Nearly all of the recent news about funding options for long-term care tells a story of an industry on its heels. This is particularly true for traditional long-term care insurance (LTCI) products that are, essentially, health insurance policies that can be used to pay for costly end-of-life care in nursing homes or one's own home.

The vast majority of major insurance carriers offering these policies have had to request rate increases. Pressure points driving the increases include low interest rates, underestimation of policy lapses and the rising costs of long-term care. It was recently announced that one carrier is seeking to raise premium rates on some of its policies by an average of 58 percent. Another just announced it will stop selling LTCI products in California, following many of its peers in pulling such products from the marketplace.

According to LIMRA, 10 out of the top 20 individual writers of long-term care insurance have exited the market over the last five years. Prudential — the fifth-largest writer of LTCI in 2011 — stopped accepting new applications in the first quarter of 2012.

Meanwhile, Americans are dramatically underprepared to pay for long-term care. According to the National Clearinghouse for Long-Term Care Information, 70 percent of people over age 65 will require some type of long-term care services during their lifetime. On average, care will be required for three years. While only one-third of today’s 65-year-olds may never need long-term care services, 20 percent will need care for longer than five years.

But despite the proven need for coverage, LIMRA estimates that only about 7 million Americans have long-term care insurance. The U.S. Census Bureau estimates that, in 2010, there were more than 40 million Americans age 65 and older.

A tremendous gap in coverage exists within a population that perhaps wrongly believes Medicare covers long-term care. It doesn’t. If long-term care is needed, an uninsured individual is forced to use up a significant portion of his or her personal assets or estate value before qualifying for Medicaid benefits.

The 2011 John Hancock Long-Term Care Survey found that “although most respondents said they thought LTC insurance would be the best way to cover long-term care needs (61 percent), only 11 percent reported having purchased it.”
Viable solutions

Unattractive product design, the potential for significant rate increases and consumer apathy have led us to where we are today. But while some companies and financial professionals are walking away from long-term care insurance, others are finding that newer, even better options for their clients are already available — in fact, they are thriving.

These products are known as asset-based long-term care. They are built either on the chassis of whole life insurance or an annuity. You may have also heard them referred to as hybrid or combo products. With these products in place, when long-term care is needed, the life insurance death benefit or annuity value is accessed to pay for qualifying expenses, and the funds are available free of federal income tax.

Consumers and their financial professionals are attracted to asset-based long-term care products because of two major advantages over health-based insurance products: 1) a life insurance or annuity payout is made to beneficiaries at the time of death if the policy has not been exhausted for long-term care expenses; and 2) premiums are usually guaranteed, meaning older clients will never be exposed to an increase in the cost, especially at a time when they can least afford it.

Consumers are becoming more demanding about guarantees in the financial services industry and more appreciative and aware of these alternatives. As such, asset-based long-term care strategies are coming to the forefront as the pay-as-you-go, hope-you-never-need-it health-based LTC approaches fizzle.

According to LIMRA’s Individual Life Combination Products Annual Review from 2012, the last year of available data, sales of asset-based long-term care products grew 19 percent over the previous year, representing the fourth consecutive year of double-digit growth. LIMRA also reports that this segment of the individual life market now represents approximately 11 percent of total individual life new premium.

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Asset-based appeal

Financial professionals often must battle human nature when it comes to selling products. In the case of long-term care, it is human nature for us to believe we’ll never need it — despite the statistics to the contrary.

By suggesting an asset-based long-term care funding approach, a financial professional can help allay fears a client might have of paying for something he or she will never need and getting no value in return. This is because the death benefit is paid to heirs if the policy or annuity is not exhausted for long-term care expenses.
Also factoring into the appeal of asset-based long-term care is a plentiful menu of product offerings and options. Generally, the life insurance and annuity selections have been paid with a single premium — a reallocation of a portion of a portfolio set aside as a rainy day fund and not needed for income. Newer options, however, include limited payment products, where the premium payments are spread out over a fixed number of years (10 or 20 usually) but are still guaranteed never to increase. Clients get a guaranteed amount of protection at a guaranteed price, whether they pay all at once or over time. (The guarantees, of course, are subject to the claims-paying ability of the issuing insurance company.)

Another option consumers and their financial professionals tend to appreciate is that qualified assets in a portfolio can be used while maintaining their tax-favored status. These are dollars, such as those in a 401(k), that have been set aside tax-free for use.

There are coordinated asset-based long-term care approaches that automatically move the money from an IRA annuity into an insurance policy with LTC benefits over a period of several years. This has proven to be an efficient way to provide long-term care protection while reducing the tax pain of qualified money that passes to heirs.

And then there’s a truly innovative approach to long-term care protection for couples. It’s an option to buy one policy for a couple that provides long-term care funding for both people. Like other asset-based products, it can be structured to continue coverage periods and the premium, for the extension is guaranteed to never increase. It’s an innovation that is patented by The State Life Insurance Company, a OneAmerica company.

With all the recent negative news, it would be easy and natural for the financial services industry and the financial media to be sour on the prospects of finding a worthy approach to funding long-term care. However, the sustained growth of asset-based long-term care products indicates there is a sea change occurring in the industry and a story that needs to continue to be told.