

# LTCI 2.0

## New Ways to Plan for Care



Talking about our future health care needs can be scary. It's hard to think about a time when you might not be able to care for yourself. It's harder still to determine how long you need to work and how much you'll need to save to be able to afford care. Today more than ever, we know that things can change quickly, and not being prepared for the unexpected isn't an option.

Long-Term Care Insurance is an invaluable tool in addressing those emotional and financial fears. In much the same way that Life Insurance provides assurance that our loved ones will be taken care of after we're gone, LTCI (LTCI) provides assurance that we will be taken care of in the event of a medical crisis or change in cognitive ability.

# Part 1:

## The Importance of LTCI



### The Need for Long-Term Care

Americans have been living longer and longer lives for generations. In 1950, Americans lived to just over 68 years old. <sup>1</sup> Today, the average American man can expect to live to be over 76 years old, while the average woman will surpass 81. <sup>2</sup>

With those longer lives comes an increased likelihood of needing extended care, which might not be covered by Health Insurance or Medicare. For example, if you suffer a heart attack, your treatment in the hospital will be covered by Health Insurance. But if you need help with daily activities at home as you recover, you'll need resources such as LTCI to cover those costs.

Our parents and grandparents likely turned to family to provide this kind of care as they aged. However, Americans aren't having as many children today as we did in the past. That means for many of us, our family and friends are who we turn to if we need Long-Term Care. And they will likely be at the same stage of life as us.

Are you ready for the good news and bad news of our family structures? Divorce rates are actually declining, <sup>3</sup> but fewer people are getting married. With finances among the primary reasons for waiting or not marrying, some people are opting for unmarried domestic partnerships or putting marriage off until later. It's clear that Americans today have a flexible approach to family structures, and will need to take Long-Term Care planning into their own hands.

### Health Is Wealth

As we live longer lives, the chances of our best-laid plans going awry increases. Savings can be depleted, markets can dive, and our most valuable asset — our health — can put an active, happy retirement out of reach.

Maintaining good health is vital to maintaining wealth. For example, one in three Americans has high blood pressure, costing them nearly \$2,000 more every year in health care costs compared to people without hypertension. <sup>4</sup>

Long-Term Care Insurance provides assurance that declining health won't force a decline in wealth.

### Long-Term Care and Independence

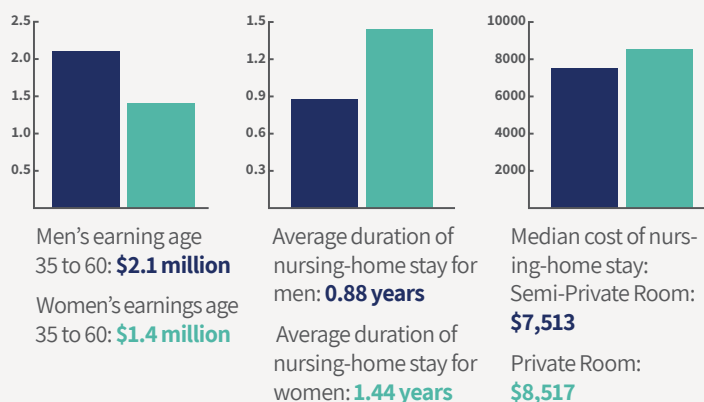
As the COVID-19 pandemic demonstrates, it's important to have options. For families with Long-Term Care Insurance, one of the options includes the ability to receive health care in the safety and comfort of their homes. Long-Term Care Insurance provides coverage for Assisted Living Facility costs as well. Simply stated, Long-Term Care Insurance helps people maintain their independence.

### Women and Long-Term Care

Caregiving often falls to women. More often than men, they are taking time away from their careers to raise children, or are providing unpaid care for aging or sick family members — about 60% of caregivers are women. <sup>5</sup>

Women also typically live longer than their male partners. This puts them in the unusual position of being more likely to be a caregiver, and more likely to need some kind of care, in their lifetimes.

For the nearly half of women who will live alone after age 75, <sup>6</sup> having Long-Term Care Insurance can provide reassurance that they will have someone to look after them, if there comes a time when they can't look after themselves.



