurance to be accelerated and utilized for LTC benefits
  - Higher life insurance amounts than Hybrid Life/LTC
- Cons:
  - Underwriting for LTC rider is separate from the life insurance underwriting
  - LTC benefits received reduces life insurance face amount
  - Limited LTC rider plan design options (no inflation)

**Ideal for clients that views LTC as a secondary issue and understands the need for LTC. Client desires some protection, but are also concerned they may never use benefits.**

# INSURANCE

## Comparing LTC Options

Option	LTC Benefit Customization	LTC Features and Options	Cash Value/ Return of Premium	Life Insurance/ Death Benefits	Underwriting Simplicity
Individual LTC	★★★★	★★★★★	N/A	N/A	★
Hybrid Life/LTC	★★★★	★★★★	★★★★	★★	★★
Life with a LTC Accelerated Rider	★	★★	★★	★★★★★	★★
Self-Funding/ Cash	★	★	★★★★★	★	★★★★★

★★★★★ = Best

# INSURANCE

## Plan Design Pricing Influences

- How much do I get paid?
  - Monthly Benefit Amount (What are costs in retirement location?)
- How long do I get paid?
  - Benefit Period/Duration
- How long do I have to wait?
  - Waiting Period (Elimination Period)
- How long into the future until the claim may occur?
  - Inflation options should be considered with clients preparing for a longer time period
- Cost Factors
  - Age, Gender, Relationship Status, Tobacco Use
  - Plan Design (Inflation, Monthly Benefit, Duration)
  - **Health, Health, Health**

**Your health allows you to purchase LTC insurance, not the ability to pay higher premiums.**

# INSURANCE

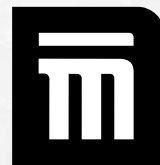
## Underwriting and Qualifying for a Policy

- Life Insurance versus Long-Term Care Insurance
- Mortality vs. Morbidity
- Pre-qualification before starting the process
  - Prescriptions
- Phone Health Interview
  - Cognitive Health Assessment

# **LONG-TERM CARE MARKET**



## **INSURANCE CARRIERS**



# CARRIERS

## Traditional Long-Term Care

- Mutual of Omaha
- National Guardian Life
  - New entrant in Summer of 2016
  - Only traditional carrier with single pay, 10-pay payment options and lifetime benefit option
- LifeSecure
- Northwestern Mutual
- New York Life
- Mass Mutual

# CARRIERS

## Hybrid Life/LTC

- Lincoln Financial Group (MoneyGuard)
- OneAmerica (AssetCare)
  - Only carrier with a joint option and lifetime benefits
- Pacific Life (PremierCare)
- Nationwide (CareMatters)
- RiverSource (TrioSource)
- Securian (Minnesota Life SecureCare)
- New York Life (AssetFlex)
- Northwestern Mutual (Long-Term Advantage)
- Mass Mutual (CareChoice One)

# CARRIERS

## LTC Riders (7702B)

- Nationwide Financial
- John Hancock
- Pacific Life
- AXA
- Transamerica
- Mutual of Omaha
- Northwestern Mutual
- Others

\*Chronic Illness (CI) Riders (101g)

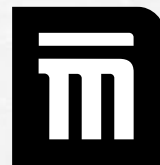
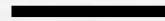
- - Cannot be marketed as long-term care insurance

# CARRIERS

## Employer-Sponsored LTC Solutions

- Traditional LTC
  - Mutual of Omaha
  - National Guardian Life
- Life/LTC
  - Chubb (Term Life/LTC)
  - Allstate (UL/LTC)
- Group LTC
  - Genworth
- Other Criteria:
  - Participation Requirements
  - Underwriting and/or pricing concessions depending on product and group size

# **COMMON DISCUSSION POINTS ABOUT LONG-TERM CARE**



# COMMON DISCUSSION POINTS

## “I won’t need long-term care.”

- You may not, but what is your plan if you need care?
- Children
  - Are the children aware that they are going to provide care?
  - What tension will be created if only one sibling contributes?
  - Do any children live close by? Only one?
  - Are there step-children(heirs) who may view care priorities differently?
- Spouse
  - What if they don’t survive you?
  - Will they be physically and emotionally able to provide care?
  - Are they aware of this expectation?
- Home Care/Nursing Facility
  - How will you find and select a care provider/facility?
  - Who will you work with to develop the plan of care?
  - How is any type of professional care going to be funded?

# COMMON DISCUSSION POINTS

## “I’d rather pay out-of-pocket due to my net worth.”

That is an option. What part of the portfolio is designated to pay for long-term care if it is needed (self-fund)?

- Remember: *income* pays for care, not *assets*.
- What *income* is designated to pay for care if needed?
  - Will this take away from other planned expenses?
  - Everyday lifestyle needs, future spouse expenses, legacy goals?
- What assets would you sell to provide income?
  - Will this erode principal needed to generate retirement income?
  - Are there tax consequences?
  - Are there market timing issues?
  - Are there liquidity issues?

# COMMON DISCUSSION POINTS

**“I have resources and will purchase a caregiving facility or home health care agency.”**

Some clients have done this option.

- What facility are you going to purchase?
  - Do you have experience in running a care-providing business?
  - Are you going to sell it after care is no longer needed?
  - This is most likely not a realistic option.

# COMMON DISCUSSION POINTS

**“LTC insurance is a ‘use it or lose it’ product and has rate increases.”**

- Correct, traditional LTC policies function like term life, dental, vision, medical, auto, and home insurance.
- Policies are guaranteed renewable and have experienced rate increases.
  - Carriers experience shows that policyholder's value and utilize these benefits.
    - Lapse rates have been lower than expected.
    - Claim experience has been higher than expected.
- There are life insurance-based products that address both underlying concerns.
  - The policies allow you to reposition and leverage assets and receive benefits or premiums back even if LTC benefits are not used.

# PLANNING FOR CARE

## When to Start?

- Now. The earlier, the better!
- Most LTC insurance options are available by age 40.
- Time is crucial.
  - The younger you purchase, the lower the premium.
  - Answering health questions today avoids the possibility of being rejected later due to changes in health.

**“Long-Term Care is the product that keeps families together  
by keeping them apart.”**

- Harley Gordon  
Founder of CLTC and ElderCare Planning Attorney



# THANK YOU

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