



## 2015 MDRT Annual Meeting e-Handout Material

**Title:** What Are You Missing With Long Term Care Planning?

**Speaker:** Debra C. Newman, CLU, ChFC

**Presentation Date:** Tuesday, June 16, 2015  
2:00 - 3:00 p.m.

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## Reasons For Planning

- Longevity
- Diminishing Availability of Caregivers
- Probability

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## Women of Fifty

**A woman who reaches 50 today,  
and remains free of cancer and heart disease,  
can expect to see her 92<sup>nd</sup> Birthday**

Gail Sheehy, author New Passages – Mapping Your Life Across Time, May 28, 1996

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## Care Givers

- **29% of the US population provide care for a chronically ill, disabled, or aged family member or friend during any given year and spend an average of 20 hours weekly providing care for a loved one.**

National Alliance for Caregiving / AARP November 2009

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## Impact on Family & Society

<sup>1</sup>For those in the high-risk years of 80 plus:  
A recent AARP study projected a dramatic decline in the caregiver support ratio from

**7 Potential Caregivers in 2010**  
to  
**4 Potential Caregivers in 2030**

### Who Are Your 4 people?

<sup>1</sup> D. Rudloff, L. Feinberg, and A. Houser: The Aging of the Baby Boom and the Growing Care Gap: A Look at Future Declines in the Availability of Family Caregivers. AARP Public Policy Institute, August 2013.

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## Role of Family Caregivers

Most long-term care is provided, unpaid, by family members and friends.

Estimated economic value of unpaid caregiving:

- **2007 \$375 Billion**
- **2009 \$450 Billion**

Feinberg L, Reinhard S, Houser A, Choula B. Valuing the Invisible: 2011 Update: The Growing Contributions and Costs of Family Caregiving. 2011. <http://assets.aarp.org/ocw/policy/11/caregiving.pdf>. Accessed November 8, 2012.

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**“There are four kinds of people in the world. Those who:  
 Have been caregivers;  
 Currently are caregivers;  
 Will be caregivers; and  
 Will need caregivers.”**

- former First Lady Rosalyn Carter

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*“Reasonable people will insure, not against risk of an event happening to them, but rather the consequences to those they love if it ever does.”*

Harley Gordon

**We cannot predict the future with the same certainty that we can plan for it.**

*“Risk means more things can happen than will happen.”*

Elroy Dimson - London School of Business

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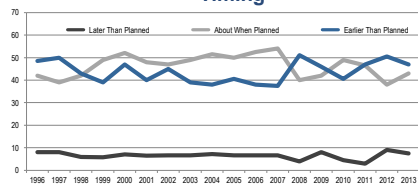
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## Retirement Timing



Closing the Retirement Expectations "Gap": Variations in Demographics, Sources of Information, and the Implications of a "Bad Guess", by Nevin E. Adams, JD and Jack L. VanDerhei, PhD. Journal of Financial Service Professionals / January 2014 - Data Source: Employee Benefit Research Institute and Matthew Greenwald & Associates, Inc., 1993-2013 Retirement Confidence Surveys.

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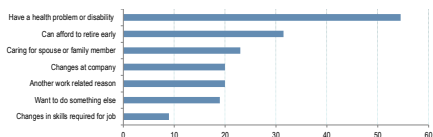
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## Retirement

### Reasons For Retiring Earlier Than Planned



Closing the Retirement Expectations "Gap": Variations in Demographics, Sources of Information, and the Implications of a "Bad Guess", by Nevin E. Adams, JD and Jack L. VanDine, PhD. Journal of Financial Service Professionals / January 2014 - Data Source: Employee Benefit Research Institute and Mathew Granwald & Associates, Inc., 1993-2013 Retirement Confidence Surveys.

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## Clients Have Enough Savings?

