Why is Long Term Care Insurance So Undersold?

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As the US population ages, outliving savings is becoming an increasingly serious concern for people approaching retirement, their families, and their advisors. Funding a healthy, active, and independent retirement period of twenty or more years is expensive enough. Piling on to that the cost of long term care often needed as people reach their 70s and 80s is, I am sure, enough to at least occasionally keep even the most care free of these folk awake at night. These concerns are not unfounded. About 70% of people age 65 and over will require some form of long term care services for a period of time, the average being between three and four years. These services may be provided at home, at adult day care centers, in an assisted living facility, or in a nursing home. These services are not cheap (ranging from a national average of about $20/hr for in-home health aid services to over $200/day for a private room in a nursing home) and they are getting more expensive all the time. Seniors who have the financial wherewithal to pay for these services themselves can obviously do that, but at the cost of putting a significant dent in the assets they may have hoped to pass on to their children, grandkids, churches or favorite charities. While this may be considered merely sub-optimal for some, the situation can be dire for those who do not have the financial resources to adequately self insure and have not planned accordingly. These folk will need to rely on the minimal services offered by Medicaid (if they qualify) or, more often than not, on their families. In these situations, the loss of independence and dignity experienced by the care receiver, as well as the loss of family time and earned income experienced by the care giver (typically a daughter) can have a very negative impact on families.

With these thoughts in mind, one has to ask "Why is Long Term Care Insurance so undersold?" I don't think it's because the concerns of the consumers and their families are being dismissed out of hand. Nor do I think it is because of a lack of suitable products on the market – there are many. I believe the main reason Long Term Care Insurance (LTCi) is being undersold is that while many of us in the financial services profession may appreciate the need for LTCi, we do not have the knowledge and understanding of the various LTCi solutions available to advise our Clients adequately, so we don't bring it up. I believe this needs to change, and the sooner the better. To that end, this article is offered as a small first step in that direction.

In selecting the most suitable LTCi solution for our Clients, a few factors need to be taken into consideration including the choice of insurance carrier, the type of products available, and the financial situation of the Client.

Many insurance carriers currently offer LTCi solutions. In my opinion, the most important factor to examine in selecting the carrier with which to work is its financial strength. We and our Clients need to be as confident as possible that when the time comes to file a claim (which may be a decade or more from the time the policy was sold) the carrier that issued the policy will still be around and able to meet its contractual obligations. Carriers with weaker financial ratings are often targets for mergers or acquisition and, when that happens, the acquiring company may not value LTCi as an important part of its business and, subsequently, fail to maintain adequate in-house expertise to handle the acquired LTCi book of business, or may even sell the LTCi book of business to another company. This can (and has) caused some problems for consumers and their advisors in managing claims. Secondly, it is important to examine whether or how often a carrier has increased premiums on its existing LTCi policies. So far as I am aware, all traditional "stand alone" LTCi policies currently on the market are not "Guaranteed Renewable" meaning that the issuing carrier can increase the premiums on existing policies if or when deemed necessary, pending approval by the pertinent State Department of Insurance. Several LTCi carriers have made such increases at least once and sometimes several times over the last few years. However, a few have not made such increases and are determined not to do so. This issue clearly merits careful consideration.

In today's market place there are three main types of LTCi policies sold. The first is 'traditional' or 'stand-alone' LTCi where a policy is purchased to solely cover costs associated with long term care if needed. These types of LTCi policies typically have a number of built in options and additional riders, and it can be very challenging to develop an adequate understanding of all of these bells and whistles. However, the key point to remember with traditional LTCi is that it is like automobile insurance to some extent – if you never file a claim you have spent all of those premium dollars for naught. This is one of the most common objections consumers and their advisors bring up when discussing traditional LTCi: Why purchase something that may not be needed? In part to overcome this objection, carriers have developed LTCi Riders that can be bolted on to certain of their life insurance policies as well as 'hybrid' life/LTCi policies. By providing LTCi in the context of a life insurance policy, consumers can be assured that there will be at least some return on their premium dollar investment whether or not they end up filing a long term care claim. In addition, the hybrid policies are often available in a single premium format. Financial advisors can therefore demonstrate to their Clients that, if they qualify, they can make a one-time transfer of a relatively small amount of their assets to a hybrid life/LTCi policy so as protect the rest of their assets from being spent down to cover long term care costs. This type of product is of particular interest to money managers who are motivated to help their Clients protect as much of their retirement funds as possible.

When considering each of the product types discussed above (stand alone, LTC Riders, and LTC/Life Hybrid Products) it is important to understand (1) under what circumstances Claims will be paid, (2) how much the benefit will be, (3) what the Elimination and Benefit Periods are, and (4) how the benefit is paid, namely on a reimbursement or indemnity basis. The fourth issue is often overlooked and/or misunderstood. If a LTCi benefit is paid on a 'reimbursement' basis, that means somebody has to submit receipts to the insurance carrier on a regular basis to get reimbursed. This 'somebody' typically won't be the Insured since (s)he is under care so this crucial responsibility will fall to a family member or friend. On the other hand, if the policy pays on an 'indemnity' basis, benefit payments are made by the carrier once the Inured goes on claim, similar to how a Disability Income Benefit is typically paid. The 'indemnity' method of claim payment is clearly much more user friendly and desirable.

Lastly, it is important to note that time is of the essence here. The LTCi market place is continually changing. Carriers are increasing premiums for LTCi, making underwriting more and more strenuous, moving from gender neutral to gender specific pricing (resulting in significant increases in premiums for women), or getting out of the LTCi business altogether. The longer we wait the harder it will be to find appropriate and affordable LTCi solutions for our Clients.

In conclusion, I believe it is incumbent on financial professionals to be aware of the need for LTCi and be discussing this incredibly important area of planning with their Clients. I recognize LTCi is a somewhat specialized area and can, for some, be a bit daunting in terms of developing adequate expertise, but we need to try. Minimally, we should be talking to our Clients about their potential need for LTCi and referring them to LTCi Specialists in our communities so as to help them make the best decisions possible for themselves and their families.

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