

10 reasons to consider asset-based life/LTCI plans

Whether you call them asset-based plans, combo plans, or hybrids, life insurance plans with long-term care riders are growing in popularity. According to LIMRA, premiums for these products increased from \$455 million in 2007 to \$3.1 billion in 2015, an unprecedented 581-percent increase.

That's not to say that traditional long-term care insurance (LTCI) is no longer a wise investment. It is. After all, nothing is more likely to derail a carefully-designed retirement plan than an unexpected long-term care event. In many cases, a traditional LTCI policy remains the most direct, affordable solution for funding LTC expenses.

But asset-based life/LTCI plans offer a number of unique advantages, including some that overcome the most common objections to traditional LTCI plans. That means clients who might otherwise decline LTC protection might now be open to it, and that's good news for everyone.

In short, there are a number of compelling reasons why advisors should consider asset-based life/LTCI plans within the context of overall financial and retirement planning. Here are our top 10.

1. Life/LTCI plans pay a guaranteed death benefit if LTC benefits aren't used.

One of the main reasons consumers elect not to purchase traditional LTCI policies is the "If I don't use it, I'll lose it" mentality. They don't want to spend premiums on something they think they'll never use, although in fact 70 percent of

people older than 65 will in fact need it at some point¹. With asset-based plans, that's a non-issue: either the insured receives long-term care benefits for use during their lifetime, or their beneficiaries receive a potentially tax-free life insurance benefit at their death. It's a win/win.

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2. Life/LTCI premiums are guaranteed not to increase.

Traditional LTCI premiums are subject to increases over time, and in the past, insureds have experienced large rate increases. This has left some consumers and advisors hesitant. In fairness, this was largely due to the fact that LTCI, just 42 years old, is a relatively new product, and pioneering carriers had no data to work from. Years of underpricing and inadequate underwriting, coupled with

1. LongTermCare.gov

larger-than-projected claims and low interest rates, led to a perfect storm of industry-wide pricing adjustments.

While the new generation of traditional LTCI policies are priced more accurately, and will most likely be subject to only modest rate increases, there are no guarantees. On the other hand, premiums for life insurance policies with LTC riders are guaranteed *not* to increase—a big selling point for some consumers.

3. Life/LTCI plans offer multiple premium payment options.

Most traditional LTCI policies require annual premium payments for the life of the insured. Some people find that daunting, especially those contemplating their retirement years. Life/LTCI plans, on the other hand, offer insureds a choice of premium payment schedules, ranging from a single payment—a great way to leverage an underperforming asset—to guaranteed lifetime payments, to something in between, such as popular "10 pay" plans (consisting of 10 equal annual payments). Different carriers offer different premium options. The bottom line: these plans offers clients and advisors the flexibility to plan premiums around the client's total financial situation.

4. Underwriting for Life/LTCI plans is less stringent.

Obviously as people age, they're more likely to develop chronic health conditions. Because underwriting for traditional LTCI plans tends to be stricter, some people could find themselves ineligible for

coverage. Underwriting for life/LTCI plans is generally more liberal. In fact, some carriers will even collect health information over the phone rather than via a paramed exam. We have been able to provide life/LTCI plans for clients who were previously declined by traditional LTCI carriers for certain medical conditions.

5. Life/LTCI plans offer tax advantages via 1035 exchanges.

Under the 1035 Exchange Provision—part of the Pension Protection Act of 2006—consumers can transfer the cash value of an old, existing life insurance policy to fund a tax-qualified Life/LTCI plan, while deferring the gains. (Since LTCI benefits are tax-free, the gains in effect disappear.) It works for non-qualified annuities, too. This is a smart way to replace an outdated contract with improved benefits that include LTCI, while reaping a tax advantage and limiting out-of-pocket expenses.

6. Premiums can be paid with required minimum distribution funds.

It's estimated that a quarter of a million seniors fail to take the required minimum distributions from their IRAs or retirement plans because they are reluctant to pay taxes on those funds. But these qualified funds may be rolled over directly into some Life/LTCI plans, in effect killing two birds with one stone. However, be aware that not every carrier offers this feature, and arrangements vary, so research is required.

7. Pricing for women might be less expensive.

Nearly all traditional LTCI carriers have converted to gender-based rates. Because women's LTCI claims are twice as high as those of their male counterparts², women's LTCI rates are higher than men's are, too. However, life insurance policies with LTC riders are largely based on