*Sources: Indiana Business Research Center, using U.S. Census Bureau data; The Center for Retirement Research; 2019 Genworth Cost of Care Survey*



## Part 2:

# Traditional Long-Term Care Insurance

Long-Term Care Insurance has been available for over 30 years, but the product has evolved with consumers' needs, and changes in the marketplace. Today, there are two basic kinds of LTCI: Traditional and Hybrid Life + LTCI products.

### Misconceptions about Traditional LTCI

If your only experience with LTCI is from headlines decrying rate increases, you probably don't have a very positive opinion of the product. In the early days of LTCI, it was hard for insurers and state regulators to determine how much they should charge customers for this kind of protection. That led to many policies being seriously underpriced.

The resulting rate increases continue to attract attention, causing some advisors and consumers to look at these products as risky investments. Those who have LTCI coverage have been frustrated by higher premiums or rate increases, as insurance companies have been making adjustments to their blocks of business. For many who don't own a policy, surprise rate increases could make their premium unaffordable, and cause them to lose their coverage when they really need it.

Over the years, some carriers sold off or reinsured their LTCI lines, while others exited the business altogether.<sup>7</sup>

As the industry matured, insurers gained a better understanding of pricing needs, and the drastic price changes of early LTCI products leveled off. Table 1 shows how both

the probability and the average size of a rate increase have come down dramatically over the years.

**Table 1: Traditional LTCI Stabilizing**

Pricing Point Year	Probability of a Rate Increase	Average Size of Rate Increase
2000	40%	34%
2007	30%	18%
2014	10%	10%

*Source: Society of Actuaries, "Long-term care insurance: The SOA Pricing Project"*

### Traditional LTCI is Still Valuable

Today, the LTCI landscape is very different from its origin. Premiums have stabilized, and may be 5% to 15% cheaper than other types of Long-Term Care coverage.<sup>8</sup>

There were 7.2 million LTCI policies in force as of 2014, which are expected to pay more than \$800 billion in benefits.<sup>9</sup> For every dollar spent in premiums, claimants received \$2.78 in benefits. People who bought their policies after 2007 saw an even greater return. For every premium dollar they paid, claimants received \$5.02 in benefits.

LTCI's progress in policy design and pricing is evident in consumer satisfaction. Nearly 70% of claimants say they are very satisfied with their policy, and 90% are happy with the amount of coverage they purchased.<sup>10</sup>

# Part 3:

## Hybrid Life + LTCI

### The New Era of LTCI

Long-Term Care Insurance is such a valuable way to prepare for an extended health care event that many Permanent Life Insurance policies include a rider that allows the policyholder to spend down his or her death benefit to pay for Long-Term Care. These riders may be included on a Life Insurance policy without an additional charge (although not always), and benefits will stop when they reach the amount of the death benefit.

