LONG TERM CARE MYTH BUSTERS

Within a financial plan, there is one key risk management tool that is often misunderstood, overlooked, or dismissed, but can be the most crucial in retirement—Long Term Care (LTC) Insurance. Few clients are eager to have the LTC conversation, and this difficult conversation is made even more challenging by common myths about LTC insurance. This brief educational piece will uncover the truth behind a few of these commonly held myths.

MYTH 1: Traditional LTC is the only solution available and premiums can be increased significantly.

TRUTH: Though it is true that traditional LTC premiums can (and often do) increase by 50% or more, traditional LTC is not the only LTC solution available in today's marketplace.

The graphic below highlights three available LTC solution types with a comparison of key features and important considerations.

TRADITIONAL LTC INSURANCE

BENEFITS

+ Generally provides the most affordable coverage
+ Significant customization
+ Inflation protection available
+ Offers shared care benefit (allows spouses to tap into each other's benefits under special circumstances)

DRAWBACKS

– Premiums are not guaranteed, are subject to rate increases, and are generally required for life
– Have no tangible cash value
– "Use it or lose it" (no benefits are paid if the insured does not have an LTC event)
– Requires full underwriting

INDIVIDUAL PROFILE

- Seeks the most affordable option
- Currently has sufficient life insurance coverage in place
- Desires ability to fully customize LTC coverage (elimination periods, inflation protection, shared care, etc.)

FEATURES	STRENGTH
LTC Leverage	★★★★★
Legacy Protection	★
Flexibility	★

HYBRID LTC

BENEFITS

+ Guaranteed premiums
+ Guaranteed liquidity
+ Flexibility – provides LTC benefits, death benefit, or a return of premiums
+ Inflation protection and zero-day elimination period available
+ Simplified underwriting

DRAWBACKS

– Requires limited-pay design
– No shared care benefit

INDIVIDUAL PROFILE

- Desires the highest available leverage with respect to guaranteed LTC benefits with the certainty of guaranteed premiums
- Does not necessarily need additional death benefit protection, but is concerned about paying for and never receiving any benefit
- Prefers a lump sum or limited-pay funding structure

FEATURES	STRENGTH
LTC Leverage	★★★★
Legacy Protection	★★
Flexibility	★★★

LIFE INSURANCE WITH LIVING BENEFITS RIDER

BENEFITS

+ Guaranteed premiums
+ Potential for cash value accumulation
+ Guaranteed death benefit

DRAWBACKS

– No inflation protection
– No shared care benefit
– Receipt of LTC benefits reduces the death benefit
– Requires full underwriting

INDIVIDUAL PROFILE

- Has a need for additional life insurance protection and an interest or desire to address LTC coverage
- Prefers the convenience and administrative efficiency of satisfying both life and LTC insurance needs within a single solution

FEATURES	STRENGTH
LTC Leverage	★★★
Legacy Protection	★★★★★
Flexibility	★★

WHAT ARE THE KEY FEATURES?

- **LTC Leverage** – power of premium dollars to generate LTC benefits
- **Legacy Protection** – ability to protect wealth if LTC event never occurs
- **Flexibility** – ability to access and transfer money

"Strength" assessments are educational in nature and intended to serve as a general guideline and not a recommendation to purchase a specific product or service. They are based on Valmark's analysis of selected key features and not an all-inclusive review of every available feature. These assessments reflect the relative strengths between the four LTC protection options presented. Information is provided solely as an incidental service to our affiliated insurance professionals, financial planners, and investment advisors.

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MYTH 2: Affluent individuals do not need LTC coverage based on their net worth.

TRUTH: Not only will affluent clients be more likely to need LTC services in their lifetime than middle class Americans, but the cost of their care may be more expensive as well[1]

LTC Services will likely cost more for the affluent because they:

- Are more likely to stay home regardless of the cost to do so
- Tend to want better quality LTC care, which is more expensive
- Are more likely to choose a costlier private room in an upscale facility
- May be less likely to receive care from their children as their children often have less flexible work schedules

SELF FUNDING VS. HYBRID LTC:

While it is true that most affluent individuals can afford to self-fund an unexpected future LTC event, it is important to note that it may not be the most optimal or cost-effective strategy. Let's look at a quick case study using a cash indemnity hybrid LTC solution vs. a self-funding strategy. In this study, we assume a 55-year-old male, qualifies for a couples discount, 4 year benefit period, and 3% compound inflation protection. The initial monthly benefit is $6,269 and it will grow by 3% annually, even while the insured is on claim, with the added inflation protection rider.

The following example compares the benefit pools from two different funding strategies[2]:

	SELF FUNDING	HYBRID LTC
Initial Investment	**Allocate $100,000 towards LTC** Move cash into a conservative account assuming a 3% annual Rate of Return	**Reallocate $100,000** Purchase a hybrid LTC policy with a guaranteed benefit pool
LTC Benefits	**Day 1: $100,000** **At Age 85: $242,726** 3% Internal Rate of Return	**Day 1: $314,726** **At Age 85: $763,922** 6.57% Internal Rate of Return
If LTC Benefits Are Not Needed	**$242,726** Passed on to heirs	**$150,456** Passed on to heirs as a tax free death benefit
Flexibility	**LTC Benefits:** Cash can easily be used as soon as it is needed **Liquidity:** Cash can be easily repositioned if needs change	**LTC Benefits:** Cash indemnity provides flexibility for use of benefit payments[3] **Liquidity:** The surrender value is 100% of paid premium after year 5. [4]

Hypothetical example. Actual results may vary.

Bottom Line: Self funding and Hybrid LTC strategies both have advantages. For the affluent individual, repositioning a portion of current assets into a Hybrid LTC policy is an attractive and cost-effective solution that can protect the portfolio from a future costly LTC event. The affluent crowd tends to be very familiar with the concept of leverage and therefore may be willing to give up the flexibility and control of the Self Funding strategy in order to gain the significant leverage provided by the Hybrid LTC solution.

FOOTNOTES AND DISCLOSURES:

[1] Council on Aging – "Should I Buy Long Term Care Insurance?", September 2016.

[2] Study based on 55 year old male, standard, couples discount, 4 year event, 3% compound inflation (Securian SecureCare was used for the Hybrid LTC solution)

[3] Once on claim, Cash Indemnity policies pay a cash benefit regardless of actual expenses. Cash Indemnity policies do not have limitations on caregivers, types of care, or the setting for which care is received.

[4] Liquidity features vary by carrier and product. The illustrated alternative shown assumes 100% return of premium after year 5.

The material contained herein is for informational purposes only and is not intended to provide specific advice or recommendations for any individual nor does it take into account the particular investment objectives, financial situation or needs of individual investors. Individuals are advised to seek the advice of a qualified professional before pursuing any idea contemplated herein.

For more details about these LTC protection options, please consult with a qualified professional as well as any available resources including product materials, contracts,and/or prospectuses, if applicable.

These materials contain information about the features, risks, charges and expenses of each option. Please consider this information carefully. Solution availability and features may vary by state.

Guarantees are based on the claims-paying ability of the issuing company.