January 2008 $9.00

Practical Accountant®

PROVIDING THE COMPETITIVE EDGE™

Long-Term Care Insurance Primer

by Jeff Stimpson

The details can be staggering: the types of benefits, such as home care and assisted care benefits; caps on benefits; the amount of coverage, including use of higher deductibles; inflation-protection; elimination periods; Medicaid spend down; group versus individual policies. In short, know what you're doing before advising on long-term care (LTC) insurance.

Says Neil Brown, financial planner with Burkett Financial Services, in West Columbia, S.C., "While we don't sell any products, we do provide comprehensive, fee-only financial planning. A part of this is discussing LTC with our clients, determining their needs for such, structuring a policy, and working with an agent to ensure it gets done."

The graying of the population is creating a booming market and growing awareness of LTC, with advice sometimes badly needed. "It's an important discussion with every client for whom you're doing comprehensive planning," says Barry Kohler, financial advisor and principal with BDMP Wealth Management in Portland, Me., whose company has offered LTC for some 10 years before joining the firm Berry Dunn McNeil & Parker in 2001.

"Clients have a sense that LTC is mysterious," he says. "But this is one of those insurance vehicles that is both mysterious and complex. There are a lot of moving pieces, each of which affects the premium cost."

Carina Diamond, managing director of SS&G Wealth Management in Akron, Ohio, says SS&G Wealth Management started offering long-term care insurance two years ago "as a response to clients' needs. At that time, we saw two trends beginning to emerge: Clients were thinking ahead to their future and wondering what would happen if they needed LTC, and how that would affect their investment portfolio. Children of retired clients were also worried about their parents' future."

Anthony Sardis, president of Insurance and Investment Advisory Group, which is in a strategic alliance with WithumSmith+Brown, Red Bank, N.J., maintains that most clients understand "very little" about LTC. "Many think medical insurance covers the majority of the cost," he says.

Most clients are interested in buying LTC for themselves. "Occasionally you'll see children who will pool assets for mom and dad, or high net-worth clients buy it for their kids, but most buy it because they don't want to be burden on their family and they want to pass down assets to the next generation," Kohler says. "It usually comes up when clients are thinking about estate planning or doing retirement planning, or they have a parent who's gone through a medical crisis or long-term care."

"Ten years ago," he adds, "we were always the ones raising the issue of LTC with clients. With the passage of time, more and more clients are coming in saying, 'What's the story with long-term care insurance?'"

Walking a Client Through the Process

WS+B started offering LTC three years ago. "We first quantify the risk based upon the cost of care in the planned retirement community and projected years of incapacity," Sardis says. "We then review the causes of disability that lead to the need for LTC. This is tied to a conversation of the various costs based upon the setting of care and average claim durations. This typically leads up to a discussion of the impact this event would have on the client's family, retirement portfolio, and legacy estate.

It's extremely important to determine first if a client is a candidate for LTC, Diamond says. "Look at the family situation and the client's ability to pay. High net-worth clients, who may be able to self-insure, may have other options and don't necessarily have the economic need. Clients at lower income levels generally can't afford the premiums. LTC is ideal for middle-income clients," she says.

Options typically discussed include:

1. Spending down income and assets;
2. Medicare and Medicaid;
3. Home equity/reverse mortgages;
4. Informal/family caregiving;
5. LTC benefits in life/annuity contracts;
6. Group, association LTC; and
7. Private LTC offerings.

Don Hoffman, partner with Owings Mills, Md.-based Hertzbach & Company and president of The Prosperity Consulting Group, says, "We need to first obtain an understanding of clients' personal financial goals and objectives. Then we explain that the risk one takes by not having LTC as part of their life planning. Once this is discussed and a need is determined, we design a program, review the cost, discuss the tax deductibility, if any, and implement the solution."

Donald Hoffman, a partner at Hertzbach & Company, P.A., is also president of The Prosperity Consulting Group, LLC.

"This is a part of our comprehensive financial planning services for those clients," says Brown. "While we do several thousand tax returns, our financial services practice works with about 100 high net-worth individuals. We work with our clients in all areas of financial planning, and part of this is risk management.

We lay out the alternatives with and without the insurance, and allow the clients to ultimately decide. Even if we feel they aren't a fit for LTC, we discuss it due to the liability issues from heirs in the future, and we document in detail."