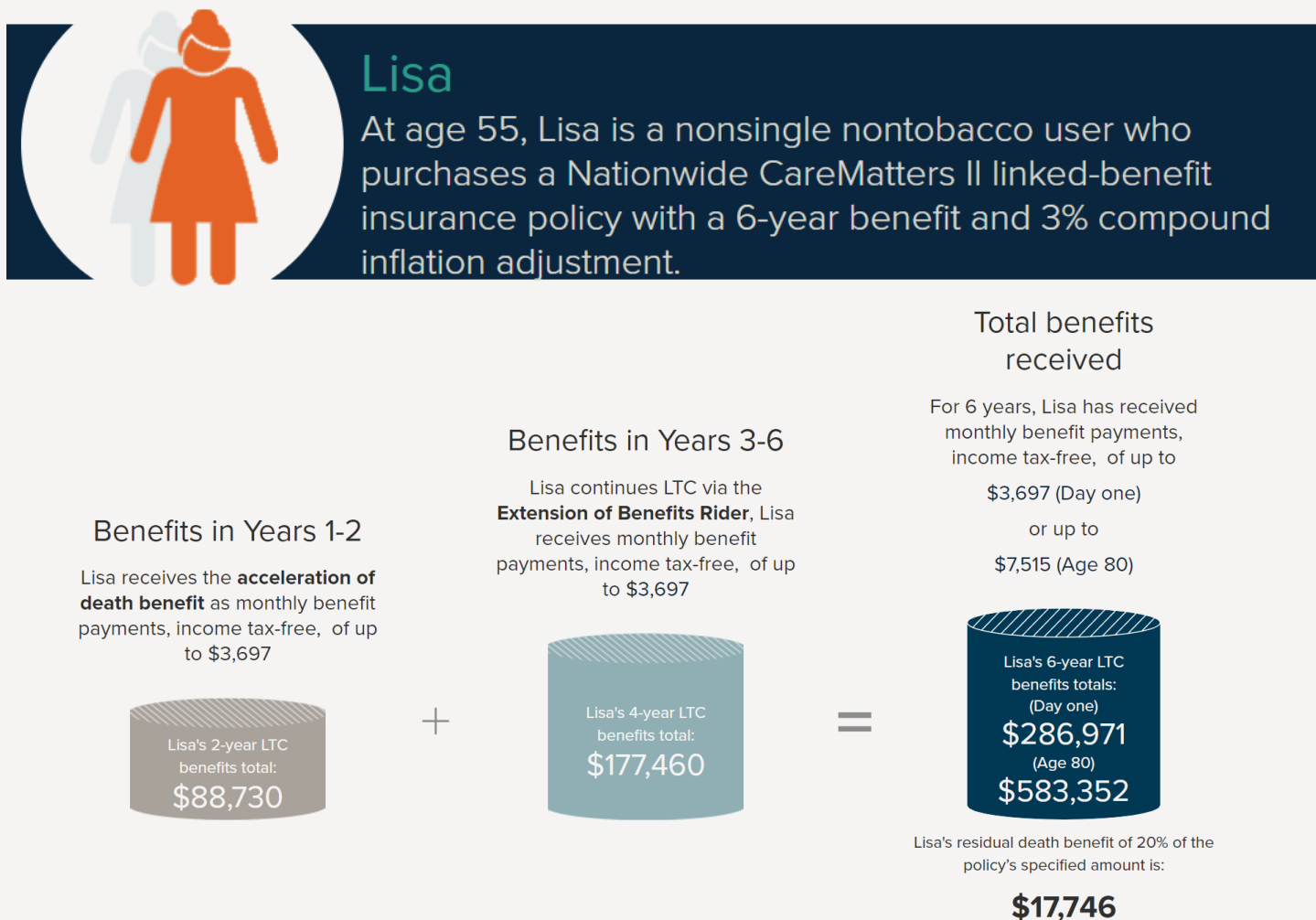
While this might be enough for some people, a Hybrid Life + LTCI policy has some more powerful benefits that deserve consideration.

Many consumers hesitate to buy a Traditional LTCI policy because they don't want to pay for something they hope to never need. Hybrid Life + LTCI policies allow them to plan for Long-Term Care so they don't have to worry about liqui-

dating assets or struggling to do everyday tasks alone. If the day never comes when they need someone to look after them, those premiums will simply pass to their beneficiaries with the death benefit.

Hybrid policies can pay LTC benefits that are many times more than the death benefit.<sup>11</sup> The policy benefits aren't taxed, and inflation riders protect policies from losing value to the rising cost of care and inflation. Should the client decide to surrender his or her policy within certain terms, some policies may include riders that promise to return all or a portion of premiums paid. Policyholders can feel confident that they have coverage if they need it, but they can get their premiums back if they don't.

The graphic below shows how the linked benefit policy works.



## Table 2: Comparing Traditional and Hybrid LTCI

Plan Parameters	Traditional LTCI Plan	Recent Hybrid Life+LTCI Plan
Premium	\$4,696	\$6,423
Premium Payment Mode	Annual premiums for life	Annual premiums to age 100
Guaranteed Premiums	No (guaranteed renewable and designed to remain level)	Yes
Premiums Waived if on LTC Claim	Yes	Life Insurance Premiums - No LTCI Premiums - Yes
LTCI Portion of Premiums	\$4,696	\$4,067
Initial Monthly LTC Benefit	\$4,500	\$4,500
Initial Total LTC Benefit Pool	\$270,000	\$270,000
Initial Death Benefit	N/A	\$108,000
Inflation Protection (automatic policy increases)	3% compound (Both the monthly benefit and the total pool of dollars grow automatically at 3% compounded annually.)	3% compound (Both the monthly benefit and the total pool of dollars grow automatically at 3% compounded annually.)
Monthly LTC Benefit at age 90	\$12,294	\$12,294
Total Benefit Pool at Age 90	\$783,219	\$783,219
Death Benefit at Age 90	N/A	\$108,000
Cash Surrender Value at Age 90	N/A	\$79,948
Guaranteed Minimum Death Benefit	N/A	\$21,600
Type of Care Plan (benefits payable to policyholder)	Reimburses for professional home care, assisted living and skilled nursing. Provides an optional cash benefit of 30% of the monthly benefit amount for information care. 90 day elimination (deductible) period, waived for home care.	Cash indemnity program with full monthly LTC benefit paid to policy owner. 90 day elimination (deductible) period, paid retroactively in month 4.

