A COLLABORATIVE APPROACH to LTC:

Using multiple product lines to address the risks associated with the need for LTC

BY JAMES LEMAY

In care planning, each client's circumstance is unique and often requires some creative thinking to properly tackle their specific needs. In many cases, this dictates that multiple products be utilized. The following example case study demonstrates this.

Case Study: Mr. & Mrs. Valued Client	
Mr. Valued Client's Age:	60
Mrs. Value Client's Age:	60
Total Assets:	$1,500,000
Home Care Costs:	$4,000 per month
Nursing Care Costs:	$8,000 per month

There are five primary product categories that insure against care costs:

1. Traditional LTC (the cheapest way to buy the most LTC).
2. Asset-based LTC (annuity and life insurance-based).
3. Life insurance with QLTC riders (primarily life insurance, LTC is secondary).
4. Life insurance with accelerated benefit riders or chronic illness riders (primarily life insurance, LTC is secondary).
5. Annuities with LTC "doublers" (least amount of leverage but no underwriting).

In this case, Mrs. Valued Client was recently diagnosed with multiple sclerosis (MS). She's healthy enough for life insurance, but not for LTC insurance. We typically like to solve for at least 50% of the high-end risk (nursing home) and 100% of the low-end risk (home health care and assisted living). This would be $4,000 per month in the client's geographical area.

Since she can't qualify for LTC insurance, an asset-based LTC policy was put in place. It required a premium of $83,000 to generate a $4,000-per-month, day-one benefit that'd pay for roughly six years with a benefit pool of just over $310,000. It's a cash indemnity plan, so they can use the monthly benefit for whatever care they choose.

We wanted to cover the risk for years down the road, so a 3% compound inflation rider was added. This increased the benefit to $7,200 per month by age 80. In addition to this policy, we still needed something to cover her and the other half of the nursing home care cost for him.

Since she can't qualify for LTC, we used a guaranteed universal life (GUL) policy that'll provide $4,000 per month on day one that'd last just over four years. Plus, we added a $200,000 death benefit for a standard non-tobacco user, which we were able to get because of how early it was in the disease's progression. This would cover about 50% of the high-end and 100% of the low-end risk for her.

Should advancements in treatment or a lack of disease progression result in her not needing care, the policy provides a 50% return of premium (ROP) in year 20 and a 100% ROP in year 25. This is capped at 50% of the death

benefxit. By year 25, the cumulative premiums are $115,000, and the death benefit is $200,000. The ROP would be slightly less than 100% of the premium, but it still eliminates the risk of a “use or lose it” scenario.

For the husband, we opted to use a max-funded indexed universal life (IUL) policy since we have to pay premiums for her and potentially other out-of-pocket expenses for care. This policy also provides a $200,000 death benefit on day one. The policy is designed for income whenever either of them were to go on claim. The premiums for the policy were just over $14,000 per year for ten years. And in year 21, the policy generates a payout of just under $3,000 per month to age 120.

The final piece used to supplement the plan was an annuity funded with a single premium of $187,000. The policy provided a guaranteed joint lifetime income payment of $2,000 per month at their age 80. It would double to $4,000 per month if either of them became unable to perform two out of the six activities of daily living (ADL). The enhanced payments would continue for as long as the policy maintained an accumulation value greater than $0. Once the accumulation value is drawn down to zero, the payment would revert to the non-doubled payment amount and continue until both died.

Product	Premium	On Claim Benefits at Age 80	Death Benefit Before Care
Asset-Based LTC	$83,000	$7,200 per month for either spouse	$83,000
GUL	$4,620 per year	$4,000 per month for Mrs. Valued Client	$200,000
IUL	$14,300 for 10 years	$3,000 per month for Mr. Valued Client	$200,000
Annuity	$187,000	$4,000 per month for either spouse	$187,000

All in, $504,955 was leveraged to create $1.59 million in benefits through age 95, assuming five years of doubled payments from the annuity policy. Here's how it breaks down:

Asset-Based LTC

- Single Pay = $83,100
  Benefit per month = $4,000
  Age 80 benefit per month = $7,200
  Total benefit pool = $560,000

Life Insurance - GUL

- Annual premium = $4,600
  Total benefit = $200,000
  Monthly benefit of claim = $4,000
  Year 20 = 50% ROP
  Year 25 = 100% ROP (capped at 50% of benefit)

Life Insurance - IUL

- Premium per year for 10 years = $14,200
  Total premium = $142,200
  Total benefit at death at age 95 = $556,600
  Tax-free annual income at ages 80-95 = $32,600

Indexed Annuity with Income Rider

- Premium required to generate $4,000 per month, enhanced income with 2/6 ADL's at age 80: Joint lifetime income premium = $187,200

- The 2/6 ADL income enhancement will increase the income by 100% for both single and joint payouts. The enhancement remains in effect until the accumulation value is drawn to zero, after which point the income reverts to the non-enhanced amount.

- Eligibility: The client must not be confined to a qualified care facility or receiving in-home care for one year before issue and two years after issue.