

LTC Insurance Plugs A Hole In The Estate Plan

By WARREN S. HERSCH

Holleman Companies expert Connie Golleher quoted

Picture this: On the recommendation of his advisor, a wealthy business owner implements an estate plan that includes a will, durable power of attorney, healthcare proxy and business succession plan. There's also a revocable living trust and beneficiary designations for the retirement plan and life insurance policy, the latter to be used to pay estate taxes and provide for a surviving spouse and children.

To the casual observer, the plan may seem complete. But to the experienced insurance professional, there's one critical component glaringly missing: long term care insurance.

"When it comes to protecting income during one's working years and estate assets in retirement, I'm always shocked at how people overlook purchasing one of the most important insurance policies they will ever need," says Connie Golleher, a principal and chief operating officer of The Holleman Companies, Chevy Chase, Md. "Education about long term coverage is really key."

Geoff George, an LTC specialist at Brookline, Mass.-based NortheastLTC.com, agrees, adding:

"There's really only one unprotected risk that could involuntarily wipe out an estate and that is a long term care event. For clients who have assets to protect, LTC insurance is something they should at least investigate so they can make an informed decision."

That decision, observers say, will hinge on answers to several key questions. Among them: Is the client prepared to pay out of pocket to meet LTC needs? If self-insuring is not an option, how much coverage is needed to adequately protect the estate? Does the client intend to bequeath assets to a surviving spouse, adult children or other beneficiaries and, if so, how much? For what policy would the client qualify given his or her age and health status? And what can the client afford to pay?

If coverage is desired but poor health renders the client uninsurable or the policy prohibitively expensive, then other options need to be considered. These include using a reverse mortgage, a special type of home equity loan for persons 62 and older; securing a medically underwritten annuity that pays a greater than

normal level of income based on the client's rated age; tapping into a life insurance policy cash value; and, for those who qualify, relying on the federal government's Medicaid program.

Assuming health and age are not at issue and the client has sufficient assets and income to justify LTC insurance, then the question becomes what type of policy is appropriate. Much publicity has been given in recent months to so-called combination products—life policies and annuities that come with a long term care rider attached.

Authorized by the Pension Protection Act of 2006, which will permit the tax-free distribution of LTC insurance benefits from these products starting in 2010, such combo offerings aim to address a common objection to stand-alone LTC insurance: that premiums are wasted if the client never needs LTC. Like all life insurance policies, these policies pay a death benefit to beneficiaries. However, the client can use much of the death benefit to pay for qualifying long-term care costs.

But the combo products typically do not match stand-alone LTC policies

in coverage. Assuming the cost of care is \$8,000 per month—a not uncommon tab given average annual costs exceeding \$100,000 in parts of the U.S.—out-of-pocket expenses can quickly deplete estate assets if the LTC rider covers only half of the outlay. That harsh fact needs to be weighed against the combo product’s perceived advantages.

Such a cost-benefit analysis, sources say, might argue for a life/LTC combo for clients with minimal income or assets to spare on a stand-alone LTC policy. But for those whose net worth exceeds \$100,000, the case for LTC insurance becomes increasingly compelling. However much clients might dislike the high premiums and the prospect of “losing” their investment if the need for LTC never materializes, the alternative—leaving the estate inadequately protected—outweighs the downside.

The gold standard of LTC insurance is a lifetime or unlimited policy that comes without a dollar limit on benefit payments. For high net worth clients with deep pockets, such a policy may be attractive and well within their means. But the premiums costs, which can be 2 to 3 times greater than a limited-pay policy, will be beyond the reach of less affluent clients. And sources say most policyholders won’t need such extensive coverage.

“Yes, there are rare cases of clients who collect \$1 million in benefits and require long term care over 20 years,” says George. “But most people don’t need an unlimited policy. The average stay in a nursing home or assisted living facility is between 2 and 5 years. So a limited policy should suffice.”