*Source: LTCI Partners*

### Meet HENRY

Many consumers who have large earnings but haven't acquired significant wealth should consider how they'll pay for care if they need it. These "HENRYs" (High Earners, Not Rich Yet) may be forced to use savings and other assets to meet financial obligations instead of paying for care. They may simply be accustomed to a certain lifestyle, and unwilling to move out of their homes to receive care.

If you are among these financial up-and-comers, consider how your day-to-day life might change if you aren't able to work. Do you have enough saved to cover the additional cost of care, as well as your regular expenses?

The ability to pay Hybrid Life + LTCI policy premiums on an ongoing basis instead of in a large lump sum makes it a good option for people who are on their way to being wealthy.



# Part 4:

## Taxes



Consumers are slightly less eager to think about taxes than they are to ponder losing their independence. The good news is that Long-Term Care Insurance has some tax benefits, so people who plan ahead for this kind of care can get some tax relief, too.

### Deductions for Premiums

Generally speaking, premiums for Traditional LTCI are deductible to certain limits. It depends on the policyholder's age and income, as well as the policy specifics.

The IRS allows taxpayers to include insurance premiums on policies that cover medical expenses when itemizing deductions. That includes LTCI premiums, but there are some caveats.

Premiums must be guaranteed renewable, and any refunds or dividends must only be used to reduce future premiums or increase future benefits.<sup>12</sup> If the contract provides a cash surrender value or if the kind of care received would be covered by Medicare, it's not eligible to be included in itemized deductions.<sup>13</sup>

Furthermore, the policy can only cover Long-Term Care

services. That means people with linked-benefits or Hybrid Life + LTCI policies can only deduct the portion of the premium that covers Long-Term Care.

Taxpayers who itemize deductions can only deduct medical expenses they paid that exceed 7.5% of their adjusted gross income.<sup>14</sup> It might be harder for very wealthy people to meet that threshold, but the IRS allows them to include expenses paid for actual care, as well as expenses paid for premiums as outlined in the table below.

### Table 3: Premium Deduction Limits

The following table shows the portion of a premium that can be included in medical expenses, based on the policyholder's age.

Age	2020 Taxes <sup>15</sup>
40 or younger	\$430
41-50	\$810
51-60	\$1,630
61-70	\$4,350
71 or older	\$5,430



## Part 5:

# Making the LTCI Decision

The decision to purchase Long-Term Care Insurance is not easy— it's a personal one, based on how much risk you're willing to tolerate, and the resources you can reasonably rely on if you need care.

To help make that decision, here are some things to consider:

» **What's your health status?** The ability to obtain an LTCI policy in addition to its price is determined based on the insured's age and health when they buy the policy.<sup>16</sup>

Most people need care for between one and three years, and women typically need care for longer periods than men.<sup>17</sup> It's hard to project future health needs, but consumers can get better prices when buying policies at younger ages, and when they are in better health.

» **Where will you retire?** LTCI policies allow you to customize daily benefit amounts, which can be structured around the average cost of care where you live. If you think you'll live in a different state later in life, whether to be closer to family or just to try somewhere new in retirement, consider how that might affect what you pay for care.

» **Are you a business owner?** As we've already seen, there are some tax benefits to purchasing Long-Term Care Insurance. These benefits are even more pronounced for business owners. Sole proprietors, partners, and shareholders who own more than 2% of an S corporation can write off the cost of LTCI policies paid on behalf of them-

selves, spouses, dependents, and children younger than 27. The amount that can be deducted is subject to the same age-based cap seen in Table 3.

» **What family and social support system will you have?**

Some people may hope to turn to children, siblings, or friends if they need help with certain functions. Consider how much you can reasonably rely on those people. When the time comes, they may be providing care for someone else or need care of their own.

