

NATIONAL UNDERWRITER™

July 7, 2003 Volume 107, No. 27

Life & Health / Financial Services Edition

www.NationalUnderwriter.com

L T C P L A N N I N G

Helping Clients Find The Optimum LTC Benefit Design

By **Ralph Leisle**

Current long term care insurance products include a wide array of new features and options.

This breadth of product has created unprecedented opportunity for producers to help clients select the most appropriate benefit design and payment mode for their situation.

That's the good news. The bad news is, according to various articles, advisors still struggle with how to make basic choices such as whether to elect short or long deductible periods. Additionally, many of the newer features are more complicated than their predecessors, making it more difficult for producers to present recommendations that clients can grasp.

Fortunately, new software tools are emerging that can help producers make efficient and effective analysis in ways the

Ralph Leisle, CLU, ChFC, is president of LTCi Decision Systems Inc., an Orange County, Calif., firm specializing in long term care software development and consulting. His e-mail is rleisle@lucia.com.

consumer can understand. Let's look at an example.

In Chart 1, you will see a sample analysis. Its purpose is to find the optimum benefit design for the client based on the elimination period (EP) selected.

Here, the most favorable outcome for the client occurs when the benefit design and premium result in the lowest asset erosion due to a care event. (Note: Projections will vary depending on data input controlled by the advisor or client.)

Assuming a care event will occur, the optimum benefit design of a LTC product will project the lowest economic impact to the client who owns LTC insurance.

In this scenario, "with insurance" includes both the LTC insurance premium and the "net self-funded" care. ("Self-funded" is insurable care that the policyholder pays out of pocket for expenses not covered by the insurance, due to the benefit design decision made at policy issue.)

This scenario also includes a factor for "loss of investment opportunity." This loss occurs due to the LTC self-funded care cost and LTC premium expenditures the insured makes instead of

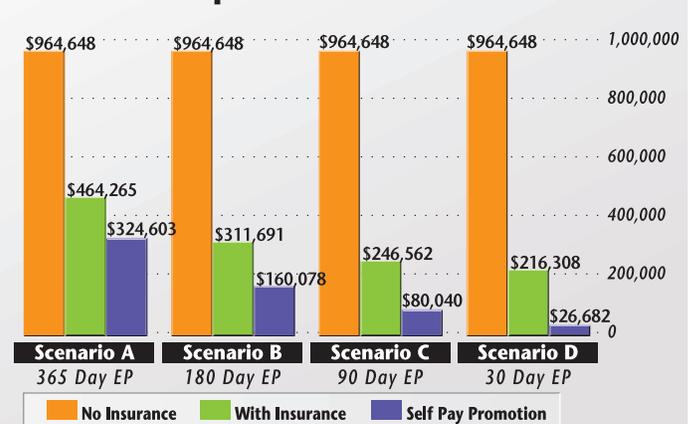
investing the money elsewhere. It is an important component to include in assessing the full cost of having LTC insurance or not. The factor used here is a 6% rate of return on the amount (premium plus care cost).

cost, in today's dollars, is \$200 a day. The plan is set to increase this daily benefit amount 5% annually. The plan has no limit on the number of benefit years.

(Note: To shorten the illustration, factors for asset liquidation,

Scenario Comparison

CHART 1



Source: LTCi Decision Systems Inc., Orange County, Calif.

The chart shows four different scenarios: Design A, with a 365-day EP; Design B, with a 180-day EP; Design C, with a 90-day EP; and Design D, with a 30-day EP. The premium rate tables used are generic (average) rates.

The chart assumes the client is age 55 and needs three years of LTC, beginning in year 28 of a 30-year estate plan. The estimated care

taxes and other advanced variables were not included.)

What is the recommendation that results from this analysis? Should the advisor advise selecting a short or an extended elimination period?

Contrary to commonly accepted assumptions, for this client, a short (30-day) elimination period in this comparison

L T C P L A N N I N G

provides the lowest asset erosion for the surviving spouse or heirs. But the analysis also found that a zero-day EP would be less favorable than the 30-day EP, so the best choice is very specific.

Individual carrier results would vary from the above, depending on rate tables. Still, the chart makes the point that a 30-day EP vs. a 365-day EP can make a big difference!

In this case, in fact, the choice amounts to a quarter million dollar decision. Chart 2 shows why.

As you can see, the 365-day EP results in the client's estate suffering \$248,000 more in asset erosion than an identical scenario using a 30-day EP.

Here are the numbers: Under the 30-day EP, the impact of the care event with insurance is \$216,000. If 365-day EP is selected, impact jumps to \$464,000

(\$464,000 - \$216,000 = \$248,000 more asset erosion).

Thus, the projected impact of care on the client's estate asset erosion is identical whether care needed for two years or 30 or more years. Without insurance, three years of care amounts to approximately \$1 million in each scenario.

In addition to the above summary, the data show that Scenarios A and B have a "net self-paid" care cost, due to the 365- or 180-day EP, that is greater than the "economic value" of a lifetime of premium payments. (See Chart 1.)

For Scenario A, for example, this value equals \$51,000 in total premium payments plus the growth on that money at 6%, compounded, over 28 years.

(This growth reflects the future value of the 28 years of premium payments, if the insured had invested the premium amount in a side account earning 6%, rather than purchasing LTC insurance.)

A point to keep in mind is that the total cost of care in this sce-

client value. Client value is expressed as lowest possible LTC event impact "with insurance."

For producers and clients, this means that comprehensive modeling techniques that are focused on wealth preservation simplify the decision process. Integrating

Scenario Projections

CHART 2

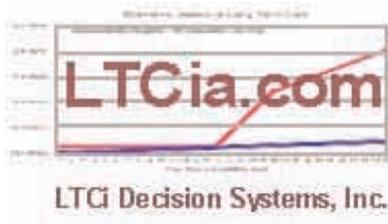
Economic Impact of 3-Year Care Event					Premium Age 55, One Insured		
Scenario	EP Days	No Insurance	With Insurance	Net Self Paid	Total Paid Over 28 Years	Economic Value Over 28 Years	Annual
A	365	964,000	464,000	324,000	51,000	140,000	1814
B	180	964,000	312,000	160,000	58,000	152,000	2092
C	90	964,000	247,000	80,000	63,000	166,000	2318
D	30	964,000	216,000	27,000	71,000	189,000	2646

Source: LTCi Decision Systems Inc., Orange County, Calif.

nario would be \$954,000, regardless of the design decision made.

In sum, the "optimum benefit design" model shifts emphasis from premium to finding optimum

all significant financial considerations leads to higher understanding and confidence in the quality of the decision, whether client has typical or substantial wealth. **NU**



Date Source:
LTC Economic Impact Planning Model™
LTCi Decision Systems, Inc.
http://www.LTCia.com
800 360-9853
rleisle@ltcia.com

Copyright in this article as an independent work is held by the author.