Keys to Understanding

"What clients understand about long-term care insurance when we begin the discussion varies drastically," says Bonnie Kanne, director at Pensacola, Fla.-based O'Sullivan Creel Wealth Advisors. "Some think of LTC in the outdated context of 'nursing home insurance.' Others understand that LTC may cover not only nursing home care, but also assisted living facilities, adult daycare, and/or at-home care, but aren't familiar with cognitive impairment being a 'benefit trigger.'"

Clients' understanding of LTC is "across the board," Hoffman agrees.

"Some clients come in very knowledgeable, and some have very little information. Every client, however, is very curious to learn whether they're a candidate for LTC." Most clients have "a broad understanding" of the insurance, Brown agrees, and most important to consider when offering LTC is the "financial stability of the offering company, because we're looking at a policy that isn't for today but for many years in the future. You need a good company that will be around at that time."

"There are two different levels of comprehension," Diamond notes.

"The first group is clients who have had personal experiences, know the expenses involved with long-term care, and understand the need for it. They come to us wanting LTC. The second is less educated about LTC, and typically hasn't had a personal experience with it. They usually have misconceptions about Medicare and Medicaid, and the level of care that the government provides."

LTC, like many other forms of insurance, has cost/benefit trade-offs, Sardis says. "The idea is to transfer a significant enough amount of financial risk without feeling too-great a cash-flow pinch when paying premiums. Clients want peace of mind that if they need care they won't inadvertently invade their principal, reduce their estate, or have to disrupt their friends' and relatives' personal lives," he says. "This area of planning is also ripe for procrastination. The cost of waiting is too high. Rates go up with age and time."

Women are generally more interested in pursuing long-term care insurance, Diamond notes, "because they usually become the primary caregiver. Also, men don't seem to think that they'll need the insurance as often."

Special Attention Needed

Kohler says inflation riders are also critical, and come in classifications of zero, simple interest, capped or uncapped, compound capped or uncapped. "Typically," he says, "the younger the client, the more important it is to have compound uncapped." He adds that the age of the first claim on these policies is about age 80, "but we suspect it's getting older."

Jay Safier, principal with New York-based Rosen Seymour Shapss Martin & Company, recommends several points for potential clients regarding LTC:

1. Do you have adequate assets to pay for the premiums during your lifetime? Assuming you can pay the annual charge while you are employed, what happens upon retirement? This policy should be written to cover those medical costs not paid by Medicare or other coverage. "One way to assure maximizing the benefits relative to the premiums is to decide at a young age to purchase LTC," Safier says, noting that this premium is fixed based upon the age when the client institutes the policy. Today, potential clients 40 to 50 years old are seeking this coverage, rather than waiting until their children have completed their college education.

2. Investigate the quality of the insurer. Check their histories regarding rates, types of costs covered, and whether coverage extends to home care as well as hospital and temporary respite care. "If you have health issues not serious enough to categorize you as uninsurable, will they disqualify you from receiving 'preferred' rates?" Safier points out.

3. What criteria/tests does the insurance company apply to determine if one can no longer physically or mentally care for his or her basic needs? Since more elderly are living longer and also suffering from Alzheimer's, the policy should contain a rider that indicates that benefits will commence if the person has been medically determined by his or her regular doctor to be suffering from this disease.

4. Medical costs continually increase. The policy should have an inflation protection clause that provides for increased payments based on normal inflationary factors.

Do's and Don'ts

Do's

- Have a reason for choosing the company. "We look at the financial rating via the Weiss Rating service," says Brown. "They've been in business of LTC for at least 10 years, and have more than 25,000 policyholders."

- Address LTC with all financial planning clients "at a minimum," says Kanne.

- Discuss this with the client whether it's a fit or not, "simply due to liability issues in the future," says Brown.

- Work with a good agent who can offer multiple company products.

- Understand the client's comfort level and family history, says Hoffman.

- Offer insurance coverage with a company that has strong financials and will be around at the time your clients will need the insurance, Diamond says, and verify that the policy covers dementia and other mental illnesses.

- Make sure clients understand the details of the particular insurance products they may be considering, such as benefits, days-vs.-dollar limits, potential premium changes, features/riders such as shared-care provisions, etc.).

Don'ts

- Use a carrier who doesn't have a proven track record.

- Assume the most expensive premiums give the best benefits.

- Wait too long, because many people get declined as underwriting requirements have gotten more stringent over the years, according to Hoffman.

- Sell it simply for the commission. This is very short-sighted and will eventually lead to your independence being lost, Brown says.

- Assume you don't need to discuss it simply because it isn't a fit.

- Forget to document the discussion, regardless of the decision regarding insurance.