Some policies may provide benefits that allow you to pay these informal caregivers, which can help ease the burden on loved ones.<sup>18</sup>

» **Have you ever been a caregiver yourself?** People who have seen first-hand what caregiving entails know how scary it can be. Losing their independence is an emotional burden that many people are unprepared for, but having to turn to unqualified or underqualified caregivers makes it that much worse. Having a plan in place before they ever need care can help people feel in control and assure them that they will be in the best hands at the time they need it most.

### Funding Strategies for LTCI

Some policies require a single premium payment that could be tens of thousands of dollars. Even without single premium policies, people who are close to retirement, or

who have already retired, may wonder how they will pay the premiums, especially if they remember the rate increases associated with early iterations of the product.

As we've seen, carriers have a much clearer idea of how to price LTCI policies, but there are some tools to help consumers pay premiums, especially after they stop working.

» **HSAs.** Health Savings Accounts are a powerful tool in funding an LTCI policy. The owner doesn't have to pay taxes on the money they put in the account, the interest earned in the account, or the funds that are distributed from the account and used on qualified expenses. In 2021, people who are enrolled in a qualified High-Deductible Health Plan can use an HSA to save or invest up to \$3,600 as an individual or \$7,200 for family coverage, and these limits increase every year. People 55 and older can contribute an additional \$1,000 in a "catch-up contribution."

Because HSA owners aren't required to exhaust the account every year, they can start saving long before they ever need care. The funds in the account can be used to pay for care— and to pay for LTCI premiums, up to the age-based limits listed in Table 3.

» **IRAs.** People who have an individual retirement account can convert it into a tax-qualified annuity, which can then be used to make payments to an insurance carrier without incurring tax penalties on the withdrawals. <sup>19</sup>

After age 59½, consumers can withdraw as much as they want from their individual retirement accounts without a penalty, and only pay the income tax on the withdrawal.

» **1035 exchanges.** The IRS allows taxpayers to make a tax-free transfer of an existing Annuity, Life Insurance policy, or LTCI policy to a product of a similar kind, with the same ownership. In most cases, Long-Term Care benefits aren't taxable, making this strategy an effective way to fund an LTCI policy tax-free.





# Part 6:

## Simplifying the Buying Process

### Underwriting Assistance

Before issuing an LTCI policy, carriers will conduct a health screen to look for people who are likely to have a health crisis or cognitive disability in the near future. As much as 40% of people may be turned down for coverage due to underwriting.<sup>20</sup>

In fact, for many policy buyers, LTCI can be purchased without having laboratory tests or a nurse visit their homes. In addition, applications are electronic, and no paper applications will have to be submitted. Business and underwriting is conducted over the telephone.

Each carrier uses its own underwriting standards; so even if you are denied coverage by one insurer, you may find another that approves your application. An agent or broker who specializes in Long-Term Care Insurance can help you find the right carrier, and get approved for coverage.

### Getting Approved

Many carriers offer online applications, but getting approved can still take several weeks. The carrier may require a phone or in-person interview to identify potential health problems, and will request medical records before issuing coverage.

Experienced LTCI specialists can help agents find carriers that are most likely to issue the right kind of coverage for their clients. Some partners can even take the application and get clients' signature(s) for them; agents just have to be licensed in the state where the client is applying for coverage, and be contracted with the carrier.<sup>21</sup>

### Referral to an LTCI Planning Specialist

Purchasing a complex product like LTCI can be overwhelming, especially considering the emotional burden associated with planning for a time when your well-being will be in the hands of another person. It can be intimidating to try to find coverage that's right for you just from an internet search.

Working with an insurance agent or broker who specializes in Long-Term Care Insurance can help make sure you're purchasing the right coverage for your needs, and a referral from someone you trust can help make sure you're working with the one who has your best interests in mind.

Employers are increasingly offering Long-Term Care Insurance as part of their voluntary benefits packages, and some are even paying for part of it or extending coverage to family members.<sup>22</sup> This is a valuable resource for consumers who don't know where to start looking.

### Looking Ahead

Not all of us will need LTCI in our old age, but we will all need care of some kind. As we live longer lives and traditional family support systems are less common, it's critical that we take the time now to envision our lives in the future. Long-Term Care Insurance can play an important role in our plan to achieve that vision.



These are great first steps towards understanding your options and start you on the path towards owning meaningful benefits that fit your budget.

[Educational Webinar](#) (15-minute overview of this planning)

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