65 Year Old - Retiring at 65

Savings Required to Pay for Health Care Costs

**Men** \$124,000 - \$211,000 *at retirement*  
to cover health insurance premiums & out of pocket health expenses  
90% Chance of having enough money

**Women** \$143,000 - \$242,000 *at retirement*  
to cover health insurance premiums & out of pocket health expenses  
90% Chance of having enough money

Data Does Not Include Risk of Long Term Care

December 2010 / EBRI Issue Brief #351 / Employee Benefit Research Institute, 2010

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## Annual Cost of Care

National Average Cost of Long Term Care Services

Care Type	2014
Homecare	
Homemaker Services	\$43,472*
Home Health Aide	\$45,760*
Assisted Living Facility	
Private One Bedroom	\$42,000*
Nursing Home Care	
Semi-Private Room	\$77,380*
Private Room	\$87,600*

\*Source: Genworth 2014 Cost of Care Survey - Executive Summary

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## In The Minds of Consumers



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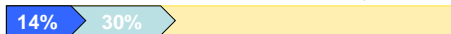
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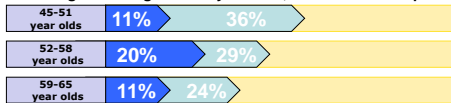
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## Price Points Make a Difference

- Overall Purchase interest doubled that of traditional plan, from 14% - 30%



- Effect strongest among 45 to 51 year olds, where interest tripled



A Study of Consumer Behavior, Results of the John Hancock 2012 Consumer Survey, Conducted by Forbes Consulting, LTC Group-4891 1/13

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## Price Points Make a Difference

### Key Price Point Thresholds

Age Range	Monthly Price Point Threshold
45-51	\$75
52-58	\$100
59-65	\$150

### Survey Results Show

64% consumers will choose the less expensive alternate LTC coverage



22% consumers prefer the more expensive traditional LTC coverage



A Study of Consumer Behavior, Results of the John Hancock 2012 Consumer Survey, Conducted by Forbes Consulting Group, LTC-8591 1/13

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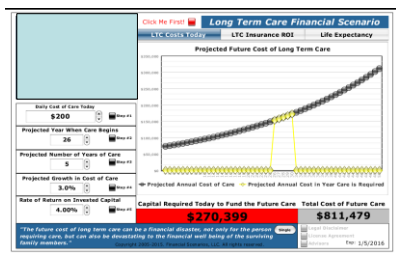
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## Buy Or Invest Case Study



Financial Scenarios LLC

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## Buy Or Invest Case Study

Daily Benefit	Capital Required Today	Projected Rate of Return	
\$200	<b>\$270,399</b>	4.00%	
Annual Investment	Annual LTCI Premium	Projected # of Premiums	Total Premiums
\$2,130	\$2,130	26	\$55,380
Growth	Net Present Value of LTCI Premiums		Monthly Benefit at Claim
5.00%	\$34,463		\$13,000
Year of Need	Annual Premium % of Capital Required		Months to Return Premiums
26	1.27%		4.26
Care Purchased 5 Years			With 10 Day Home Health Care Waiting Period

Financial Scenarios LLC

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## LTCI & Your Family's Best Interests

- Caregiving is not an easy role. It is time consuming, stressful, & physically demanding.
- Even if your family is willing to help, you may not want to burden them with daily responsibilities related to your care.
- Think about the obligations your family members are now juggling & how caring for you could impact their lives.

- ❖ **Companions vs. Caregivers**
- ❖ **Permission**

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## Estate Planning Case Study

**Dick & Jane – Ages 54 & 52**

### Scenario 1 - Fund With Insurance or Assets and Investment

Assumptions		Key Projections	
<b>Cost Assumptions</b>		<b>Cost</b>	
Care Years	5	Long Term Care Cost	\$811,475
Beginning Year	26	Investment Opportunity Cost	\$342,870
Current Daily Cost	\$300	<b>TOTAL ECONOMIC COST OF CARE</b>	<b>\$1,154,345</b>
Inflation Rate	3%		
Plan Period	36 Years		
<b>Insurance Plan Design</b>		<b>Premium</b>	
Policy Type	Reimbursement	Paid to Insurance Company	\$163,579
Elimination Period	0	Investment Opportunity Cost	\$718,187
Daily Benefit	\$200	<b>TOTAL ECONOMIC VALUE OF PREMIUM</b>	<b>\$881,766</b>
Benefit Period	5 Years		
Inflation Type & Rate	3% Compound		
Out Waiver & Surrender			
<b>Insurance Premium</b>			
Total	\$2,130 & \$1,600		
Advanced Planning Assumptions			
Investment Return	4%		

