The New Annuity with LTC Benefits

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The Problem

- 40 million American’s over 65 – 13% of total population.
- 80 million American’s over 65 by 2040.
- 75% will require LTC during their lifetime 50% for a minimum of one year.
- 20% over five years.

The Cost

- Genworth Financial 2008 Cost of Care Survey
  - LTC costs are increasing from year to year
  - Home health care aides $19 to $38 per hour
  - One bedroom assisted living unit: $3,008
    - Everything else is ala carte
- Nursing home care:
  - $6,665 a month average nationwide
- $400,000 a person who has Alzheimer’s whose nursing home stay for just five years.

Options to pay for LTC

- 1) Traditional LTC insurance
  - Expensive and like term insurance
- 2) SPL policies
  - Tough to get through underwriting
- 3) The New annuity with LTC benefit
  - Nice new option
- 4) EIUL policies with free LTC riders
  - Mainly for younger clients who are building wealth
- 5) Medicaid
  - A fallback for people who are not prepared (which is ironic since most people are also not prepared to qualify for Medicaid).

Single Premium Life

- This has become a popular options for many senior clients.
- Why?
  - Relaxed underwriting*
  - 100% return of premium with some products
    - Others grow at rates slightly more than CD and MM account rates and does so tax deferred
  - Nice death benefit that will pay much more at death than leaving money in CDs and MM accounts.
  - DB passed outside of probate
  - Nice LTC benefit if it is ever needed

*Unfortunately, even with relaxed underwriting, the companies that offer this type of policy still decline a significant number of applications.

Example of SPL policies

- Let's look at an example of three different SPL policies.
- Example client is a male at 65 who pays a $250,000 premium.
- The guaranteed CSV is at age 85.
- SPL is the best way to go if the client is not buying a traditional LTC policy (but it's tough to get through underwriting)

	Guaranteed DB	Guaranteed CSV	Monthly LTC Benefit	Total LTC Benefit
NEW SPL policy	$414,894	$258,212	**$11,525**	**$968,086**
#1 Selling SPL Policy	$395,136	$288,102	$10,976	$921,984
#2 Selling SPL Policy	**$458,333**	**$360,447**	$7,576	$636,384

The new annuity with LTC benefits

- It appears this annuity was designed to pick up where SPL policies leave off.
- The underwriting is more relaxed than SPL policies.
- How can that be and still provide a nice LTC benefit?
- Two reasons:
  - The payment of LTC benefits is spread if activated in years 2-5.
  - There is NO death benefit (it’s simply the account value that is paid upon death).

LTC benefit on the LTC annuity

- Accelerated benefits
  - The company is going to pay a LTC benefit out of the client's own money.
  - Depending on the payment option this could be for 2 or 3 years.
- Extension of benefits
  - When the client's own money runs out, the company the pays "extended" benefits from its own pocket.
  - Depending on the payment option this could be for 4 or 16 years.

What is the LTC benefit?

- It depends on what the client chooses to go with.
  - Option 1) two years of accelerated benefits and four years of extended benefits (2+4).
  - Option 2) Three years of accelerated benefits and three years of extended benefits (3+3).
- Option 1 will provide a LTC benefit equal to three times (3x) the premium paid (or account value when higher in the later years).
- Option 2 will provide a LTC benefit equal to two times (2x) the premium paid (or account value when higher in the later years).

Cost of the LTC rider

- Understand that this is just a fixed annuity with a LTC rider.
- If the client wants the rider added to the annuity, there is an annual fee taken out of the account value.
- Cost of the rider is guaranteed through the 7-year surrender period.
- Because there is no cash in the account value after the accelerated benefit is paid, the fee will end (which makes sense)

	Annual Fees	
Issue Age Band	**2+4**	**3+3**
45-49	0.26%	0.40%
50-54	0.30%	0.44%
55-59	0.32%	0.46%
60-64	0.38%	0.50%
65-69	0.50%	0.58%
70-74	0.68%	0.72%

Example

- 65-year old client pays a $100,000 premium. Assume a rate of return in the product of 2%.
- What would be the LTC benefit at age 72?
- The actual account value would be approximately $112,250 after fees with the 2+4 rider.
- Therefore, the total LTC benefit would be 3 x $112,250 or **$336,750**.
- How much better is this than letting money stay in CDs, MM accounts or in MYGAs without this rider?
- Approximately 3Xs better.

