

# Positioning LTC Coverage During a Volatile Economy

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We hear many reasons for delaying the purchase of long-term care (LTC) insurance. But those feelings may be even stronger when the economy and markets are unstable. Clients may see LTC planning as “nice to have, but now is not the time”. One reason people delay purchasing LTC coverage is the belief that by waiting for the market to recover, or for the economy to change, that they will be in a better position to purchase a policy. But will they? What does the person consider to be a “recovered” portfolio, and how long could that take? What constitutes a better economy in reference to buying insurance? And more importantly, what are the consequences of waiting that these individuals are not considering?

- While a client is waiting for a “better time”, they may have another birthday - or two or three. Each year you age, the policy becomes more expensive than if purchased today.
- For those wanting to add inflation benefits to a policy, waiting to purchase lessens the impact with less years for the benefit value to grow.
- A big risk is a change in health. A person who feels great today may see their health change on a dime, resulting in a decline of the application.
- Worse yet, a long-term care event could occur while the individual is “waiting for a better time” to purchase coverage.
- The biggest impact may be how self-funding LTC expenses during a down market can financially upset a retirement plan. Generally, it is less disruptive to pay smaller insurance premiums during a down market, than to pay for larger LTC expenses during a down market.

## THE RISK OF SELF-FUNDING - PARTICULARLY IN A DOWN MARKET OR A HIGH INFLATION ECONOMY

Individuals and couples have been known to declare that they can afford to self-fund an LTC event. They may even tout that they can grow their account higher than any benefit pool offered by an insurance company. But, how sound is their plan?

Self-funding (which is often referred to incorrectly as “self-insuring”) presents flaws that do not exist with LTC insurance.

1. How long will you have to save and invest for an LTC event before it happens? That is unknown.
2. What rate of return will be earned over the long term? That is also unknown.
3. Will an economic period of high inflation impede your ability to contribute into your self-funded plan - or, cut deeper into the retirement income being used to pay for long-term care? Again, unknown.
4. Even if all goes well, can you be certain there won't be a crash in the market right at the time funds are needed to pay for a LTC event? That too is unknown.

When you look at the above considerations, you can't be sure that all of these fluctuating circumstances will be in a favorable position for self-funding, or for accessing funds when the time comes to use the savings to pay for long-term care expenses. That is why self-funding could be called “un-suring”, since you are unsure of the timing before the need may occur, unsure of the long-term rate of return, and unsure whether the market will be in and continue to stay in a healthy place while you begin withdrawing funds to pay for care.

And keep in mind that when taking money out of a down market, the loss is permanently realized - you can't grow it back let alone grow it forward, therefore one could equate this as a double loss.

When looking deeper into this challenge, we find that paying for a LTC insurance policy – even during volatile markets and economies - can be done more effectively than saving for LTC expenses, with an overall outcome that can have a higher chance of success. LTC coverage comes in many forms, and the purchase of traditional LTC insurance can be very valuable, particularly with inflation added. However, this article will concentrate primarily on using linked benefit LTC coverage to overcome market and economic timing object tions - due to some specific features these policies offer.

## LINKED BENEFIT (HYBRID) LTC COVERAGE

Linked benefit LTC policies continue to be a growing market – and the good news is, a single premium is no longer required to purchase the policy. This is important to note, because with the advent of multi-premiums, the purchase of a linked benefit policy could make sense at any time – whether markets are up, down, or sideways. But first, what is a linked benefit LTC policy?

The policy is comprised of two benefit pools. The first pool is a small life insurance death benefit with a LTC rider that is usually equal to or greater than premiums paid. It is not intended to provide life insurance protection but rather, it protects the premium from loss if benefits are little or never used. When qualifying for a LTC claim, benefits will be paid first by accelerating the death benefit. Upon that being exhausted, the second benefit pool - which is pure LTC protection - will begin paying LTC benefits. Even if the policy is totally exhausted, there is usually a guaranteed minimum death benefit which varies (by carrier) from a few thousand dollars to as much as 20% of the death benefit amount.

## WHY LINKED BENEFIT LTC POLICIES MAKE SENSE REGARDLESS OF THE MARKET ENVIRONMENT

We normally think of dollar cost averaging as a concept where money is placed into the market on a monthly basis to help manage the risk of market volatility. However, because some insurance companies offer linked benefit policies with no modal factor - where the cost of the policy is the same whether paying annually or monthly – the policy can be paid for using “reverse dollar cost averaging”. That means the policy will be paid for over time using monthly premiums to allow more money to remain in the portfolio to capture recovery and future growth.

The variety of linked benefit policy premium schedules vary by carrier, but let’s take a look at paying for a policy over a 10-year period of time, and how it can make sense whether the market is down, up – or even sideways. Remember, upon that first premium paid - even if a monthly premium – the policy is immediately leveraged.

