WANT TO MAKE THAT A COMBO MEAL?: NATIONWIDE'S LIFE AND LONG-TERM CARE SOLUTION

by Charles Arnold

Almost everyone in this industry has heard the statistics around the need for long-term care (LTC). Most of us have probably heard the stats so often, we've become completely numb to them. Just to summarize, unless you kick the can early, the probability of needing some kind of living assistance later on is going to be high (upwards of 70%). And as anyone who's paid a nursing home bill will tell you, it's not cheap. It's going to be one of those massively underestimated problems as Baby Boomers retire and start to lean on younger generations for assistance. As people evaluate potential options, one solution that has become more attractive over the past decade is a dual sale using permanent life insurance together with a true LTC rider (IRS 7702B). In this particular marketplace, Nationwide and John Hancock make up between 80-90% of dual life and LTC sales. Nationwide offers a cash indemnity style LTC rider and John Hancock offers a reimbursement style, both of which are competitive depending on what you are trying to accomplish. Indemnity pays the client a fixed cash sum, and reimbursement matches to pay any qualified expenses submitted. Problem is, the client needs to be offered the combo to know it exists.

I think the primary challenge is getting point-of-sale professionals to consistently show the dual solution together with all permanent life insurance quotes, as an available option. A secondary challenge is getting the advisor comfortable enough to explain it in a manner that they and the client can understand. Once we can get to that point, I think it becomes just like the fast food drive-through: When you ask if they want the combo, in most cases the clients will choose the combo. Within the few firms that encourage their advisors to push the dual option, this notion has proven true.

Nationwide's Long-Term Care Rider II:

I wanted to dive into how this type of sale was being positioned and examine the industry leader in the space. To do so, I spoke with one of the brightest industry experts, Shawn Britt, Director of Long-term Care Initiatives at Nationwide Financial. Nationwide has always been a leader in the long-term care space and, in addition to their strong *CareMatters*® LTC product, is also very proud to offer an indemnity style LTC rider to its members on permanent life products (Nationwide is a mutual company and refers to its clients as members). In general, the LTC rider is added to approximately 40% of permanent life sales at Nationwide. For VUL, that figure is around 25%, and for GUL that is 50%. Some industry firms, who have chosen to promote the dual sale specifically, are at nearly 70% within their respective shops. As I previously alluded to, that alone is strong proof that when advisors are encouraged or mandated to show the dual option, clients elect it. Currently, their LTC rider is more popular among independent broker-dealers, but it has been gaining traction in the institutional wire-house and bank markets over the past several years. From a pricing standpoint versus John Hancock, Nationwide's LTC rider will be more expensive due to its indemnity nature. A reimbursement design is typically less expensive for a carrier because their payout is matching the actual expenses, as opposed to an indemnity cash sum. In over 52% of cases, clients chose to start their care at home before moving to a facility, which also reduces the costs up front for a reimbursement style payout. Hancock's rider is a strong option, don't get me wrong, and the differences are more clearly outlined in this industry comparison piece: Nationwide Competitive Overview. One quality of Nationwide's rider is that it can be added after the policy has been issued, if desired; but unfortunately, clients very rarely elect to do so. A blunt reason why that is probably the case is because there isn't any advisor compensation or GA override for it. Benefits can also be paid outside the US and Canada with their rider as long as the physician who conducts the assessment is licensed to practice in the US.

