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**

Individual Long-Term Care Insurance Purchases Per Year

Source: LifePlans Inc.
### Struggling Profitability

#### Significant Industry Consolidation

<table>
<thead>
<tr>
<th>Company</th>
<th>2013 sales policies</th>
<th>2013 sales premiums (SM)</th>
<th>2013 in-force policies</th>
<th>2013 in-force premium (SM)</th>
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</thead>
<tbody>
<tr>
<td>Genworth Financial</td>
<td>53,974</td>
<td>$133.80</td>
<td>1,209,869</td>
<td>$2,508.80</td>
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<tr>
<td>Northwestern LTC Insurance Co.</td>
<td>27,933</td>
<td>$67.90</td>
<td>197,373</td>
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<td>Mutual of Omaha</td>
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<td>$303.60</td>
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<td>John Hancock Financial Services</td>
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<td>$36.20</td>
<td>253,029</td>
<td>$438.40</td>
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<tr>
<td>Transamerica Life Insurance Co.</td>
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<td>$9.90</td>
<td>132,316</td>
<td>$200.50</td>
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<tr>
<td>MedAmerica Insurance Co.</td>
<td>8,707</td>
<td>$16.70</td>
<td>80,862</td>
<td>$153.00</td>
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<tr>
<td>Bankers Life and Casualty</td>
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<td>New York Life Insurance Co.</td>
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<td>MassMutual Financial Group</td>
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<td>$13.40</td>
<td>80,862</td>
<td>$213.90</td>
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<tr>
<td>State Farm Mutual Insurance Co.</td>
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<td>$9.90</td>
<td>132,316</td>
<td>$200.50</td>
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<tr>
<td>Life Secure</td>
<td>5,035</td>
<td>$13.40</td>
<td>80,862</td>
<td>$213.90</td>
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<tr>
<td>Thrivent Financial</td>
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<td>$11.40</td>
<td>124,277</td>
<td>$190.00</td>
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<tr>
<td>Knights of Columbus</td>
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<td>$4.60</td>
<td>38,823</td>
<td>$50.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>170,373</strong></td>
<td><strong>$399.80</strong></td>
<td><strong>3,334,996</strong></td>
<td><strong>$6,716.40</strong></td>
</tr>
</tbody>
</table>

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

![10-Year Treasury Yields](image.png)
**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

- 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
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”

– 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](http://www.kitces.com/AICPA162)

Contact: [Questions@Kitces.com](mailto:Questions@Kitces.com)