

Long Term Planning ▼

Making the case for Long Term Care Insurance

Balancing risk and cost of an LTCi event

by Joseph Catalano

Joseph Catalano is senior vice president, Distribution & Marketing, John Hancock Long Term Care Insurance. He can be reached at jcatalano@jhancock.com.

I don't think that many of us were sorry to see 2009 end, with its market turbulence and record unemployment. Staggering 401k losses made for an uncertain future and left all of us feeling jittery. But as bad as the year may have been, it did lay the groundwork for what is sure to be strong growth in the long term care (LTC) insurance market.

The Matter of Need

First, there is the simple matter of need. The distribution branch of the industry, including the most respected broker dealers and wire houses, has long recognized the financial risks posed by a long term care event. We all know that the cost of care is high, with current nursing home confinements averaging almost \$75,000 annually and even home health care estimated at about \$55,000 a year. The annual cost of nursing home care in 30 years is projected to be \$250,000. It's probably safe to say that that few clients are in a position to meet these costs without a significant impact on their estates, particularly when the Medicaid loopholes were significantly reduced with the passage of the Deficit Reduction Act in 2006.

Finally, the social fabric that once supported care has frayed, with family members often living miles apart. Many sons and daughters are busy with careers or childrearing responsibilities, sometimes both. In any case, most people are unwilling to burden their children with having to provide for their care.

As a result, not only do the most respected distributors believe LTC insurance as a "must-have" in any comprehensive financial

plan, they actually view its introduction as part of their fiduciary responsibility to their clients. There are some in the industry that take it a step further and view the failure to recommend LTC insurance as a potential malpractice risk. They fear that an individual whose estate has been consumed by long term care expenses could hold the producer liable for these losses, with the courts deciding that they did not perform appropriate due diligence during the estate planning process. But the real reason to sell LTC insurance is not to avoid litigation, it's about responsibility, trust, and growing your book of business by capitalizing on the opportunities.

The Baby Boomers Wake Up

I'm talking about the 78.2 million baby boomers who may need care within the next 20 years. The first wave celebrated their 60th birthdays in 2006 and nearly 8,000 reach that milestone every day. This is the group that benefited from a stock market that didn't seem to have a ceiling. They were living the good life and had every reason to think that the future would be bright. Unfortunately, the world changed in October 2008, when the Dow lost 1,800 points in the first week and started a dive that would take many boomer nest eggs with it.

Today, many of the boomers are being forced to reassess their financial plans and are taking a second look at LTC insurance. Before the crisis of the financial markets in 2008/2009, they may have been able to self-insure against a long term care risk. Now, they're looking at ways to protect their remaining assets from a possible long term care event. That's what makes LTC insurance an ideal part of a comprehensive retirement plan. It's insurance protection that can be counted on to help provide for their long term care needs, regardless of the ups and downs of the market.

THE FLIGHT TO QUALITY

The boomers aren't the only ones who've changed. The LTC

insurance industry itself has evolved over the years. Some companies departed after having incorrectly priced their product lines. Their departure left many producers frustrated and embarrassed since they were the ones recommending these companies in the first place. Even worse, those consumers who had been paying premiums for years wondered if they would be left high and dry at claims time.

Then if you add in the concerns surrounding the financial crisis, you can understand why we've experienced a flight to quality unlike any seen before in this industry, with producers choosing to work with carriers that have the ability to demonstrate the highest level of financial strength and stability. So the companies that were uncommitted, or who got into the market for a quick profit have mostly exited, leaving behind a more consolidated and dedicated carrier group to meet the long term care needs of the American public. That's good news for producers and their clients, alike.

THE MESSAGE FROM WASHINGTON

There are other positive developments that should boost LTC insurance sales, courtesy of the federal government. The first is The Pension Protection Act (PPA), which is broad legislation that includes provisions to encourage individuals to purchase LTC insurance, by introducing certain tax advantages involving Life/LTC and Annuity/LTC combination products and 1035 exchanges. The PPA signals the government's recognition that LTC coverage represents important and solid consumer value.

The other piece of legislation that may have an even greater impact in the long run is the passage of The Community Living Assistance Services and Supports (CLASS) Act of 2009. Currently included in both the Senate and House versions of the pending health care legislation, the CLASS Act is sure to raise awareness among all Americans of the many issues surrounding long term care.

Although the coverage is limited and is mainly intended to provide a minimal home care benefit to the working disabled, it still sends a powerful message about the importance of long term care preparedness. We will simply need to educate the public on what it does, and more importantly, does not provide. If the health care bill is ultimately passed and continues to include the CLASS Act, it will be one more way to start the LTC insurance conversation with your clients.

THE MULTILIFE OPPORTUNITY

Now that we've entered a new year, it might be a good time for you to consider reinvigorating your practice. A great way to do that is to consider the sale of multilife LTC insurance to employers with fewer than 1,000 employees. LTC insurance has been very popular with large employers, but the small to mid-size market remains mostly untapped. A recent John Hancock survey of small business owners revealed that although they are interested in LTC insurance as an employee benefit, only 57 percent have been approached by their broker or consultant about this topic.

If you haven't thought about entering the small to mid-size employer market, there are some good reasons to consider it. Once you sell an employer on LTC insurance, you gain access to the entire employee population and their eligible family members as well. Think of it as one sale leading to many, without the constraints of the Do Not Call legislation and the barriers that apply to one-on-one sales in the individual market. You'll find that employers will be very receptive to the product once they learn that the product has advantages for them and their employees.

LOOKING AHEAD

All good sales people are tuned into their clients' needs. The most

successful make their mark by staying ahead of the competition. This means being committed to developing an expertise in products they know their clients will value. LTC insurance is one of those products.

LTC insurance addresses the issues of an aging population by providing protection to cover a risk that few can self-insure, while providing an affordable way to help your clients protect their assets and preserve their independence, especially if they decide to purchase it during their working years. On top of that, the government continues to send signals that the purchase of private LTC insurance is a prudent way to prepare for a possible long term care event.

So if you're looking for the next big thing, look no further, and consider adding LTC insurance to your portfolio of products. If you already sell LTC insurance, my suggestion is to get ready for the ride ahead and keep an eye out for new opportunities, like the small business market, and get your message out to those who need to hear it.