

Welcome to FPA's Virtual Learning Center

We will begin today's program at 2:00 PM Eastern.

"Advanced Concepts and Issues in Long-Term Care Insurance Planning"

If you have joined this event early, we invite you to sit back, relax and learn about other upcoming FPA Educational Opportunities.

Thank you for your continued support of FPA and the Virtual Learning Center.
We hope you enjoy today's program.

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About Today's Program:

Although long-term care continues to be widely recommended by financial planners, differences remain in the details of particular policies and the philosophical approaches of how to design policies for individual client needs. This session will focus on some of the advanced issues that planners should be aware of when reviewing LTCi contracts, and will provide guidance on philosophical and structural approaches to determining the right policy design for individual client needs.

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Friday, Oct. 10, 2008 (2-3 PM ET)
Using Social Media to Raise Your Profile
Presented by: Claudio Pannunzio
VLC Track: Practice Management

Friday, Oct. 17, 2008 (2-3 PM ET)
Stop Elephant Hunting – Meet the Mass Affluent
Presented by: Marc S. Freedman
VLC Track: Practice Management

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Advanced Concepts and Issues in Long-Term Care Insurance Planning

By:

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Advanced Concepts and Issues in Long-Term Care Insurance Planning

- **Session Outline**
 - Advanced LTCi Contract Reviews
 - Reviewing the basics
 - Substantial assistance
 - Care coordinators
 - Time period for spending reimbursement
 - LTC Policy Design Philosophy
 - Daily benefits vs. benefit period
 - How much should I buy?
 - Shared vs. individual policies
 - Non-forfeiture benefits
 - Elimination periods
 - Indemnity vs. reimbursement
 - Who needs LTCi? And why?
 - Other Notable Issues
 - Summary/Conclusion
 - Q&A

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Advanced Concepts and Issues in Long-Term Care Insurance Planning Advanced LTCi Contract Reviews

- Reviewing the basics
 - Daily Benefit
 - Benefit Period
 - Total Benefit Pool
 - Elimination Period
 - Benefits triggered by:
 - Inability to perform 2 out of 6 activities of daily living
 - Cognitive impairment

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Advanced Concepts and Issues in Long-Term Care Insurance Planning Advanced LTCi Contract Reviews

- Substantial Assistance
 - Eligible for benefits when in need of “substantial assistance” for 2 out of 6 activities of daily living
 - What defines “Substantial Assistance”?
 - “Hands-on”
 - “Stand-by”

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Advanced Concepts and Issues in Long-Term Care Insurance Planning Advanced LTCi Contract Reviews

■ Care Coordinators

- Typically used to help coordinate care needs amongst multiple providers/agencies
- Often expert in recommending resources and facilities in the area
- May be available as an option to some; other contracts require it or provide more restricted benefits if not used
 - Sometimes viewed as a potential gatekeeper
- Often available from the company regardless of elimination period
- Implied review of care coordinator vs. your own due diligence

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Advanced Concepts and Issues in Long-Term Care Insurance Planning Advanced LTCi Contract Reviews

■ Spending Reimbursement

- Most policies provide for reimbursement of costs
- Different ways to determine amount to be reimbursed:
 - Daily costs against daily benefit
 - Weekly costs against weekly benefit
 - Monthly costs against monthly benefit
- May be different for nursing and home care
- Does elimination period reset with a period of no care or costs?

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

- Daily benefits vs. benefit period
 - Most concerning with limited budget
 - Common tradeoffs:
 - \$240/day for 3 years
 - \$120/day for 6 years
 - \$100/day for lifetime benefits
 - Partially insure for duration versus daily needs
 - Short/fat policies
 - Long/thin policies

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

- How much should I buy? It depends...
 - Average costs vs. client expectations of care
 - Variance of costs by region
 - Home care vs. nursing home care
 - Local resources regarding LTC costs?
 - Client's ability to partially self-insure?

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

- Shared vs. individual policies
 - Access to shared benefits typically a premium over separate policies
 - Opportunity for shared benefits to allow for a smaller combined policy purchase and cost savings
 - 8- or 10-year shared vs. two 6-year individual policies
 - Unnecessary for those purchasing lifetime benefits

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

- Non-forfeiture benefits
 - LTCi is insurance in the event you need LTC
 - Non-forfeiture benefits is insurance in the event you... change your mind?
 - Insurance for your insurance?
 - Win-win for the insurance company
 - Often unnecessary if client is committed to purchase; may be further unnecessary if “loss” isn’t substantial enough to be worth insuring
 - Some states may require limited non-forfeiture benefits in the event of a rate increase

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

■ Elimination periods

- Remember the purpose of insurance – protection against catastrophic risks
- Elimination periods represent ‘deductibles’ before making claims
- How much of a deductible can you really afford?
 - Is a 90-day elimination period too modest of a deductible for many clients?
 - But is a 180-day or 365-day period a good financial deal?
 - Is 30-day too much more expensive?

