

Long Term Care

AAll Meeting for Austin/San Antonio

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**A Review of LTC Rationale &
Recent Experience in the LTC Market
August 24, 2023**

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Background

Current & Future Medical Care Cost Explosion

- Good quality LTC facilities are running ~\$11k per month
 - Austin area
 - Cheaper in San Antonio & Houston
- HC Inflation rates have run double digit & will be high for the next few years – maybe long term
- Consideration of LTC becomes a question of how well you manage your portfolios to make them last longer than you do!
 - To Risk-share or not Risk-Share is the question!

How are LTC Costs Funded?

- Medicare/Supplemental
- Health insurance
- Medicaid
 - Forced increases in participants during covid
 - Tends to force asset gifting to become a ward of the State
 - Facilities are depressing substandard places
- Savings
- Children, Families
- LTCi

Main Types of LTC Coverage

- Traditional Insurance where you pay a regular premium until the Policy becomes activated – “LTCi”
- Asset-based LTC (Combo or Hybrid) with LTC benefits
 - Buy a large single premium life insurance policy with an LTC rider
- LTC Annuities
 - Make a large investment upfront to create a growing asset, **from which your LTC expenses are funded**
- There is another Policy available for STC - designed to cover you for 12 months to pay for medical & related expenses **while still in your home**
 - More on this later

Medicare Coverage of Intermediate-Term Care

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- Only medically necessary care
- Not for assistance with daily living
- Examples of medically necessary care
- In-patient Care
 - Recovering from a serious surgery, illness, or injury and need an intensive rehabilitation therapy program, physician supervision, & coordinated care from your doctors/therapists
 - Hospital, Rehabilitation Facility, or Skilled nursing facility
- Outpatient Care
 - Medically necessary occupational, physical & speech/language therapy
- Hospice Care
 - Care for terminal illness with life-expectancy of 6 months or less
 - Generally, in the home or nursing home; medicare only covers short-term stay

Monthly Median LTC Costs - Austin Area

➤ In-Home Care

- Homemaker Services \$5,196
- Home Health Aide \$5,196

➤ Community & Assisted Living

- Adult Day Health Care \$1,517
- Assisted Living Facility \$5,345

➤ Nursing Home Facility

- Semi-Private Room \$5,931
- Private Room2 \$8,973

Source: Genworth Financial
Cost of Care Survey, 2021

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Nitty Gritty of LTC

Traditional LTCi Insurance

- History of very high premium increases have abated via regulation
 - However, increases are now approved in a PUC type format
- Many insurance cos have exited LTC market
- Have a built in 90-day phase-in before benefits begin
- No longer priced to attract people after their late 60s
- No secondary markets for medical insurance
 - Policies are uniquely yours
- COLA is optional for an added fee
- LTC insurance today is **stable, managed & under control**
 - **It is a much better place for younger consumers & providers than the early 2000's**

Hybrid LTC - Asset-based or Combo

- Overall trend to Asset based or combined products
 - An LTC rider can be added to a Life policy
- Annuities come in many varieties
 - Fixed rate, growth tied to equity indexes, combinations
 - They get complex very quickly
- Generally, lump sum payment up-front
 - May allow several short-term payments
- Approval process generally consists of a telephone interview
 - ~75% approval level
 - Takes ~4 weeks average
 - Much less emphasis on your medical status than LTCi
- Insurance Cos will take qualified or taxable \$
 - Be sure of tax treatment before committing

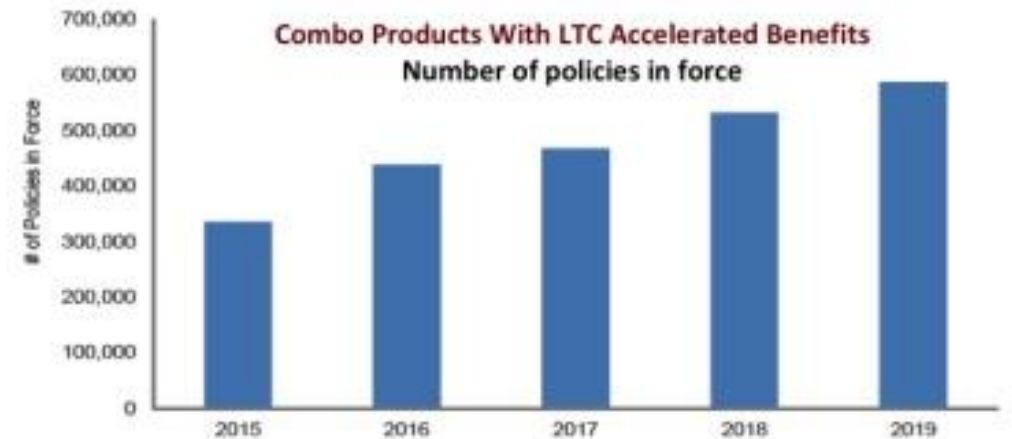
Sales of LTC Policies: Hybrid Policies Are Replacing Traditional