Nationwide's rider is pretty easy to understand. A client can elect 2, 3, or 4% of face amount for their maximum monthly benefit, with a 90-calendar day elimination period. Nationwide will pay the lesser of that amount or 2x the IRS HIPAA per diem which is currently at $360 per day. So that equates to $720 per day, $21,600 per month, or $259,200 per year as an estimate. The 3 and 4 percent levels were really provided for the lower face amount policies. The larger face amount policies will hit that 2x HIPAA level regardless. In reviewing some of the advantages, take a look at the Top 10 Reasons to consider Nationwide Long-term Care Rider II. The HIPAA amount is tax-free and as long as the client saves their receipts for additional qualified care expenses, there shouldn't be any substantial risk to an IRS audit with the additional funds paid. Although I'm not a tax-professional, so I advise the rep and client to consult their tax professional on any tax inquiries. Clients aged 21 to 80 can be underwritten for the LTC rider all the way down to Table E, which seems to be the most liberal among Nationwide's competitors. The thing that is good about a true 7702B rider is that it doesn't have to be a condition that will kill you. It can easily be a temporary condition where 2 out of the 6 activities of daily living (ADLs) or cognitive impairment exists. A lot of the "chronic illness" 101(g) riders most carriers offer today get lumped into the same conversations as true LTC riders, but they are completely different animals and need to be regarded as such.

Speaking the Advisor's Language:

Often times it comes down to if the client wants to bleed assets, or not bleed assets when facing long-term care expenses. Having a dedicated stream of income to act as a stop-loss, and protect the client's portfolio, is a smart idea.

> ***With bank and wire-house reps particularly, who are managing assets, the way for them to have a conversation that is more natural for them and will make more sense to their clients, is discussing this product using the investment language. [Mr./Mrs. Client] You've been through black Monday, the 2001 dot-com crash, the 2008 mortgage and financial crisis, your accounts went down, and I was able to get those back up for us. But Imagine the problem we would have building them back up if you were pulling large sums of money out of them, especially in down markets, to pay for long-term care? What I'm wanting to do is create a dedicated stream of income, that's ready to go at a moment's notice, that's not tied to your portfolio. I want to insure your portfolio against this potential outflow, especially since it may happen to coincide with a market downturn. We don't have to touch anything in your portfolio until that dedicated income stream is gone.***
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> Shawn Britt, Director of Long-term Care Initiatives, Nationwide Financial

The life insurance and LTC rider combo can help insure the portfolio, as well as insure the person in this regard. Once an advisor is able to understand that it will protect their AUM from untimely and/or unwanted withdrawals, it will make more sense. They then feel comfortable presenting the idea to the client, because they can frame it in their own language. Nationwide offers a long-term care assessment tool that an advisor can use to help a client determine what amount they might need to plan for. It is conducted by a third part financial firm that is able to estimate when they may need LTC and also the assisted living costs for that particular region, adjusted for future dollars. When trying to determine the future costs, it's important to insure for the shortfall, and not for the entire amount. Expenses and income change when a client needs LTC, so that will need to be taken into account. Insuring for the shortfall they expect avoids the sticker shock of insuring the entire value.

One strategy, when talking to a financial advisor, is to try and appeal to the emotional nature of the sale. Anyone who has faced the hardship of a family member's declining health knows the burden it can put on the family from an emotional and financial standpoint. Giving a specific, personal example is a good way to do that, or ask the advisor if he or she has experienced a similar situation. How did they handle the financial aspect? If you are unable to find a connection there, try and link it up with a hypothetical scenario. I describe this in more detail in my Broker World article: *Protect AUM Through Life and LTC.*

> ***Mr./Mrs. Advisor, what if the spouse of your top client called you today and said "John has had an accident and will need substantial care, I don't know for how long but it could be a while. What's the plan for something like this? What should we do?"***

This allows you to link up a very real situation with the advisor's business and livelihood. Mr./Mrs. Advisor, you need to protect your assets and your business, as well as offering a solution that can help your clients through this potential, and statistically very likely, situation. When this occurs, the family is really only faced with a few options as they scramble to figure it out: In-home care by a family member either full- or part-time, try and qualify for Medicaid (which is unlikely), or fork over the money for a facility that can run north of $80,000 a year depending on what level care is needed. Try asking the kids to pitch in 40 grand a year for dad's facility care. That will be a challenge. An LTC rider can give some financial relief when they desperately need it so that they can focus on family.