- Allow the conversation to get consumed by discussion of the probability of needing LTC. "Certainly an individual's family history and other personal factors should be considered, but the topic is one of addressing the possibility, not just the probability," says Kanne.

5. The policy should have a provision covering unintentional lapse of payment because of some impairment that prevented timely payment of the premium. The reinstatement should allow for a period of at least five months.

6. Upon the death of the insured, if all of the benefits to which the individual was entitled haven't been used, the policy should provide for refunding to the insured's estate that portion of the premiums representing unpaid benefits.

Typically, Kohler says, his firm "talks through the design variables with clients," then figures out the cost of the policy that will best fit. If the client then says they can't afford that policy, "we say give us the budget, and we'll back into a design that's best for those limited dollars." LTC is also beginning to be offered as a group policy, he notes, often via employer benefits packages. "That's an easy way to get into it," he says. "It often starts the discussion for LTC." These benefits should be examined carefully to see if they provide desired coverage, including portability if jobs are changed.

"We can facilitate clients' understanding of the risks and consequences of needing long-term care; we can help them understand the potential economic impact. We must understand their unique goals and values, however, to guide them," says Kanne. "The difference between deciding to fully self-insure and purchasing insurance to mitigate some of the risk is generally based on more than the client's current and expected financial condition."

Marketing and Advice

Features of the policy are key, Diamond says. "It's important to determine whether the policy has adequate daily benefits to cover your needs, while considering the other resources available to you. The policy should have an inflation rider to help cover healthcare costs, which are rising faster than inflation. The policy should also have adequate home healthcare coverage, not something available on all long-term care insurance policies." LTC is ideal for small-business clients "because it can cover a large group of people at a minimal cost," she adds. "C corporations can also greatly benefit as under current law premiums are deductible and, unlike with other benefits, you can discriminate as to who is eligible. For example, a medical practice can chose to cover just the doctors and their wives instead of being required to offer the insurance to the whole office, as other benefits require."

Sardis's firm educates clients via newsletters and seminars, "but ultimately one-on-one, one by one. We ask our partners and consultants to create the awareness as trusted advisors, then introduce the client to a specialist." Adds Brown, "We don't market it because it's not something we sell. It's a part of our financial planning services. By not selling it, we feel we maintain our independence, and no client is wondering if we suggested it because they actually need it or because we wanted the commission."

Brokerage general agents are good sources for information on LTC for potential advisors, according to Kohler. "The best agents will recognize that the CPA is coming from an advice-giving perspective," he says, adding that he's also heard "rumblings" of liability claims against financial planners who claim to offer comprehensive planning but fail to discuss LTC with clients. Diamond recommends educating partners as to the benefits of the coverage and the tax benefits available. "Get additional education, and have staff get their designations."

Use an LTC specialist, Sardis advises. "Don't expect your money manager, life insurance estate planner, or your commercial insurance or group medical advisor to be able to keep up with all the changes in this field and clearly communicate the messages needed to motivate clients to plan for this contingency."

Hoffman notes that advisors also need to understand the tax deductibility depending on an individual acquiring the policy, such as flow-through entities or C corporations. "A firm should focus on in-depth education of their personnel," he says.

"Experience in this area is critical," Hoffman also stresses. "Many people are sold products that are inferior or that don't meet all their needs. Unfortunately, when the client finds out the plan doesn't meet their needs, it's too late. Professionals not committed to full-time involvement with LTC and life planning should give serious consideration to whether they should offer this solution."

More Do’s and Don’ts

More Do's

- Design a plan that is affordable "so that they continue with the program, and, most important, offer inflation protection," says Donna Gestl, senior VP of The Prosperity Consulting Group.
- Be certain the appropriate options are selected when setting up the plan, says Hoffman.
- Advise clients to transfer some of the risk rather than self-insuring the entire potential cost of care.
- Advise clients to start planning before they cross the line of insurability.
- Be persistent but not pushy. "This insurance has a lot of moving parts which require significant levels of education," Sardis warns. "LTC isn't compulsory like auto and homeowners. Clients need a gentle nudge."
- Purchase LTC while young and the rates are low enough to make a significant risk transfer.

Don’ts

- Neglect to discuss the issue or rate stability.
- Put someone into a premium that they can't afford or are uncomfortable with.
- Mistake LTC for healthcare insurance. "Long-term care insurance covers custodial care, including helping you eat, bathe, and get dressed, not medical care or prescription costs," Diamond says.
- Offer coverage without the inflation rider, with very few exceptions.
- Have the client start an LTC policy "unless they're prepared to carry it through," Kohler says.