A 10-year premium schedule (or other extended schedules such as pay to age 65) can make sense for many reasons including:

- Individuals with excess salary may find it affordable, easier, or more palatable than accessing an asset.
- Withdrawing funds from a portfolio over ten years could be looked at as “reverse dollar cost averaging”.
  - In a down market, pulling money out slowly - particularly if the market turns around in a few months or in just a few years - could make for a better portfolio recovery. And in the case of an early death, there is still some death benefit leverage which could help compensate for a down portfolio and increase what is left to beneficiaries.
  - In an up market, strong returns could allow the policy premium to be paid from earnings – a policy itself that will have an immediate leveraged amount of LTC benefits upon the first premium paid!
  - In a sideways market, whether lasting only months or even years (such as the period between 1966-1982), purchasing a linked benefit policy is one way to get guaranteed leverage for the purpose of LTC planning.

Let’s take a look at a hypothetical example using 10-year premium schedule on a 55-year-old male with 3% compound inflation.

Age	Policy Year	Monthly Premium	Annual Premium	Total Premium Paid to Date	Death Benefit	Total LTC Benefit
55	1	\$ 833.33	\$ 10,000	\$ 10,000	\$ 104,253	\$ 337,174
60	6	\$ 833.33	\$ 10,000	\$ 60,000	\$ 104,253	\$ 390,878
64	10	\$ 833.33	\$ 10,000	\$ 100,000	\$ 104,253	\$ 439,936
70	16	\$ 0	\$ 0	\$ 100,000	\$ 104,253	\$ 525,307
75	21	\$ 0	\$ 0	\$ 100,000	\$ 104,253	\$ 608,974
80	26	\$ 0	\$ 0	\$ 100,000	\$ 104,253	\$ 705,968
85	31	\$ 0	\$ 0	\$ 100,000	\$ 104,253	\$ 818,411
90	36	\$ 0	\$ 0	\$ 100,000	\$ 104,253	\$ 948,762



## LIFE INSURANCE WITH A LTC RIDER – FILLING TWO NEEDS WITH ONE POLICY

For those who have a life insurance need and can afford permanent life insurance, adding a LTC Rider to the policy can provide cost efficient LTC coverage for a small amount added to the life insurance premium. It is important to note that the LTC rider will reduce the death benefit dollar for dollar if used, but as long as life insurance needs will decline over time, this can be a cost effective solution to provide the life insurance needed now with a policy that can transition focus to LTC coverage later.

When considering LTC coverage, guaranteed premiums and benefits are important features – and there are life insurance policies with LTC riders that can guarantee both the policy premium and benefits. The leverage - whether for death benefit, LTC benefits, or a combination of both - will be well leveraged for the entire life of the policy. For people whose first need is life insurance, this may be a better solution. The LTC rider added to the life insurance policy can provide first steps in LTC planning with an affordable solution that meets the immediate needs of life insurance.

## SUMMARIZING THE STRATEGY

Volatile markets can be a difficult time for individuals to make financial decisions. But waiting to purchase LTC coverage until a “better time” may not be the wisest decision.

- It is generally less disruptive to pay for the smaller expense of LTC insurance during a down market, than to pay for a large LTC expenses during a down market.
- Buying now saves age and cost over waiting
- When inflation is added to a policy, buying now provides more time for benefits to grow
- Good health today does not mean good health in a few months or years from now
- Linked benefit LTC policies have guaranteed premiums. When purchased with a multi-pay premium schedule - such as a 10-year schedule – it can be positioned as “reverse dollar cost averaging” that buys a fully leveraged LTC benefit pool of protection as well as life insurance leverage for a short period of time.
- Reduced paid Up provision (RPU) provides an “out” should you hit on hard financial times, allowing you to keep the proportional coverage you have already paid for<sup>1</sup>.
- If life insurance is currently the primary need, the combo life/LTC products provide immediate leverage for life insurance and LTC a rider that transitions to LTC benefits if needed.

Volatility in the markets or economy should not be the sole reason to delay long-term care planning and the purchase of long-term care coverage. Properly positioned, the purchase of LTC insurance can be appropriate no matter where the markets and economy is sitting.

<sup>1</sup> Please keep in mind that linked benefit policies that offer RPU (reduced paid up) policies must still meet regulatory requirements, and as such will generally have a minimum death benefit that must be maintained – for example \$6,000 (varies by carrier). On 10 year or less premium schedules this usually can be met even if RPU is requested after just one full year of premium payments. However, premium schedules longer than 10 years (such as pay to age 65 or pay to age 100) could be affected by this requirement and require more than one year of premium payments to achieve the minimum death benefit requirement before RPU can be elected.



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