Too often, sources say, inexperienced or self-serving agents sell the lifetime

coverage without justification. Gay Rowan, a certified long-term care specialist and principal of LGR Insurance Group, San Diego, Calif., recounts the time an agent, whose experience was chiefly limited to property and casualty insurance, sold an unlimited policy carrying inflation protection to an 85-year-old client. The premium: \$8,000 per year.

“I’m appalled that an agent would sell this kind of coverage,” says Rowan. “No one over 60 needs inflation-protection. And to give a man this age unlimited lifetime coverage is totally a misuse of the client’s funds.”

The right policy for most clients, adds George, is “short and fat:” one that pays a large daily or monthly benefit for a short duration, typically 2 to 5 years. But the appropriate benefit amount will ultimately depend on what the client can comfortably afford given his or her budget.

In all but a few cases, market-watchers add, the client’s finances will not justify a particularly expensive option: the return of premium rider. In the event the client does not need LTC during the life of the policy, the rider provides for returning his or her premiums in full. But because of its high cost—the option can increase a policy’s premium by 30% or more—George says he never recommends the rider.

Nor does Golleher, who says the rider effectively undermines the argument for purchasing an LTC policy. What clients should look for in a policy, observes Golleher, are provisions that can lighten the burden on out-of-pocket expenses in the event long term care is required.

She points, for example, to the contract’s elimination period. Similar

to a deductible on health or auto insurance, the provision specifies the number of days a client must wait after receiving (and, in most cases, paying for) care before a policy’s benefit kicks in. Clients with substantial assets, Golleher argues, might opt for a 120-day elimination period; those with less cash reserves may be well-advised to buy a contract with 90-day wait.

Clients can also vary the elimination period with the type of services required. While a longer wait may be warranted for nursing home or assisted living care, George says he almost always recommends a zero-day elimination period for home care because long term care generally starts there. If the client should later need to be transferred to a facility, the elimination period may already have been satisfied.

Also important to have, experts say, is a cost-of-living rider that increases the benefit payout in tandem with increases (either annually or on a compound bases) in the consumer price index or CPI.

“The younger you are, the more important it is to have compound inflation protection,” says Carol Kuebrich Johns, a certified senior advisor and principal of The LTC Specialist, Chesterfield, Mo. “This can really affect how much in benefits the client will receive in the future. Without the rider, the payout could be substantially short of what’s needed.”

Conversely, sources say, too large a payout also has consequences—both positive and negative. On the plus side, if the client’s care is \$75 per day and the daily benefit is \$150 for two years, then the excess payout will extend the benefit period to 4 years. On the downside, the

difference may also be subject to income tax.

LTC insurance premiums are, however, tax-deductible for business owners who elect to offer the coverage to their employees. In part because of the tax-favored treatment and because of the low cost of group coverage relative to individual policies, Rowan is enjoying a brisk business in employer-sponsored LTC plans.

“We’re seeing significant sales for group LTC insurance because the product is less expensive than the cost of voluntary plans,” says Rowan. “Buying through an

employer-sponsored plan gives very good value for the money. And, generally, the underwriting concessions offered by the carrier are quite attractive.”

Where, however, affordable insurance is needed for both a husband and wife, then a joint-and-survivor policy might be suitable, say experts. In a typical scenario, a policy will provide a benefit period of 8 years, 4 years for each spouse. Should, say, the husband need 5 years of LTC and his wife not require any, he can use her benefit period. And if either of the spouses needs care, the premium is waived for both.

In all cases, observers say, one thing is certain: If the client is to be well-served, then the advisor needs to bring a high level of expertise to the engagement because of the myriad and often complex policy and financial issues to be weighed in determining a suitable policy.

“If you don’t have extensive knowledge about long-term care insurance, then you need to partner with someone who does,” says Golleher. “Otherwise, you could do harm to clients by selling a policy they can’t afford or that doesn’t meet their needs.”