Asset-Based Long-Term Care Products

A valuable and often overlooked retirement tool

New research reveals a broad misunderstanding of long-term care insurance products — and a clear opportunity for advisors to protect clients with combined life insurance + LTC and annuity + LTC benefits.

Table of contents

Executive summary

Finding efficient ways to protect retirement assets is one of the most pressing priorities advisors face in their work with clients. It's also one of their most formidable retirement planning challenges, particularly in light of the havoc health care and long-term care (LTC) costs can wreak on a client's nest egg.

While advisors clearly understand just how important it is to plan for a potentially costly LTC event, findings from a survey of insurance and financial professionals conducted by LifeHealthPro show that long-held misconceptions and stigmas about LTC insurance products — most related to the cost, premium uncertainty and lack of flexibility of traditional LTC insurance policies — continue to cloud advisor and consumer perceptions of, and dialogue about, LTC planning tools.

The LifeHealthPro findings are based on responses from 305 insurance and financial professionals to an online survey conducted on behalf of OneAmerica in January-February 2015. These findings uncover three key disconnects hampering long-term care planning, each of which are fed by the aforementioned misconceptions and stigmas:

1. **The Need Disconnect** — The facts suggest there is a strong likelihood a person will require some form of potentially costly long-term care during retirement. Yet a significant percentage of consumers believe they won't ever need care, and a similarly large percentage indicate they have done little to plan for their potential LTC needs.
2. **The Product Perception and Education Disconnect** — A sizable contingent of advisors and clients lack awareness and a clear understanding of newer LTC planning products and thus are reluctant to use them, presuming these newer products have the same limitations as traditional long-term care insurance, when in reality they are not the same and instead may represent a viable LTC planning solution.
3. **The Comfort Disconnect** — Advisors are generally comfortable discussing with clients the need for protection from costly LTC events during retirement, yet they are less comfortable with actual LTC planning for clients.

These disconnects not only are hindering advisors' efforts to plan around the likelihood of a long-term care event, they are overshadowing an emerging class of life insurance and annuity-based products that in many situations represent the very kind of versatile, cost-efficient LTC planning solutions that advisors and clients have long been seeking.

The survey findings detailed in this white paper illuminate new opportunities for advisors to strengthen client relationships and bolster revenue simply by making an effort to educate themselves and their clients about the full range of LTC planning solutions available to them, including asset-based products.

Long-term care risk and the gap between perception and reality

The facts alone make a compelling case for why consumers should consider seeking protection from the potentially irreparable damage a long-term care event or health care crisis during retirement can inflict on a person's nest egg, their retirement income strategy and their overall sense of well-being. Consider the following:

- At least 70 percent of people over 65 will need some form of long-term care services and support at some point in their lifetime, according to longtermcare.gov, a U.S. government website.
- An estimated 58 percent of women and 44 percent of men will need nursing home care at or after age 65.[1]

- A 65-year-old couple retiring in 2014 will need $220,000 to cover their medical expenses through retirement.[2]
- Care costs are increasing steadily. According to one 2014 industry study, the national median monthly rate for assisted living is $3,500, representing annualized growth exceeding 4 percent over five years.[3]

However, consumer perceptions appear not to align with the facts, as loudly as they speak to the need for some sort of long-term care planning. For example:
- 32 percent of people over 40 think it is "not too likely" or "not at all likely" they will ever need long-term care. Another 41 percent believe it is only "somewhat likely" they will need care.[4]
- A large proportion of people over 40 underestimate the costs of nursing home care and overestimate the coverage programs such as Medicare provide for a long-term care event. For instance, 44 percent of people 40 and older mistakenly believe that Medicare pays for ongoing care at home by a licensed home health care aide.[5]

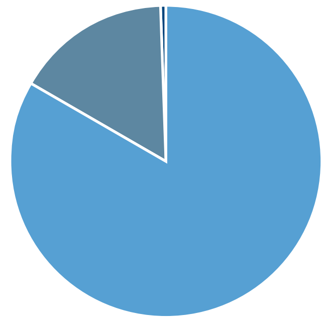
Despite the strong likelihood a person will require some form of long-term care, and the potentially high cost of that care, a sizable percentage of consumers believe they won't ever need care. Recent research indicates that just 16 percent of Americans 40 and older report doing "a great deal" or "quite a bit" of planning for their long-term care needs; 65 percent report doing very little such planning or no planning at all.[6]

Meanwhile, only about 13 percent of individuals in the U.S. carry some form of long-term care insurance.[7]

All of which points to a **Need Disconnect** between the imperative to plan for the risk of a potentially costly long-term care event, and a general lack of impetus among consumers to actually take planning steps to address that risk.

