6 misconceptions of long-term care insurance

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Financial professionals have a lot of ground to cover when helping clients put a comprehensive financial strategy in place. They help clients with retirement planning, legacy planning, family protection, liquid emergency funds, college savings for children, etc. And most clients are happy to discuss these important financial strategies. But one topic that often fails to excite clients is long-term care (LTC) planning.

Let's face it: Thinking about needing long-term care in our final years of life is not fun. In addition, both clients and financial professionals alike may have misconceptions or concerns about buying LTC coverage. This article will focus on six of those misconceptions and provide some talking points to help financial professionals redirect an LTC conversation into a more positive planning experience.

Myth #1

LTC insurance is really nursing home insurance

It's hard to believe that some clients still relate the words "long-term care" to mean planning for a nursing home stay. I still hear people refer to LTC coverage as "nursing home insurance".

Generally, using statistics with clients does not help move a conversation forward, but there are times when having a few in your pocket makes sense — and this is one of those times. The following is information that may help clients look at LTC in a more positive way:

- 73% of LTC claims begin with home-based care[1] — and the majority of these people will remain at home until the end[2]
- 18% of LTC claims begin in assisted living facilities[1]
- 9% of LTC claims begin in nursing homes[1]

As you can see from the above numbers, people with LTC coverage have a very small risk of ending up in a nursing home. But also keep in mind that home-based care can be the most expensive as well as the least expensive form of care. Having LTC insurance to cover these costs is an important part of preserving retirement assets and planning a legacy. More importantly, having LTC insurance keeps your options open to pay for the kind of care you want to receive.

Long-term care is not a place; it is an event that should be planned for and is part of comprehensive retirement planning. When bringing up LTC planning with a client, an opening that focuses on home-based care can go a long way toward keeping the conversation going in a positive direction.

One suggestion for an opening might be: "While you are here today to discuss your retirement plan, let's also discuss how to keep you in your home as long as possible should you begin to need help." Focusing from the start on home-based care can help keep the conversation moving in a constructive fashion and hopefully lead to a successful outcome.

Myth #2

LTC insurance is expensive

Whether something is "expensive" is subjective. But I would like to approach this concern with the following theory on purchasing anything we might need in life. Ideally, you want to purchase something with quality, purchase it quickly, and buy it for the least amount of cost — "Quality, Quick and Inexpensive." But most things in life do not come that way. You can usually pick two but not all three. If it has quality and you get it quickly, it is not normally inexpensive. If you can get something quickly and it is inexpensive, it generally may not be of high quality.

When doing LTC planning, you can add a fourth factor: Value. Now you will choose from Quality, Value, Quick and Inexpensive. Here you can typically pick two, and maybe three. When purchasing LTC coverage, value and quality may be what you want to focus on first. As for value, you can get guaranteed leverage. For a 55-year-old female buying LTC coverage with the assumption of needing benefits at the target age of 80, leverage would be anywhere from about 3.5 times up to 5 times or more without inflation. But add 3% compound inflation on the policy and you are up to nearly 8 times leverage. Adding 5% compound inflation will add even more leverage. And policies are available that will guarantee both premium and benefits. Now that is value and quality.

In addition to value and quality, linked benefit policies usually have simplified underwriting that only takes a few days because it is not fully underwritten. These policies offer value, quality and are quick to get issued — 3 out of 4.

But are they inexpensive? No. However, they are now more affordable. Premium options are no longer limited to short pays such as single premium, 5-year and 10-year premium schedules.

$ Today, affordable options are available such as 20-year and lifetime premium options. If your client is willing to trade inexpensive for affordable, they can purchase LTC coverage that offers value, quality, is quick to issue and is affordable — all 4.

Myth #3

You must use a licensed care provider and submit bills and receipts each month to get the LTC benefits from a policy

That is not necessarily the case. And today's LTC policies are not like those your parents or grandparents may have been on claim with. The key is making sure you purchase a policy with a benefit model that does not restrict how benefits are used, or require monthly paperwork in order to get your LTC benefits. A reimbursement policy will only pay the billed rate for services covered under the policy, often requiring a licensed provider. In addition, these policies require that bills and receipts are submitted each month for reimbursement. Expenses not covered by the policy must be paid for out of pocket.