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

■ Indemnity vs. reimbursement

- Payment of daily benefit *if* there is a claim, versus reimbursement for the amount of the claim
- Significant additional flexibility from indemnity policies in how funds are used
- Easier to file, less language to be interpreted against the insured
- Weigh trade-off of cost for flexibility – but accept flexibility if pricing is favorable!
- Be cautious – indemnity policies *will* exhaust the policy over the stated benefit period!

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

■ Who needs LTCi, and why?

– Different client groups need LTCi for different reasons

- <\$100,000 of assets
- \$100,000 to \$500,000 of assets
- \$500,000 to \$1,500,000 of assets
- \$1,500,000 to \$3,000,000 of assets
- \$3,000,000+ of assets

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

■ Who needs LTCi, and why?

- <\$100,000 of assets
- Access to care, not necessarily protection of assets
 - Would typically exhaust assets quickly and utilize Medicaid if care was needed
 - LTCi benefits will provide payments to afford more desirable care than relying on Medicaid
- Typically funded by fixed income sources
 - Will likely represent tradeoff from current lifestyle cost
- Policy purchase decisions:
 - Should only purchase target full daily benefit amount for limited benefit period, or none
 - Daily benefit may target specific facility's costs or below-average facility costs
 - Be cautious about affordability of elimination period

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

- Who needs LTCi, and why?
 - \$100,000 to \$500,000 of assets
 - Access to care and protection of assets
 - Care for one spouse or individual may quickly exhaust assets for survivor or heirs
 - May benefit from state LTC partnership program
 - May be funded from fixed income or assets
 - Will likely represent tradeoff from current lifestyle costs
 - Policy purchase decisions:
 - Should only purchase target full daily benefit amount for limited benefit period, or none
 - Daily benefits may target specific facility's costs, or below or near area average cost
 - May consider slightly longer elimination periods

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Advanced Concepts and Issues in Long-Term Care Insurance Planning LTC Policy Design Philosophy

- Who needs LTCi, and why?
 - \$500,000 to \$1,500,000 of assets
 - Protection of assets is primary focus
 - Extended LTC event could significantly impact available assets for surviving spouse or heirs
 - Can typically afford access to care; primary impact is cost of extended care over time
 - May benefit from state LTC partnership program in extreme cases
 - Typically funded using income from assets
 - May likely represent tradeoff from current lifestyle costs
 - Policy purchase decisions:
 - May fully insure daily benefit or choose to only partially insure
 - Daily benefit typically in line with average costs of care
 - May consider longer benefit periods or lifetime benefits
 - Should consider longer elimination periods

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Advanced Concepts and Issues in Long-Term Care Insurance Planning

LTC Policy Design Philosophy

- Who needs LTCi, and why?
 - \$1,500,000 to \$3,000,000 of assets
 - Protection of assets is primary focus
 - Significant extended LTC event still an impact to surviving spouse or heirs, and may affect commitments to family or charities
 - LTCi helps to make expense known and fixed vs. unknown
 - Can provide freedom to spend other assets and reduce “reserve” for LTC
 - State LTC partnership programs likely not relevant
 - Typically funded using asset base; not necessarily an impact on annual spending budget
 - Unlikely to represent tradeoff from current lifestyle costs
 - Policy purchase decisions:
 - May fully insure daily benefit or choose to only partially insure
 - Daily benefit may target higher standard of care
 - Long benefit periods or lifetime benefits to protect against catastrophic expense
 - Should consider longer elimination periods

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Advanced Concepts and Issues in Long-Term Care Insurance Planning

LTC Policy Design Philosophy

- Who needs LTCi, and why?
 - \$3,000,000+ of assets
 - Managing protection of legacy is primary focus
 - Legacy concerns typically viewed as target asset level, not exhaustion of assets
 - LTCi utilized purely to manage risk of failing to achieve target survivor or legacy goals
 - Insurance overall viewed from the perspective of legacy management
 - State LTC partnership programs not relevant
 - Funded using asset base
 - Should not impact current lifestyle costs
 - Policy purchase decisions:
 - May fully insure daily benefit or choose to only partially insure
 - Daily benefit should target appropriate standard of care; potentially very significant home health care costs
 - Most likely to purchase lifetime benefits for catastrophic expense protection
 - Can effectively manage long elimination periods and long/thin policies

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Advanced Concepts and Issues in Long-Term Care Insurance Planning Other Notable Issues

- Increasing opportunity for partnership policies
- Growth of hybrid policies; new tax structure for hybrids in 2010
- Rising costs of new policies vs. price increases on existing policies
- Consolidation of LTC industry providers

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Advanced Concepts and Issues in Long-Term Care Insurance Planning

- Summary
 - Be cautious of differences in fine-print details of policies
 - Different wealth levels have different LTCi needs and reasons for purchase; be certain to consider and discuss LTCi in proper context
 - Guiding philosophy about LTCi can assist in evaluating breadth of decisions about various moving parts
 - Be cognizant of ongoing developments on the horizon!

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Questions?

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