Figure 1

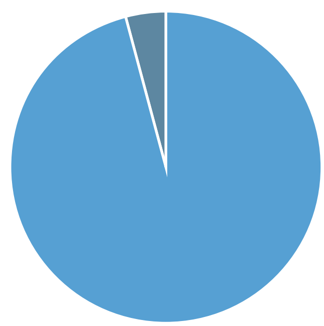
When helping clients plan for retirement, how important is it to factor in the potential cost of health care?



	%
Very Important	83.60
Important	16.07
Unimportant	0.33

Figure 2

During the last 12 months, have you spoken with clients about planning for health care costs during retirement?



	%
Yes	96
No	4

1. Center for Retirement Research, "Long-term Care: How Big a Risk?"; November 2014; pg. 3; filename: 1B_14-18_508.rev.pdf **2.** *Fidelity web page, "How to tame retiree health care costs"; https://www.fidelity.com/viewpoints/retirement/health-care-costs-when-you-retire, accessed 03.17.15* **3.** *Genworth 2014 Cost of Care Survey, pg. 5; filename: 130568_032514_CostofCare_FINAL_nonsecure.pdf* **4.** *The Associated Press-NORC Center for Public Affairs Research, "Long-Term Care: Perceptions, Experiences, and Attitudes among Americans 40 or Older"; pg. 5; filename: AP_NORC_Long Term Care Perception_FINAL* **5.** *AP NORC, pg. 7* **6.** *AP NORC pg. 5* **7.** *Center for Retirement Research, pg. 1*

Survey findings show that, unlike consumers, members of the advisory community — insurance and financial professionals — clearly understand the imperative to factor health care/LTC costs into retirement planning discussions with clients. Indeed, when asked how important it is for them to factor in the potential costs of health care in helping clients plan for retirement, 84 percent of respondents indicated it's "very important." What's more, the vast majority of respondents — 96 percent — said they have raised the subject of planning for health care costs.

"Advisors are increasingly aware it's a big concern for their mass-affluent clients to understand that health care and long-term care costs during retirement could put a big dent in their nest egg and jeopardize their retirement income if they don't plan," observes Pat Foley, CLU, ChFC, President, Individual Insurance and Retirement Services, OneAmerica companies.

Asset-based long-term care products gain ground

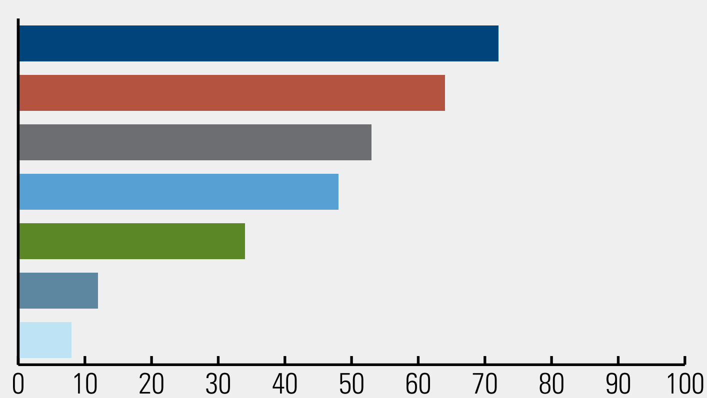
Traditionally, standalone long-term care insurance was the primary product utilized by advisors to guard against the risk of an LTC event in retirement. However, today's advisors are increasingly looking at expanded alternatives and more efficient solutions to help their clients address that risk, including:

- Asset-based long-term care products (also known as hybrid, combination or linked benefit products), which are life insurance policies (such as whole life) or annuity contracts (such as a fixed indexed annuity) that come with a built-in long-term care benefit that allows the contract holder to access the death benefit or contract value to pay for qualifying LTC expenses (distributions that typically come out tax-free to the recipient). Meanwhile, the contract's cash value continues to grow and, if it isn't used to cover an LTC event, it remains in the contract, to eventually transfer to beneficiaries.
- Life insurance and annuity contracts with standalone optional LTC or chronic illness riders that, for an additional fee, provide a limited amount of LTC benefits.
- Traditional standalone long-term care insurance policies, or LTCi, where the contract-holder pays premiums to gain access to benefits for qualifying LTC events.