American Association for Long-Term Care Insurance Long-Term Care Insurance New Policy Sales



Source: American Association for Long-Term Care Insurance, June 2021. Numbers rounded

American Association for Long-Term Care Insurance Life & Annuity Products With LTC

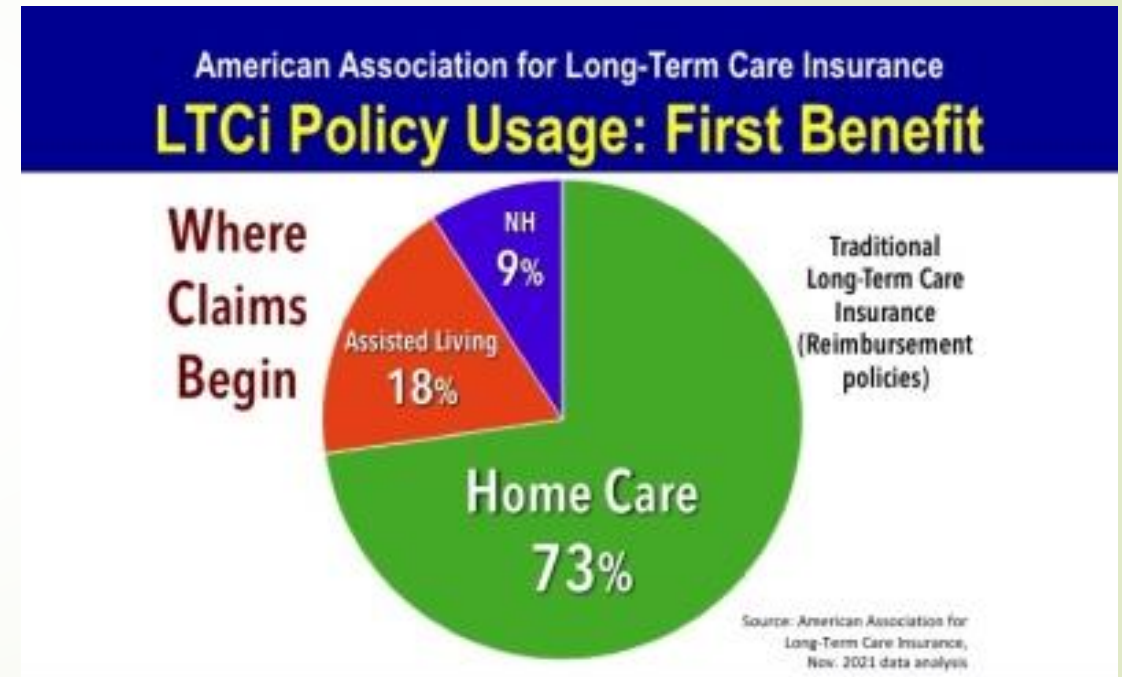


Source: AM Best data and research, reprinted with permission, published 01/07/2021

Why Asset-based annuities are preferable after Age 65

- LTCi policies are tough to qualify for at age & too expensive
- Annuities better for those with pre-existing conditions or major issues
 - **Far less medical screening**
 - **Easier approvals**
 - Priced right for the demographic
- Also suitable for those owning existing annuities with built-in gains
 - Can roll over to get the 3X leverage in a tax free 1031 exchange
- Asset-based products tend to be indemnity style – defined payouts
- If LTC expenses not used, will devolve to your heirs
- Underwriters will accept qualified or taxable money

Age & Type of Benefit for Initial LTC



Downsides of Annuities

- Terms & conditions appear unnecessarily complex
- Lots of trip wires where Ins Co can avoid covering the risk
- Terms have to be very conservative in the event you live a long time & beat their mortality tables
- Lots of fees involved, some hidden
- This conclusion led me to look into **creating my own annuity by segregating a fund & managing it conservatively to serve as LTC funding**
 - This is definitely feasible with good self-discipline