However, a cash indemnity LTC benefit model will pay the full LTC benefit amount to the policyowner — without submitting monthly bills and receipts! From there, the benefit dollars can be spent without any restrictions from the insurance company. That provides the freedom to use benefits for any need the insured has. This would include less expensive unlicensed caregivers (including family members), alternative care services not typically covered by other policies, ancillary expenses such as prescriptions or medical bills not covered by other insurance, transportation to appointments, and so forth.

Ask your client how they would picture their care, regardless of how it might sound. The more creative your client's answers are, the more likely an appropriate solution will be a cash indemnity policy. If the client has no idea what type of care they would picture, then a cash indemnity policy will leave the door open to make any choice in the future. Of course, no one policy is right for every client, so asking questions is the best way to pin down the benefit model that might best serve your client.

Myth #4

You lose the premiums you paid if the policy is not used

Today, there are policies that are attached to financial products such as life insurance. If the policy is not used for LTC expenses, a death benefit is paid. How much that death benefit is will depend on the base policy that was used. Life insurance with an LTC rider will pay any remaining amount of death benefit, so if the LTC benefits are not used, the full leveraged death benefit amount would be paid to a beneficiary.[3] If someone chooses more robust LTC coverage from a linked benefit (hybrid) policy, most individual hybrid policies will pay a death benefit that is at least equal to the amount that was paid in premium if the policy is not used — and it could be more.

Traditional LTC policies have optional return of premium riders (returnable only to a beneficiary at death), but these can come at significant additional cost. In many cases a linked benefit policy, or a life insurance policy with an LTC rider, will offer a death benefit equal to or more than premiums paid but may be little if any more in cost. Keep in mind age and health can make a difference in price comparisons.

If your client is averse to buying LTC coverage because they fear it will be a waste of money if the policy is not used, ask them the following: "What if I could show you a quality LTC plan with guaranteed premiums and benefits, a return of premium feature if you want your money back, and a death benefit worth at least what you paid into the policy if you never use it? Such a policy exists and can help pay for LTC expenses if you need it, or leave a legacy to a charity, spouse, children or grandchildren if you don't need it for LTC." Placing a dual purpose on the policy can help get clients past just focusing on LTC and help them to move forward with the plan.

Myth #5

Rates keep going up, and I may not be able to afford the policy in the future

That may have been a concern with traditional LTC insurance policies, but with the advent of combo and hybrid LTC coverage placed on financial products such as life insurance, this no longer needs to be of concern. By guarantees, we mean that the premiums can never go up and the LTC benefits can never be reduced.[3] But that is not the only safeguard to affordability.

Another exciting feature offered on some linked benefit policies (hybrid) on life insurance is a reduced paid-up policy (RPU) during the premium payment years. What that means is: Should the policyowner no longer be able to afford paying premiums, the cumulative premiums that have already been paid will be credited pro-rata, based on the issue amount, to arrive at a new benefit amount that is paid up.[4] No additional premium will be required. This feature is a nice safeguard for clients who can afford premiums now, but worry about an unknown event in the future that could impede their ability to keep up premium payments.

Myth #6

We can't afford 2 policies, so why bother?

Some couples find that they are not comfortable with the cost of purchasing two separate LTC policies. Trying to decide which person to insure is nothing but guesswork. However, there are options to purchase joint LTC coverage that offers a shared LTC benefit pool that one or both parties can access — even at the same time! This takes the guesswork out of who to insure. Even better, a joint policy is usually less expensive than two individual policies, which may help get the couple into a price point they are comfortable with.

And today, options now include joint linked benefit LTC policies that offer one shared pool of LTC benefits for two insureds, along with guaranteed premiums and guaranteed LTC benefits. These policies can offer your client a more affordable solution to plan for the unknowns while being assured that their premium can never go up, nor will their benefits ever go down.[3]

Final thoughts

While these are not all the concerns or myths that could come up in an LTC conversation with clients, hopefully we addressed some of the more common misconceptions about LTC insurance. Moreover, it is hoped that one takeaway from this article is that an LTC conversation can be positive. With the right LTC policy and benefit payment model, LTC coverage can be an affordable and win-win solution to help keep clients in control of their final stage of life.

[1] "Long-Term Care Insurance Facts 2022," American Association for Long-Term Care Insurance (AALTCI).

[2] "Home care dominates majority of long-term care insurance claims," Insurance Forums (Nov. 16, 2020).

[3] This assumes no withdrawals or loans have been taken from the policy.

[4] There may be a minimum policy amount required to be maintained to meet regulatory standards.

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