Time period for receiving benefits

- The company that issues this product isn’t stupid.
- What it’s not going to do is offer a relaxed underwriting LTC annuity and then have people who are likely to need LTC in the next 1-5 year receive the full benefit over a six-year benefit period.
- Therefore, if the rider is activated in the first five years, the time to receive the benefit is extended.

Time frames

- If activated in year two, the benefit will be spread out over 18 years in equal installments.
- If activated in year three, the benefit will be spread out over 15 years.
- If activated in year four, the benefit will be spread out over 12 years in equal installments.
- If activated in year five, the benefit will be spread out over 9 years.
- If activated after year five, the benefit will be spread out over 6 years.

Example

- $100,000 account value at any given time and using the 2+4 benefit.
- If activated in year 2, the benefit would be $16,667 paid for 18 years.
- If activated in year 3, the benefit would be $20,000 paid for 15 years.
- If activated in year 6, the benefit would be $50,000 paid for six years.

Growth

- Again, this is a fixed annuity.
- The rates are not going to be good, but they should exceed what a client can earn from a CD or MM account.
- Currently, I believe it is crediting 2%.
- This locked in for the seven year surrender charge period.
- Then after that it will reset like a typical fixed annuity.

Underwriting

- While there is relaxed underwriting, there is still underwriting.
- The client still fills out a medical questionnaire.
- There is prescription drug screening (so if your clients are on drugs that indicate they are going to need LTC in the very near future, they may not qualify).
- Remember, the insurance company is not on the hook for a DB which really helps the underwriting of this product (no mortality underwriting).

Receiving benefits

- Unable to perform 2 of 6 Activities of Daily Living (ADL)
- Severe Cognitive Impairment
- Assessment and Plan of Care completed by a Licensed Health Care Practitioner
- Plan of Care must be followed
- 90-Day Deductible Period

Benefits continued

- Maximum Monthly LTC Benefit available for Nursing Home & Hospice Care
- 50% of the Maximum Monthly LTC Benefit available for Assisted Living, Home Health Care, Adult Day Care & other qualified long-term care services
- New Request for Benefits form needed every 3 months
- Receives the care prescribed in the Plan of Care
- Has an updated Assessment and Plan of Care, confirming Benefit Eligibility, completed at least annually

Death benefit

- Whatever the actual account value is when the client dies (minus any LTC benefit that has been paid and the rider fee).

Specifications

- 6% commission (street)
- Single Premium product
- Minimum LTC Premium $50,000
- Maximum LTC Premium
  - 2+4 LTC Benefit Duration: $400,000
  - 3+3 LTC Benefit Duration: $600,000
- Election Age 45-74
- Only non-qualified money
- Single life only
- There is an income rider available as well.

Markets

- There are three primary markets:
- 1) Clients who can’t qualify for SPL policies.
- 2) Clients who have money sitting in CDs and MM accounts.
- 3) **1035 exchanges**.
  - I believe this is is the one the insurance company that offers the product would like agents to focus on.
  - There are many clients who have MYGAs that are outside of the surrender period.
  - Those products are earning the same pathetic return as the LTC annuity but there is NO LTC benefit.
  - Therefore, there is a tremendous sales opportunity to pick up 1035 roll over money while at the same time doing a great service for those clients who need some kind of LTC coverage.

One last example

- Let’s compare this new LTC annuity to the #1 SPL policy in the market and CDs. Assume the client is a 65-year-old male who would be standard for underwriting and who pays a one-time premium of $100,000 into either the SPL policy, the NEW annuity with LTC benefit, and into CDs.
- How to do the benefits stack up?

	Maximum Annual LTC Benefit	**Death Benefit**
#1 product at age 70	$71,544 (payable for 6 years)	$178,410
#1 product at age 80	$71,544 (payable for 6 years)	$144,281
Annuity at age 70	$33,788 (payable for 9 years)	$105,116
Annuity at age 80	$51,314 (payable for 6 years)	$117,164
CD at age 70	$0	$109,344
CD at age 80	$0	$126,899

Questions

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