

LONG-TERM CARE INSURANCE: LATEST TRENDS & DEVELOPMENTS

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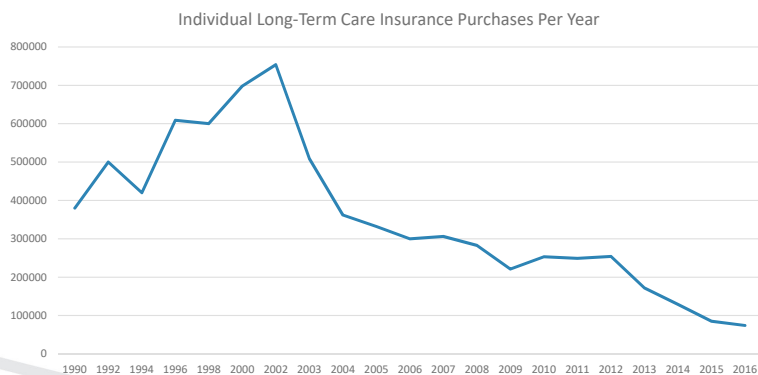
CHANGING MARKETPLACE FOR LTC INSURANCE

- 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: NAIC.org and Forbes

STRUGGLING PROFITABILITY

– Significant Industry Consolidation

Company Name	Number of Lives	Earned Premiums	Market Share %
Genworth Life Ins. Co.	1171422	\$ 2,508,685,127.00	21.39
John Hancock Life Ins. Co. USA (2016)	845023	\$ 1,502,638,916.00	12.81
Metropolitan Life Ins. Co. (2010)	478106	\$ 736,565,592.00	6.28
Northwestern LTC Ins. Co.	248502	\$ 637,780,146.00	5.44
Unum Life Ins. Co. of America (2009)	905113	\$ 544,307,656.00	4.64
Continental Cas. Co. (2003)	343168	\$ 488,953,989.00	4.17
Transamerica Life Ins Co.	245564	\$ 444,335,115.00	3.79
Bankers Life & Cas Co.	226237	\$ 420,223,127.00	3.58
Prudential Ins. Co. of America	215267	\$ 399,925,164.00	3.41
Mutual of Omaha Ins. Co.	163006	\$ 329,946,280.00	2.81

Source: NAIC

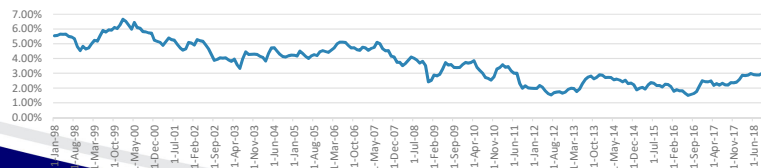
STRUGGLING PROFITABILITY

– Overestimated lapse rates

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

– Overestimated interest rates

10-Year Treasury Yields



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

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/BAMQ418

Contact: questions@Kitces.com