Estate Planning with an Indemnity Rider:

One potential use for an indemnity style rider such as Nationwide's is to use it within an irrevocable life insurance trust (ILIT). For those families that will face an estate tax liability, this is a great way to reduce the amount of cash and liquid assets the estate needs to have on hand for a possible LTC event. Take, for example, the estate has $1 million in cash held for the purpose of long-term care. If the client doesn't need it at the time of death, that $1 million will be taxed at roughly 40%, sending $400,000 to Uncle Sam (assuming the estate previously exceeded the exemption amount). A better way would be to have a trust owned life insurance policy with an LTC rider available to provide those funds, if needed. If the client qualifies for LTC and goes on claim, the trust then will loan the proceeds to the client for LTC expenses and charge an interest rate, which effectively is earning money for the trust in a legitimate business arrangement. That rate needs to be reasonable, since this is a secured loan, but what is deemed reasonable can vary as long as it is justifiable.

> ***Using the fiduciary rule, as the trustee, they are responsible for the beneficiaries and not the grantor. They are obligated to keep trust assets in the black. Those loans, in theory, can be made from the cash value of the policy, therefore you would want to make sure you are charging at least what the policy would charge to borrow money. Those charges could potentially be as high as the guaranteed rates listed within the policy documents.***
> Shawn Britt, Director of Long-term Care Initiatives, Nationwide Financial

Families will want to maximize the interest rate to strip the estate of as much taxable value as possible at the time the estate needs to settle. A way to justify this would be to look at the guaranteed charges of the policy and match those, which are the maximum levels Nationwide will potentially charge the policy, as Shawn alluded to above. Maybe even adding 100 basis points to that figure given the additional risk. Another way to look at this, if the policy was a variable universal life (VUL) policy, is what would have been the rate of return the sub-account portfolio would have earned if it was invested as opposed to loaned? Using a long-term market average of 7% annually could be used as a reasonable opportunity cost and could be used for instance. Take a look at Nationwide's sales idea piece: *Help Affluent Clients Enhance their Estate-Planning Opportunities*.

> ***It's a good solution for either situation. For those without an estate tax liability, it is a way to enhance the legacy for children if they don't need LTC. For those with an estate tax liability, it allows them to take money away from the estate dedicated to LTC, while also earning money for the trust if they go on claim, reducing the taxable estate at the time of death.***
> Shawn Britt, Director of Long-term Care Initiatives, Nationwide Financial

Stand-Alone LTC Policies versus the LTC Rider:

Many of us have asked, which is better, a stand-alone LTC policy or the LTC rider on a permanent life policy? It depends on whether this rider is a "nice to have" option or if it is the main reason the person is buying the policy as to if the cost is worth it. Shawn previously conducted a study over 12 years ago, where she analyzed the differences in cost between the two options. That study found that the cost was about 4x as much for the life and rider combo, as opposed to the stand-alone policy. Of course, the stand alone is only good for a certain period of time, whereas the rider is good for the life of the client, provided the insurance policy maintains in-force. And you aren't getting a life insurance policy with a stand-alone LTC policy. A good chunk of those who purchase a stand-alone policy will never end up using it.

She took some time to reevaluate those numbers this past year, and what she found was that the cost had reduced for the life policy with the rider and increased for the stand-alone since her last evaluation. Actually, the cost difference was cut in half! Due to the rise in cost of the stand-alone products, and the reduction in the base cost of the life insurance policy due to improved CSO tables, the cost had narrowed to only twice as expensive. So, a client can pay $1,000 let's say, and potentially get nothing, or they can pay $2,000 and guaranteed to get what's on that piece of paper from Nationwide. I think the added flexibility with the LTC rider would be worth it from the client's standpoint.

Conclusion:

Given the flexible nature of the indemnity style LTC rider with Nationwide, there is no wonder why they are a market leader in this space. If the point of sale professionals can focus on talking the advisor's language when positioning the LTC rider and consistently including it with every quote, I think that will go a long way. Even though the cost of the LTC rider is getting more competitive, it is still more expensive than the stand-alone options; however, arguably adding more client value. The combo life/LTC package is one of the best solutions that clients simply aren't being offered on a regular basis.