

Use IUL to mitigate retirement health care costs

Concept

You've likely heard of using indexed universal life to supplement retirement. Have you marketed using IUL to supplement health care costs as clients approach retirement?

A person near retirement may have numerous costs including:

- Costs not covered by Medicare
- Supplemental insurance coverage (Medigap)
- Medicare Part B and D costs
- Long term care insurance costs
- Medical costs associated with an early retirement before Medicare is available.
- Long term care costs not covered by insurance.

For many people, health care costs may prevent people from retiring as early as they would like. Proper planning can help make early retirement (and security in retirement) a reality.

Case

John and Mary are 45 years old and would like to retire at age 60. John has identified a minimum amount of life insurance of \$500,000. John makes the largest share of the income in the household and in addition to needing life insurance to at least age 60 would like to consider extra funding to cover potential health care costs associated with early retirement.

Costs:

- Given current costs and a medical cost inflation rate, John figures it will take about \$20,000/yr for health coverage from age 60 to 65 for him and Mary.
- With inflation, John expects Medicare Part B coverage to cost \$500/month (\$6,000/yr) for the couple.
- John is also expecting an additional \$500/month (\$6,000/yr) of expenses in retirement not covered by Medicare.
- John is expecting to purchase long term care insurance for both when they turn 55 at a cost that he estimates to be about \$3,000/yr.
- John is concerned that a long term care policy may not meet all his needs and not cover an amount he finds sufficient.
- John expects his health care out of pocket costs to increase by 5%/year in retirement.

John has read articles stating that couples may have to spend \$300,000 to \$500,000 during the course of their retirement for medical costs and wants to plan for this expense with a flexible solution.

Solution

The agent sees two effective solutions for this case. One possibility is a term policy with a side investment to meet his needs. Term insurance would run less than \$50/month.

Another option is an indexed Universal Life policy like the Builder IUL. The Builder IUL can provide the coverage he needs not only through retirement age, but beyond. The Builder can also be a very competitive use of funds to meet his needs.

To meet the funding needs the client desired, the agent ran a \$600,000 Builder IUL (using 8% index interest rate and 6% variable loan assumptions) with:

- An income stream of \$3,000/yr starting at age 55 to pay for long term care insurance.
- An income stream of another \$20,000/yr for 5 years to pay for insurance between retirement and expected Medicare at age 65.
- An income stream of \$12,000/yr indexed at 5% inflation rate starting at age 65 for out of pocket costs.

The premium required was rounded up to \$900/month. This met all of the client's needs and the internal rate of return report showed an impressive after return of over 8% by age 85 on the cash value and even more on the death benefit. This was viewed by John as a very effective use of his funds.

The illustration is attached.

Tips and Talking Points

- **Changing rules?** Social Security retirement ages have already changed in the past. Is it possible that the age to qualify for Medicare may change? Will Medicare even be there in the form it is today?
- **HSA.** Some may suggest that this very idea is best served with an HSA. While a Health Savings Account can go a long way in helping cover costs in this case study, the client needs a high deductible plan to qualify for the HSA, is limited in funding, and doesn't have the life insurance death benefit or accelerated death benefit for chronic illness.
- **Continuing employer's coverage with COBRA.** The Consolidated Omnibus Reconciliation Act (COBRA) allows a person to continue their employer's coverage for up to 18 months without pre-existing conditions, but the expense is wholly paid by the insured. Check into those costs if that's the plan – they could be much larger than expected.
- **Medicaid for nursing home?** Medicaid only pays a fraction of long term care costs and many seniors need to deplete their assets to qualify. This plan may also limit choices in care due to cost restrictions.
- **Combine with retirement supplement.** This sales concept can be used with or without the concept of using life insurance for supplemental retirement income.
- **What if it's not needed?** Any extra funds that aren't used can be retained in the life insurance policy for growth and/or death benefit for heirs. Another option of course is to take out for other uses which may or may not include supplementing retirement income.
- **Internal Rate of Return Report.** A big part of this concept is showing the after tax rate of return on these funds with the internal rate of return report on the North American software and/or Insmark. Look at the death benefit IRR before retirement and the surrender value IRR after retirement.
- **Chronic Illness Accelerated Benefit Rider.** This is a big part of this sales concept. One of the client's concerns is the insufficiency of their qualified long term care coverage. This benefit allows the client to accelerated death benefit to help cover these needs.
- **Do research.** Educate yourself so you can help your client realize the extent of health care costs. The internet is a great resource for information. For example, here's an article from the Center for Retirement Research at Boston College.
http://crr.bc.edu/images/stories/Briefs/IB_8-3.pdf
- **Why North American.** North American's products are ideally suited for this solution with not only industry leading **competitive performance**, but design elements that are very attractive as well. These include:
 - **Chronic Illness Accelerated Benefit Rider** to allow for even greater access to funds via accelerated death benefit.

- **Automatic distribution option** so the client can easily access funds without hassle.
- **Overloan Protection Benefits.** Not only does North American have the “last minute” protection against the policy lapsing from excessive loans, but the client may also have the ability to specify the amount of coverage they want guaranteed to provide a higher level of death benefit assurance. In this sale, the client will need to make sure the policy lasts to at least age 70 for over loan protection to prevent adverse tax consequences.
- **Loan flexibility.** Fixed, Preferred, and Variable loans are allowed. The client also has the ability to transfer between loan types as conditions warrant without a cash payoff required.

Target Client Profile

- Have a life insurance need.
- Concerned about health care costs in retirement.
- Concerned about health care costs if they retire before age 65.
- Concerned about costs of long term care insurance.

Who do you have that meets this client profile? Grow your business. We're here to help.