Today, according to findings from the LifeHealthPro survey, almost two-thirds (64 percent) of advisors offer traditional standalone LTCi, while 72 percent offer life insurance products with an LTC rider and 53 percent offer annuity products with an LTC rider.

Figure 3

Which of the following LTC-related products do you sell?



LTC-related products sold	%
Life insurance with LTC-related riders	72
Traditional standalone LTCi	64
Annuities with LTC-related riders	53
Life and LTC combination (linked) products	48
Annuity and LTC combination (linked) products	34
Group or worksite LTC	12
None of the above	8

Less than half of advisors — 48 percent — sell assetbased life insurance products with LTC benefits; 34 percent offer asset-based annuities with LTC benefits.

Therein lies an opportunity for advisors seeking to differentiate themselves in a crowded marketplace. “By offering asset-based LTC solutions, they can provide clients access to a versatile tool that a majority of their competitors do not currently offer,” says Dennis Martin, FSA, FCIA, MAAA, Senior Vice President, Product and Business Development, OneAmerica companies.

While close to two-thirds of advisors currently sell traditional LTCi, the options they can offer clients are fewer and typically costlier than in the past. The number of carriers offering stand-alone LTCi decreased to 16 in 2014 from 45 in 2008.[8]

According to the American Association for LTCi, overall costs for new LTCi coverage in 2014 increased 8.6 percent compared to the prior year. A healthy 55-year old man can expect to pay $1,060 per year for $164,000 of potential benefits, compared to $925 last year.[9] Amid rising premiums and dwindling product options, sales of traditional standalone LTCi policies are slumping.[10]

It’s a different story for asset-based LTC solutions. An increasing number of carriers are offering a broader range of these products in response to surging demand from consumers. Annual premium for these products increased from $455 million in 2007 to $2.6 billion in 2013 on the strength of five consecutive years of double-digit growth. Approximately 98,000 life combination policies were sold in 2013, up 18 percent from the prior year.[11]

“There is much more interest today among advisors and consumers in learning about these asset-based products,” says Chris Coudret, CLU, ChFC, Vice President and Chief Distribution Officer for OneAmerica Care Solutions.

With asset-based long-term care, client awareness is the advisor’s ally

Negative perceptions continue to color the view of LTC products. However, if the objections advisors hear most from clients about LTC-related products are any indication, those perceptions are more relevant to traditional LTCi objections than to asset-based LTC products.

The most common objection advisors say they hear from clients when discussing LTC products is that they don’t want to pay for something they may not need. Concern the insurance company will raise premiums (rates) is the second-most common objection, followed by a concern that they’ll be rejected by the carrier due to health issues.

What these findings suggest is that consumers presume the shortcomings they perceive with traditional LTCi also apply to asset-based LTC solutions. This manifests as a **Product Perception and Education Disconnect**, whereby a significant contingent of advisors and clients lack awareness and a clear understanding of newer LTC planning products and thus are reluctant to use them, assuming these newer products have the same limitations as traditional LTCi.

8. *Broker World, July 2014; “Long-term Care Survey 2014”; pg. 2; filename: 2014_Broker_World_LTC_Survey.pdf* **9.** *American Association for Long-term Care Insurance web page, “Average Costs For Long-term Care Insurance Rise 8.6 Percent”; http://www.aaltci.org/news/long-term-care-insurance-association-news/average-costs-for-longterm-care-insurance-rise-8-6-percent; accessed 03.18.15* **10.** *Broker World, pg. 2* **11.** *LIMRA web page, “LIMRA Study: Individual Life Combination Products Record Fifth Consecutive Year of Double-Digit Growth in 2013”; http://www.limra.com/Posts/PR/News_Releases/LIMRA_Study__Individual_Life_Combination_Products_Record_Fifth_Consecutive_Year_of_Double-Digit_Growth_in_2013.aspx, accessed 03.15.15*

The reality, however, is that asset-based LTC products include features that allow advisors to address each of these objections. For example:

Objection: Why should I pay for something I may not need?
An asset-based product is guaranteed to provide a benefit, whether it's a long-term care benefit while the policyholder is alive or a death benefit that passes to beneficiaries tax-free if the LTC benefit goes untapped. The investment in an asset-based LTC product will pay off one way or another. "It allows you as an advisor to multipurpose the client's money," explains Martin.