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## Estate Planning Case Study

**Dick & Jane – Ages 54 & 52**

### Scenario 1 - Fund With Insurance or Assets and Investment

\$1,154,090	\$281,746
<b>No Insurance</b>	<b>With Insurance</b>

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# Estate Planning Case Study

60 Years Into The Future

**Dick & Jane – Ages 54 & 52**

## Scenario 2 - Fund With Insurance or Assets and Investment

Assumptions		Key Projections	
<b>Care Assumptions</b>		<b>Care</b>	
Care Years	5	Long Term Care Cost	\$811,479
Respite/In-Hom	20	Investment Opportunity Cost	\$3,856,000
Current Daily Cost	\$200	<b>TOTAL ECONOMIC COST OF CARE</b>	<b>\$4,411,479</b>
Relator Rate	2%		
Plan Period	60 Years		
<b>Insurance Plan Design</b>		<b>Premium</b>	
Policy Type	Reimbursement	Paid to Insurance Company	\$163,579
Elimination Period	0	Investment Opportunity Cost	\$118,167
Daily Benefit	\$200	<b>TOTAL ECONOMIC VALUE OF PREMIUM</b>	<b>\$281,746</b>
Benefit Period	5 Years		
Allocation Type & Rate	3% Compound		
<b>Insurance Premium</b>			
Total	\$2,130 & \$3,529		
<b>Advanced Planning Assumptions</b>			
Investment Return	4%		

Assumption Change = Plan Period 60 Years

Projection Change

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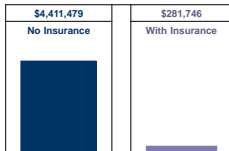
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# Estate Planning Case Study

60 Years Into The Future

**Dick & Jane – Ages 54 & 52**

## Scenario 2 - Fund With Insurance or Assets and Investment



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# Taxation

## Standards

### HSA Withdrawal

- Individual purchasers may pay premiums from their employee Health Savings Account on a tax free basis.

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# Taxation

## Standards

### Individual Purchaser Deductions

- Medical and dental expenses that exceed **10%** of adjusted gross income are deductible.
- Taxpayers may include eligible LTCI premiums as part of their medical expenses.

Department of the Treasury Internal Revenue Service

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# Taxation

## Standards

### Eligible Age Indexed LTC Premium Amounts

Deductible Subject to the 10% AGI Rule

Attained Age Before Close of Tax Year	2014 Tax Year	2015 Tax Year
<b>40 or younger</b>	<b>\$ 370</b>	<b>\$ 380</b>
<b>41-50</b>	<b>\$ 700</b>	<b>\$ 710</b>
<b>51-60</b>	<b>\$1,400</b>	<b>\$1,430</b>
<b>61-70</b>	<b>\$3,720</b>	<b>\$3,800</b>
<b>71 and older</b>	<b>\$4,660</b>	<b>\$4,750</b>

Department of the Treasury Internal Revenue Service

**Benefits are TAX FREE**

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# Taxation

## Standards

### Receiving LTCI Benefits (On Claim)

- Benefits paid under a qualified LTCI plan are generally excluded from taxable income.
- The stated dollar amount of the per diem limitation is \$330 in 2015.

Department of the Treasury Internal Revenue Service

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# Taxation



## Standards

### All Companies

- Employers have the option of covering certain employee classes.
- An employee, their spouse and dependents may be covered and receive the same tax advantages.
- Employer-paid premiums for employees, spouses, and dependents are generally excluded from an employee's income for tax purposes. Coverage for retirees, their spouses and dependents will also often qualify as a legitimate business expense deduction.

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# Taxation



## Standards

### C-Corporations and Non-Profit Organizations

- May deduct the entire premium amount for employees, their spouses and dependents.
- There are no premium limitations.
- Premiums are not reported as income for the employees.