Healthcare Policy Triggers

Conditions to satisfy a person's need for LTC & STC:

- Bathing
- Dressing
- Toileting
- Continence
- Transferring
- Eating

Any two of these conditions confirmed by a doctor's letter will trigger payout

Cognitive Impairment - A Current Concern

Caused by

- Dementia
- Senility
- Organic brain disease
- Alzheimer's disease
- Car accident
- Brain tumor
- Strokes

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LTC Risk Evaluation & Risk
Sharing

LTC Risk Evaluation

“70% of people over 65 will need LTC” used by Insurance Cos is a stretch

- Risk is binary; you either need it or not 0/100
- Risk of using your LTC coverage 50/50
- Risk of using coverage w/90 day wait period 35/65

Average Years of using LTC coverage

- Married least risk 1.9 yrs
- Widowed moderate risk 2.3 yrs
- Males moderate risk 2.3 yrs
- Females higher risk 2.6 yrs
- Divorced higher risk 2.7 yrs

What sort of coverage do I need?

- These stats tell us only 1.9 years of coverage for married couples
- Even if both were in need, **maybe they could cover that themselves from savings?**
- They also tell us 2.3 yrs for a male & 2.6 yrs for a female, **possibly could also self-insure?**
- Then we have to examine our family genetics, like cancer or heart issues
 - I have the former and my wife the latter, so we are non-average in the statistics
 - **What does your family have?**
- If I have a big portfolio, will I be able to keep it from declining?

Rationale for LTC Risk-sharing

- Medicare will bear a small share of LTC costs of while Insurance/Hybrids will not bear all the costs
 - There is no such thing as being “100% self-insured” or “100% fully insured”
- **However, can improve your plans by Risk-sharing on the downside**
 - Only a 35% risk that you will incur cost of a LT care facility
 - An even lower risk of having an extended stay over many years
 - Although people cared for from home not counted in the stats
 - A five-year stay could wipe you out \$ wise, or force you into Medicaid
- In any event, must allocate sufficient funds to cover potential LTC costs as part of the Life Plan to not outlive your money
- **Could buy or build your own Annuity or buy a structured settlement**
 - Having fiscal discipline will save a lot on commissions & fees
- **Fair to say you need a LTC Plan even if you don't buy LTC coverage**
 - Better to have a Plan than to ignore the strong potential for high future HC costs
 - Hope is not a strategy!

LTC – Three Main Categories

➤ **Poor People – Medicaid or Family**

- May involve gifting your home, car, & assets
- Required to become eligible for LTC

➤ **Middle Class – Insurance**

- Some risk-sharing is desirable & sensible

➤ **Wealthy People – Self Insure**

- Those with assets of >\$5mm & modest spending
- Those with ~\$10mm of assets regardless of spending

Some Recent Hybrid Annuity Offerings

- Market very competitive, currently **North American Life** in the lead
- Generally, an up-front investment
- Primarily pay out on indemnity basis vs reimbursements
- Choice of growth indices: **bonds, stock markets or managed futures**
- After ~10 years, can annuitize a modest lifetime payment stream
- Can also receive a 5-year medical payment stream at double the annuitized rate
 - COLA is optional
- Death benefit passes on to your spouse or children if you have not exhausted your benefits
- **All annuities suffer from high commissions & fees**
 - CDAs (Contingent deferred annuities) represent a step in the right direction

Homecare Indemnity – aka “STC” policy

- A modest premium for your spouse & yourself, can generate a monthly series of \$1,200/wk payments over 1-year term
 - **Max Payment of \$62,400 is Tax-free** because it is Insurance
- Premiums on a Sliding scale based on age & coverage periods
 - 13, 26, 39, 52 weeks
- Approval based on a questionnaire & **granted within 24 hours**
- Covers pre-existing conditions
- Policy activated when your Doctor writes a letter saying you qualify based on 2 ADL trigger conditions
- Personal economics: **34% IRR & 3.7X MOIC** assuming benefits taken in Year 6 for one spouse & Year 10 for the other

SHORT TERM CARE - TAX FREE INSURANCE COVERAGE

52 weeks \$ 62,400 each Premium \$ 3,984 p.a.