Objection: I'm concerned the insurance company will raise my rates.
Asset-based LTC addresses this objection on two fronts. It can be purchased with a single premium, so concerns about rate increases are moot. Or certain asset-based LTC products come with an annual premium that is guaranteed never to increase.

Objection: With my health, I will not be approved.
With asset-based LTC policies, most cases are underwritten with a client phone interview — no medical exams.

Objection: The product is too complicated to understand.
Asset-based products are no more difficult to grasp or to explain to clients than most traditional LTCi products.

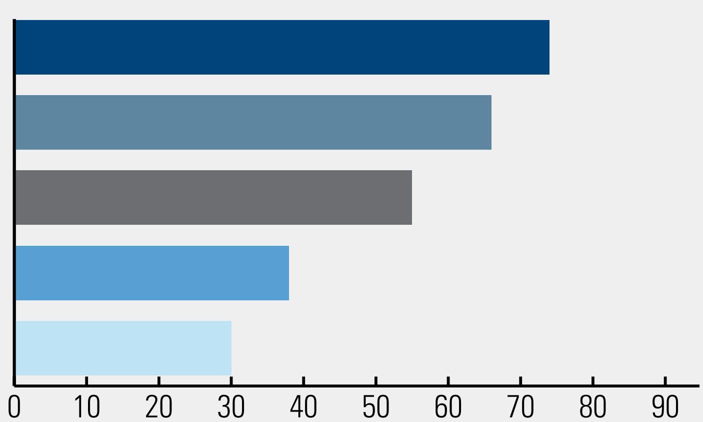
Objection: The underwriting process is too long and/or invasive.
Underwriting for asset-based LTC products is performed on an expedited basis, usually over the phone.[12]

The facts about long-term care costs and need alone typically aren't enough to overcome the **Need Disconnect** and the **Product Perception and Education Disconnect** in order to compel consumers to invest in an asset-based LTC product. However, advisors who can show clients how asset-based products address their key concerns about LTC put themselves in a stronger position to bridge those disconnects and provide their clients with increased protection from a potentially devastating LTC event during retirement.

12. *Additional underwriting may be required for certain individuals.*

Figure 4

Which of the following objections have you heard from clients when selling LTC-related products?



LTC-related product objections	%
Why should I pay for something I may not need?	74
I'm concerned the insurance company will raise my rates	66
With my health, I will not be approved	55
The product is too complicated to understand	38
The underwriting process is too long and/or invasive	30

Converting the long-term care discussion into an actual strategy

Advisors are generally comfortable addressing the issue of health care costs and LTC risk during retirement with their clients. However, survey results show they are less comfortable when it comes to the actual process of LTC planning on their clients' behalf — the **Comfort Disconnect**.

Fully 96 percent of advisors responding to the OneAmerica survey indicated they had spoken to their clients about planning for health care costs during retirement (see Figure 2 on page. 4). Likewise, a large segment of the advisory community also has access to a range of LTC products (see Figure 3 on page 5). However, just 50 percent said they are "very comfortable with LTC planning strategies." Another 40 percent indicated they are only "somewhat comfortable" with LTC planning, while nine percent said they are not comfortable with LTC planning.

If advisors aren't fully comfortable with the LTC products available to them, they're less likely to use those products with clients. How, then, to raise the advisory community's comfort level with long-term care planning? What would make them more successful in their LTC planning efforts on behalf of clients?

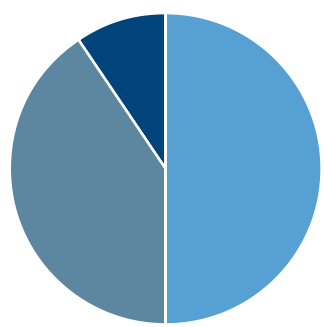
Figure 6 on page 9 shows the factors that advisors believe would help make them more successful with their LTC planning efforts.