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# Taxation



## Standards

### Self-Employed Individuals

#### (Including LLC, PA, S-Corps. & Partnerships)

- The 2% (or more) owners of these entities may deduct 100% of the **eligible (age indexed)** LTCI premiums on the personal 1040 form. This includes premiums paid on their behalf, their spouses and dependents for Tax Qualified LTCI policies.
- Please refer to the age indexed chart for eligible premiums.
- Non-Owner Employee premiums are still deductible by the employer.

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## Case Study – Linked Benefit

**Marco – Age 65**

Marco is a single man with an average portfolio of investments, including a few CDs and an annuity. He does not have children and plans to leave a small legacy in the form of a scholarship to his alma mater. His mother just died after a 4 year stay in a memory care facility and he feels the need for some sort of protection, although he does not like traditional LTCI because he cannot bequeath the unused portion.

**SOLUTION**

- Death Benefit – Level
- \$120,000 Face Amount/Death Benefit
- \$5,000 Monthly Max
- 2 Year ABR & 2 Year ERR
- Total LTC Benefit = \$240,000
- Residual Death Benefit \$12,000

Initial Premium \$77,490

**Flexible Premium Adjustable Life Policy With Long Term Care Benefits**

Product Chassis - Universal Life

**ABR Rider – Accelerated Benefit Rider**  
Accelerates face amount for LTC coverage

**EBR Rider – Extension of Benefits Rider**  
Additional continuation for LTC coverage after face value fully accelerated

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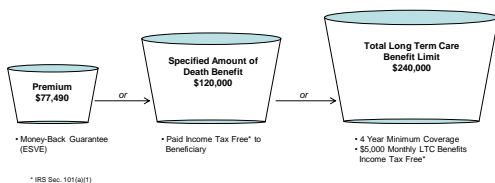
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## Case Study – Linked Benefit

**Marco – Age 65**



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## Pension Protection Act 2006

**Signed Into Law**

**Unique Tax Advantage**

Deferred Annuities used to Fund Long-Term Care Expenses

- Before PPA – Annuity taxes were paid when funds were withdrawn to pay for long-term care expenses.

**Long Term Care Payments**

Defined as non-taxable income (as a reduction of tax basis)

- When cash is withdrawn from non-qualified annuities to pay for long-term care expenses or specifically designed long-term care insurance, the withdrawn amounts are not considered taxable income.

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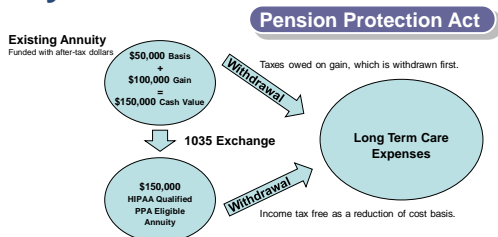
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## Key Similarities



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## Traditional Life Insurance

### With Long Term Care RIDER (7702B)

- 2 of 6 ADL or Cognitive Impairment
- Home Health Care / Asst Living Facility / Nursing Home
- 90 Day Elimination Period
- 1 - 4% Monthly Benefit
- Indemnity or Reimbursement
- Typically Requires Additional Purchase Charge
- Typically Requires 4 Hr Training Certificate to Sell

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## Traditional Life Insurance

### With Long Term Care RIDER (7702B)

Male Age 55  
\$250,000 Death Benefit  
Guaranteed Premium Indexed Life

Yr	Accumulated Premium	Death Benefit	LTC Benefit	Non Guarantee Surrender Value
1	\$4,394	\$250,000	\$9,900 Mth / 25 Mths	\$0
5	\$21,970	\$250,000	\$9,900 Mth / 25 Mths	\$9,627
10	\$43,940	\$250,000	\$9,900 Mth / 25 Mths	\$30,455
20	\$87,880	\$250,000	\$9,900 Mth / 25 Mths	\$82,862
30	\$131,820	\$250,000	\$9,900 Mth / 25 Mths	\$156,553

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## Traditional Long Term Care