Age	Year		Premium	Payout	NCF	Cum NCF
72	0		(3,984)		(3,984)	(3,984)
73	1		(3,984)		(3,984)	(7,968)
74	2		(3,984)		(3,984)	(11,951)
75	3		(3,984)		(3,984)	(15,935)
76	4		(3,984)		(3,984)	(19,919)
77	5		(3,984)		(3,984)	(23,903)
78	6		(3,984)	62,400	58,416	34,514
79	7		(1,992)		(1,992)	32,522
80	8		(1,992)		(1,992)	30,530
81	9		(1,992)		(1,992)	28,538
82	10			62,400	62,400	90,938
			Tax Free	IRR	34%	
Bet is that investing ~\$34k will recover \$62,400 each						
Breakeven Analysis						
			MOIC		3.7	
			BEP Probability of Recovery >		27%	

Structured Settlements

- We had purchased a structured settlement & have now applied it solely to our LTC needs
- Typically created out of a legal settlement involving an individual & an Insurance Company
 - Comes with a legal opinion, a court order, & a commitment from a top tier Insurance company
 - This one was NY Life
- Pays out \$3k/month plus COLA from 2008 through 2035
 - **Made it tax free by buying it from a Roth IRA**
- Price paid upfront represents a **5.5% implicit tax-free return**

A New Alternative - to a Conventional Annuity

- This month, Innovator Shares brought out a Buffered ETF that guarantees the upside in S&P500 index capped at 19% for 2 years
 - Average max net return 7.5% pa after fees
 - **Guaranteed no loss of principal on the downside**
- Ticker symbol: TJUL issued every 6 mos
- Full credit guarantee
- Opportunity to trade-up when prices are right to grow principal
- Can be liquidated at any time
- www.innovatoretfs.com to see a webinar on this product

Major Sections

Personal Journey

Surprises in LTC Coverage Journey

- There is such a thing as a STC policy for Home coverage
 - Its' terms attracted me to sign up
- There are also some unwritten rules I bumped into about trying to replace one LTC hybrid with another that has superior benefits
- I had held a State Life hybrid for ~6 years & was shown some superior offerings by North American Life that improved the terms & removed the need to justify every expense
- Was so far along that I cancelled State Life in order to fund the superior product
- North American Life turned me down citing State Ins regs, that it was a "replacement" to my first hybrid
 - Were in fear of being sued by me & losing if I were to become disappointed in the newer product

Personal Conclusions

- My journey to shore up our LTC coverage was **mostly successful** in adopting the STC policy w/Aetna & dedicating a structured settlement to LTC
 - **We have had an LTC Plan ~6 years; it is now improved**
- I was, however, thwarted from replacing my hybrid policy & was forced to reinstate State Life hybrid “as is & as was”
 - Stuck with the clunky reimbursement model!
- I can always invest in another annuity hybrid to strengthen my LTC risk profile simply by dedicating additional \$
 - **Competition may improve the offerings, but age is against us**
- My gut says to add more coverage: probably a D-i-Y annuity underpinned by private investments in a segregated account or a structured settlement
- **More economic to buy joint coverage vs 2 singles**
- **Use an expert to navigate; decisions get complex quickly**

My Current LTC Profile – Risk Sharing

- \$200k hybrid annuity paying \$4k/mth for LTC expenses up to max of 108 mths
- \$300k structured settlement paying ~\$4k per month for 7yrs to cover LTC expenses
- \$125k insurance paying max ~\$10k/mth for ST home care coverage **for very low premium**
- Coverage all jointly held with my spouse tax-free
- Value of Risk sharing vehicles is nominal; not discounted for time

Risk Profiles are personal & unique to You

- ▶ We are all different in how we approach risk & reward
 - ▶ **These deliberations are complex!**
- ▶ That is why the Insurance companies offer so many different & confusing options
- ▶ **The human reluctance to deal with tough outcomes also helps explain why some never address the LTC issue**
 - ▶ Even less the issue of LTC risk-sharing
 - ▶ Or simply, that they already bear most of the risk!
- ▶ There are no right answers; only a series of trade-offs
- ▶ **Get some professional advice on LTC, check it out & make informed choices**

Contact Info for Slides, More Data on TJUL, & Follow Ups

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LTC Q&A

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“Hope is not a Strategy”

August 24, 2023