

Ask the Coach

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Understand Globally – Act Locally: A Broad Perspective on Group Long-Term Care Insurance

We cannot fully appreciate the need for group LTC insurance without having a sense of international and domestic demographic trends. We'll look at these trends and discover how group LTC insurance helps meet important social and economic needs.

Eldercare laws will change or have changed, making it harder to shield retiree assets from Medicaid/MediCal claims. The reason is the high cost of government funded long-term care expenses. These increased costs are causing many states to look for new ways to fund the widespread Medicaid/MediCal shortfall. We are being forced to reduce our dependence on government supplied long-term care services and cover our own LTC expenses. Those in favor of self-reliance will applaud this move. But the actual users of these services – older and poorer members of society – will probably feel different about these changes.

Employer funded retiree health benefits may also become less common. Many large employers are looking for ways to shed these costs as quickly as possible. Major employers are reducing guaranteed retirement income benefits. For example, GM and IBM are moving away from their traditional employer funded pension plans to 401(k) plans.

Globalization has reduced the prices of imported consumer goods, which puts tremendous pressure on American manufacturers to reduce their costs. Because of import competition, U.S. companies have fewer dollars to fund the health and retirement benefits their employees have come to rely on.

Also, the fact that people are living longer is a serious economic concern for most Western countries and Japan. Almost all developed countries are concerned about the increasing costs of retiree healthcare, retirement benefits, and long-term care.

When Social Security started in 1935, less than 2% of the population was over 65 and the ratio workers to beneficiaries was about 40 to one. The combined employer/employee cost of Social Security benefits was 1% of payroll, compared to 12.4% today. However, Medicare adds 2.9% to bring the total to 15.3% of payroll. The ratio of workers to beneficiaries is now only about three to one. The retirement age has only gone up by two years since Social Security was enacted, and only for those born after 1960.

These irreversible global and national trends are more powerful than any political party or political system, so politics as usual will not solve the problems. We can only do so by designing and funding public/private plans to meet social needs.

We only have a few options if we want to continue to cover the costs for Social Security, Medicare, and Medicaid: raise state and federal taxes to fund existing government programs; shift the costs to the private sector; or do a combination of the two.

What the Informed Broker Knows and Does

The informed broker knows that Medicare and Medicaid/MediCal programs are under significant cost pressures. Ironically, the government program that is receiving the greatest scrutiny is the one that is in the best financial shape – Social Security retirement benefits. Estimates place its solvency at about 35 years, which is the longest safety net period in its history. In the early days of Social Security benefits, the program was funded on a year-by-year basis with virtually no reserve.

The government programs that are in the most dire financial straits are getting much less attention: Medicare and Medicaid/MediCal. These programs are in jeopardy because of the very immediate and intense pressures of rising healthcare costs, increasing long-term care costs, and increasing longevity. Brokers know that group LTC insurance is a partial solution.

Funding Long Term Care Costs

Having group long-term care insurance is a very cost effective way to cover long-term care costs because of the leverage factor involved. The secret of insurance is in its cost-sharing arrangements. Many people pay, but not all collect – at least not all at the same time. Combine this concept with the fact that approximately 50% of the population that lives to 85 will have some kind of compensable claim, which means that this risk needs a broad solution. Group long-term care insurance works because the more people in the insurance pool, the more affordable the insurance protection will be.

Further, the Baby Boom generation is now experiencing the reality of long-term care needs and costs. People born between 1946 and 1964 are experiencing the emotional and financial cost of caring for parents and relatives who need long-term care. With the government stepping back from funding long-term care needs, the private sector (you and I) are the only ones who can provide the funding solution.

Looking for the Ideal Group LTC Insurance Prospect

Earlier observations might suggest that any group is a good prospect for group LTC insurance, but industry studies suggest it is important to be selective. Here are some factors that make a group an attractive prospect:

- Owners and decision makers are 45 to 60.
- Owners and decision makers have parents, friends, or relatives who have received some kind of long-term care.
- Owners and decision makers have assets they want to protect. Long term insurance is a benefit provider and an asset protector.
- The employer has been profitable for at least four to five years.
- The group has a well-educated workforce and a 401K plan with matching employer contributions.

Because group LTC insurance is still relatively new, it is for the relatively sophisticated and affluent client who appreciates the difficulties in obtaining and paying for long-term care benefits. Younger groups are often less attractive because the owners have a more limited appreciation for the peace of mind and financial security that comes from a well designed and

comprehensive employee benefit program that includes LTC insurance. That is why you should be selective when prospecting for group LTC insurance candidates.

Some Plan Design Suggestions

When purchasing individual LTC insurance policies, the traditional and conservative approach is to select lifetime benefits. Yet, a recent Milliman study states that only about one out of six claims is still open after 36 months. Since group insurance offers very competitive pricing for less-than-lifetime benefits, you should consider three or four years as the basic or core LTC insurance benefit period.

Consider a plan design with extra benefits, which are available on an individual buy-up basis, such as a lifetime benefit, limited premium paying periods, and additional purchase benefits.

It is extremely important for the business owner to explicitly endorse the program and agree to pay for all core employee benefits. The employer should make a public announcement to this effect at an employee meeting with the broker in attendance. There should be an open enrollment period of four to six weeks to educate the workforce. Be prepared to answer questions privately and have basic and buy-up forms available, as well as sample contracts and pricing sheets.

Summary

Having group long-term care insurance is an economical way to cover most, if not all, of the costs of a long-term care event. Adequate long-term care funding is probably the greatest neglected area of most retirees' financial plans. Adjusted for inflation, a long-term care event could easily consume \$500,000 to \$1 million after tax assets. Even most affluent people are hardly in a position to fund such an expense and still meet all their other financial responsibilities. Remember that the average age of a long-term care claimant is over 80. Thus, the long-term care event and the estate tax are the two financial costs that are easiest to pre-fund by using insurance to provide the liquidity when needed. Long-term care costs are much more likely to occur than are state and federal estate taxes. (Only about 1% to 2% of all estates incur any estate tax.)

One final note: If you believe in the product, but are not experienced in selling it, take a veteran agent or broker with you on your sales call. Sharing commissions is an economical way to learn a new product and help your clients solve their insurance needs.

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