Male Age 55 - Married  
**\$10,000 Monthly Benefit**  
 24 Month Benefit Period  
 \$240,000 Benefit Maximum

Yr	Accumulated Premium	LTC Benefit
1	\$1,200	\$10,000 Mth / 24 Mths
5	\$6,000	\$10,000 Mth / 24 Mths
10	\$12,000	\$10,000 Mth / 24 Mths
20	\$24,000	\$10,000 Mth / 24 Mths
30	\$36,000	\$10,000 Mth / 24 Mths

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## Traditional Life Insurance

With Long Term Care RIDER (7702B)

Female Age 55  
**\$250,000 Death Benefit**  
 Guaranteed Premium Indexed Life

Yr	Accumulated Premium	Death Benefit	LTC Benefit	Non Guarantee Surrender Value
1	\$3,953	\$250,000	\$9,900 Mth / 25 Mths	\$0
5	\$19,765	\$250,000	\$9,900 Mth / 25 Mths	\$7,750
10	\$29,530	\$250,000	\$9,900 Mth / 25 Mths	\$25,630
20	\$79,060	\$250,000	\$9,900 Mth / 25 Mths	\$73,231
30	\$118,590	\$250,000	\$9,900 Mth / 25 Mths	\$144,173

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## Traditional Long Term Care

Female Age 55 - Married  
**\$10,000 Monthly Benefit**  
 24 Month Benefit Period  
 \$240,000 Benefit Maximum

Yr	Accumulated Premium	LTC Benefit
1	\$1,725	\$10,000 Mth / 24 Mths
5	\$8,625	\$10,000 Mth / 24 Mths
10	\$17,250	\$10,000 Mth / 24 Mths
20	\$34,500	\$10,000 Mth / 24 Mths
30	\$51,750	\$10,000 Mth / 24 Mths

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## Pros & Cons

Life Insurance	Long Term Care Insurance
<b>PRO</b> <ul style="list-style-type: none"> <li>• Death Benefit (if LTC Not Required)</li> <li>• Premium Guaranteed</li> <li>• Female Pricing Less Expensive</li> <li>• Surrender Value</li> <li>• Life Insurance May be Issued Without LTC Rider</li> </ul>	<b>PRO</b> <ul style="list-style-type: none"> <li>• Less Expensive</li> <li>• Deductible for Businesses</li> <li>• Waiver of Premium</li> <li>• Male Pricing Less Expensive</li> <li>• Care Coordination</li> <li>• Respite Care</li> <li>• 0 Day Elimination Period Available</li> </ul>
<b>CON</b> <ul style="list-style-type: none"> <li>• No Inflation on Most Plans</li> <li>• More Expensive</li> <li>• Underwritten for Both Riders</li> </ul>	<b>CON</b> <ul style="list-style-type: none"> <li>• Premiums Can Increase</li> <li>• Female Pricing More Expensive</li> </ul>

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## Traditional Long Term Care Couples Case Study

Annual Premiums	Carrier A	Carrier B
Gay Couple	\$3,871	\$5,269
Lesbian Couple	\$6,471	\$5,269
Heterosexual Couple	\$5,171	\$5,269

Couple Age 50  
**\$5,000 Monthly Benefit**  
 3% Compound Inflation  
 Shared Care  
 90 Day Facility EP  
 0 Day Home Care EP  
 4 Year Benefit Period

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## Impact of Caregiving

- Caregivers are 2 times more likely to develop chronic illness.
- Caregivers 65+ who have chronic illness histories have a mortality rate that is 63% higher than non-caregivers. (Schultz & Beach, 1999)
- The stress of family care responsibilities has been shown to adversely impact a caregiver's immune system up to 3 years after such care ends. (Kiecolt-Glaser & Glaser, 2003)
- Other adverse effects include depression, anxiety, and other chronic health conditions.
- Stress of caregiving decreases life expectancy by 10 years.

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## Client Conversation

### Establish the Need – Paint the Picture

1. When you think of your Parents & Grandparents, of those 12 people, did any of them have trouble living independently at the end of their lives?
2. Go Go, Slow Go, No Go
3. What is your long term care plan?
4. Permission

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