By putting key concerns to rest, asset-based long-term care products give advisors the additional comfort they evidently need to successfully develop LTC plans for their clients:

- Payout to beneficiaries if policy is not used for LTC expenses? YES. "As a financial professional, it allows you to show clients they own the value in this policy — that it's an asset on their balance sheet," Coudret explains.
- Products that are simple to explain? YES.
- Guaranteed premium? YES.
- Spouses are able to receive benefits from the same policy? YES, Care Solutions products offer a unique joint benefit pool to two individuals.
- Inflation protection? YES, some Care Solutions products come with an optional inflation-protection feature.
- Funding flexibility? YES, an asset-based product can be purchased with rainy-day money (residing in a money market account, CD or some other low-yield vehicle), with funds from a qualified IRA, or with funds generated from a 1035 exchange of an annuity contract.
- Lifetime coverage? YES, certain asset-based LTC products offer optional extended LTC benefits to last a lifetime.
- Less restrictive underwriting? YES, generally on an expedited basis and over the phone.

Figure 5

How comfortable are you with retirement planning strategies that mitigate LTC costs?



	%
Very comfortable	50.17
Somewhat comfortable	40.40
Not comfortable	9.43

Conclusion

The advisory community clearly grasps the importance of helping clients plan for the risk of a potentially costly long-term care event during retirement. But a host of fundamental disconnects and product misconceptions — some held by clients, some by advisors themselves — are hampering those planning efforts.

The findings in this white paper clearly show that advisors are seeking new tools to bring to bear in their LTC planning, and that asset-based solutions that combine life insurance and annuities with long-term care benefits represent a viable — if still somewhat overlooked — option for addressing that risk, given their ability to address many of the shortcomings and concerns typically associated with traditional standalone long-term care insurance.

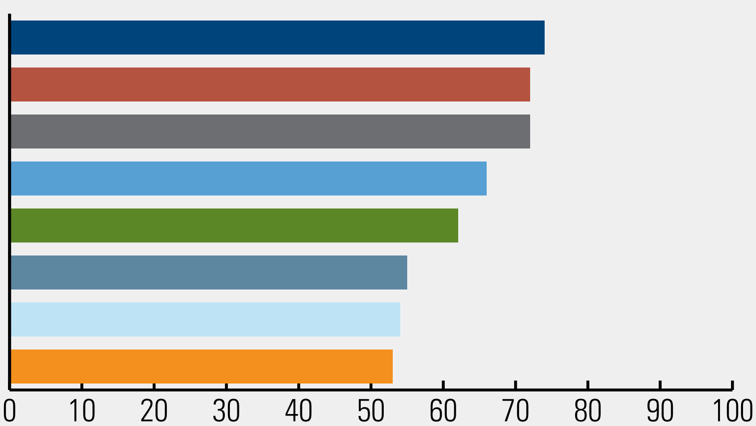
There's also a strong business case for advisors to embrace asset-based products. By doing so, they gain:

- The ability to provide a versatile, flexible suite of solutions to clients, particularly those who lack the wherewithal or the inclination to invest in standalone LTCi.
- Status as a problem-solver. Access to a full portfolio of asset-based products gives them the means to address a wide range of client situations.
- A new way to diversify their product mix, capabilities and revenue streams.
- The ability to uncover new cross-selling opportunities.
- An additional tool to look out for clients' interests.
- The ability to keep business in-house rather than having to refer out LTC cases, preventing clients from straying to another advisor.

These are just some of the reasons asset-based long-term care products are emerging as a vital planning tool for advisors and consumers seeking protection for the retirement nest eggs they worked so hard to build.

Figure 6

When reviewing an LTC-related product solution with clients, which of the following factors would help you be more successful?



LTC factors	%
Payout to beneficiaries if policy is not used for LTC expenses	74
Products that are simple to explain	72
Guaranteed premium	72
Spouses are able to receive benefits from the same policy	66
Inflation protection	62
Funding flexibility	55
Lifetime coverage	54
Less restrictive underwriting	53

Notes

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