2. Genworth 40 Year Claims Paid Report 2015, Genworth Financial, genworth.com

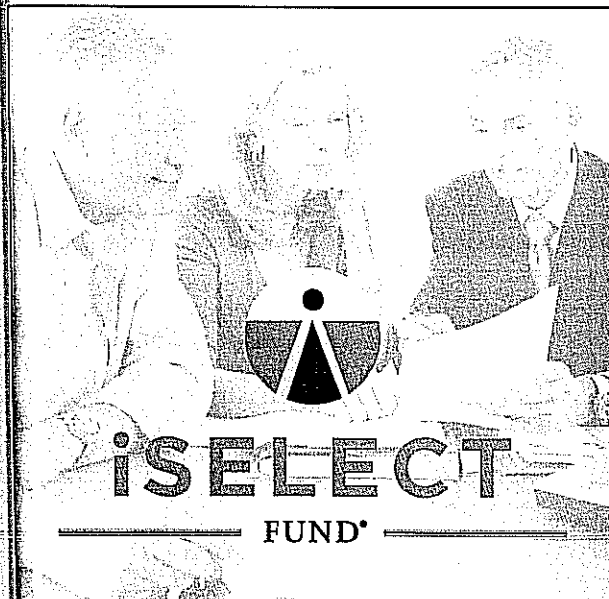
life insurance rate structures, which are typically higher for men than women. So, women might gain a pricing advantage by electing a life/LTCI plan, although it isn't always the case.

8. Life/LTCI plans offer cash surrender value.

Just like traditional whole life insurance policies, life/LTCI plans will accumulate cash value over time, and that cash value is available as an asset if the client needs it. While very few insureds actually tap into their cash value, our experience is that consumers like the idea of it, which makes them more likely to follow through and buy an asset-based life/LTCI plan.

9. Some life/LTCI plans offer joint policies to partners.

Just as with some traditional LTCI plans, some carriers offer joint life/LTCI policies to couples and partners. From what we've observed, these policies provide



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exceptional value. The plans typically provide one joint LTCI benefit pool to both partners, plus a "second to die" life insurance benefit that is paid out upon the death of the longest-surviving partner. In addition, both partners can collect LTCI benefits simultaneously for the duration of

the benefit period. (See Sample quote #3 in the sidebar):

10. Some life/LTCI plans offer longer benefit periods.

While traditional LTCI plans typically max out at a five-year benefit period, a few

asset-based carriers offer longer benefit periods of up to eight years. And at least one asset-based carrier we know of offers an unlimited benefit period.

Here's how it works: clients elect a base benefit period (say, for example of 25, 33, or 50 months) *and* a continuation of benefits rider with a duration period either equal to their base benefit period or with lifetime benefits. The rider kicks in after the base benefit period is completed. Clients can elect multiple inflation options (i.e., 0 percent, 3 percent, or 5 percent compounded) on both benefit periods. For clients who want maximum protection, this is a very viable option. (Again, see Sample quote #3 in the sidebar).

Conclusion

Admittedly, life/LTCI plans are more complex, and therefore initially more difficult for some clients to understand. Further complicating things is the fact that each carrier puts a unique spin on its products. It might not even come down to choosing between a traditional and asset-based plan, but between two asset-based life/LTCI plans that accomplish different things.

But at the end of the day, all this choice is good. Because LTCI products have evolved, clients are taking advantage of innovative long-term care planning options that simply weren't available to them in the past.

And when you and your clients identify the long-term care plan that makes the best sense for them, regardless of what that plan is, the outcome is good. They've taken steps to protect their assets—and families—against potentially devastating long-term care events, while safeguarding the integrity of their carefully thought-out financial and/or retirement plans. ◊

Brian I. Gordon is president of MAGA Ltd., one of the nation's original long-term care planning specialists and a long-time NAPFA Resource Partner. Brian is ranked the #5 top asset-based producer nationwide, according to the American Association for Long-Term Care Insurance. He is also cohost of the LTCI segment of "The Price of Business" talk radio show. MAGA offers both asset-based and traditional LTCI products. For more information, visit magaltc.com, email brian@magaltc.com, or call 800-533-6242.

Sidebar: Comparing various LTCI plans

Sample quote 1: Traditional LTCI plan

Benefit: \$6,000/month
Benefit duration: 5 years
Elimination period: 90 days
3-percent compound inflation rider

Annual premiums (paid for life)

For a female, age 55	\$5,444
For a male, age 55	\$3,099
For a male & female, both age 55 (joint plan)	\$5,980

Sample quote 2: Individual life/LTCI Plan

Benefit: \$6,000/month
Benefit duration: 6 years
Elimination period: 0 days
3-percent compound inflation rider
80-percent return of premium
Minimum death benefit: \$144,000 (if no LTC claims)

Premiums, by payment option

	Single pay	5 pay	10 pay
For a female, age 55	\$112,326	\$24,037	\$13,050
For a male, age 55	\$99,376	\$21,266	\$11,545

Sample quote 3: Life/LTCI joint plan with lifetime benefits

Second to die (joint policy) with unlimited benefit rider
Benefit: \$6,000/month first 25 months of care
Lifetime benefit rider: 3-percent compound inflation
Elimination period: 30 days home care, 60 days facility care
Death benefit (second to die): \$150,000 (if no LTC claims)

Premiums, by payment option

	Single pay	10 pay	Annual lifetime pay
For a male & female both age 55	\$163,498	\$19,159	\$8,565