



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



Major Sections



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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

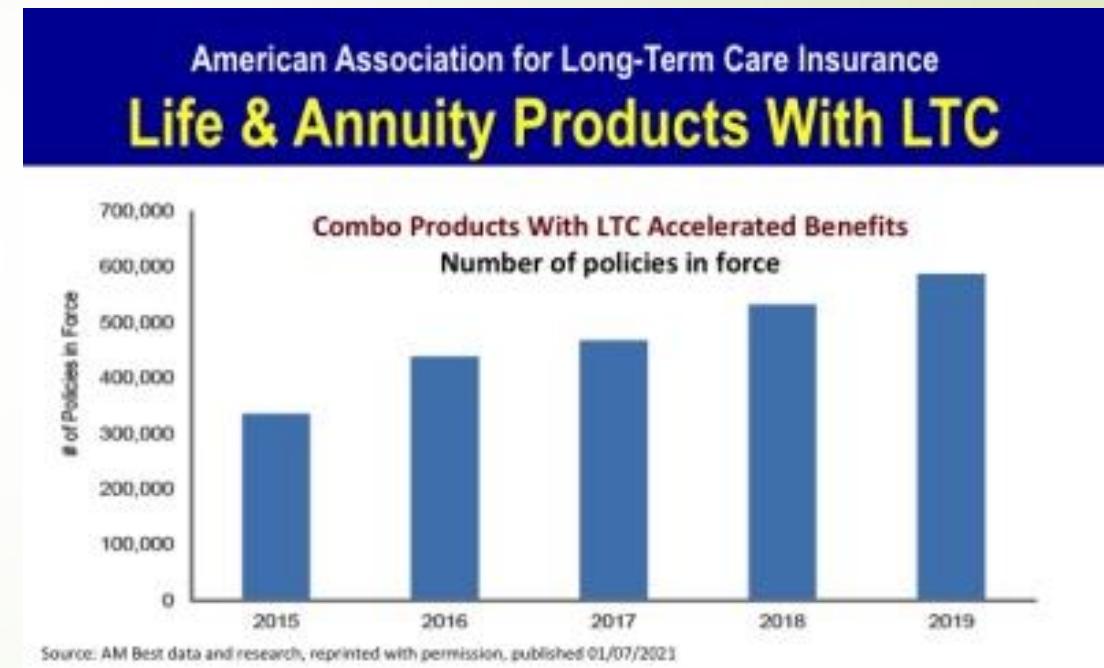
Traditional LTCi Insurance

- ▶ 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



Why Asset-based annuities are preferable after Age 65

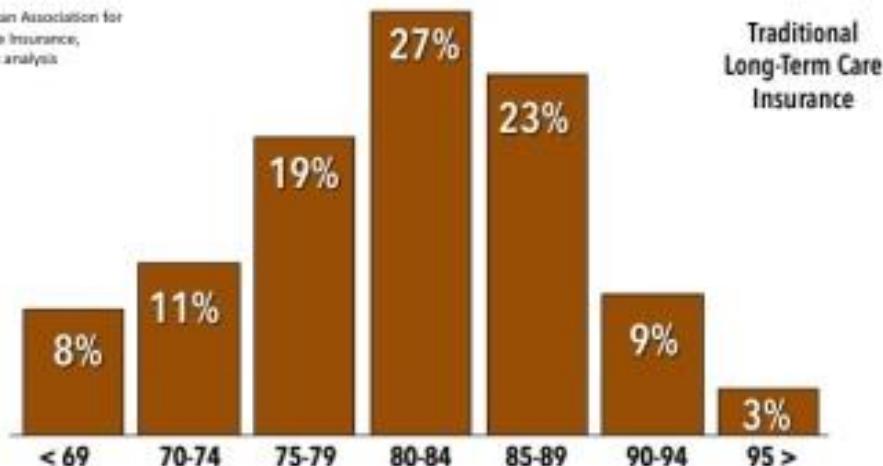
- ▶ LTCi policies are tough to qualify for at age & too expensive
- ▶ Annuities better for those with pre-existing conditions or major issues
 - ▶ **Far less medical screening**
 - ▶ **Easier approvals**
 - ▶ Priced right for the demographic
- ▶ Also suitable for those owning existing annuities with 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

American Association for Long-Term Care Insurance

Age When LTC Insurance Claims Begin

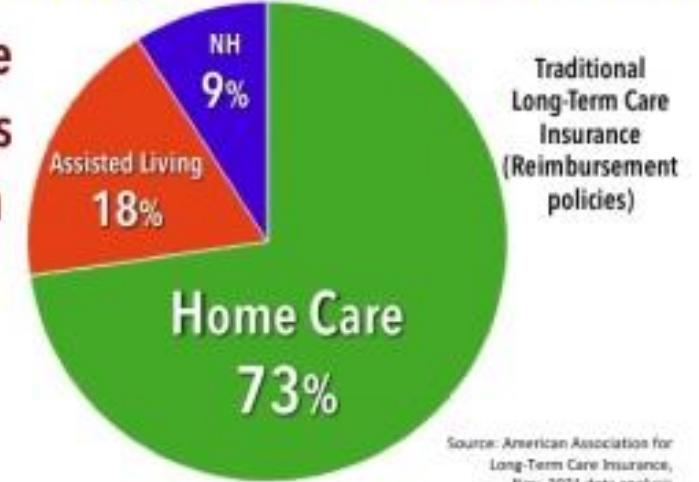
Source: American Association for Long-Term Care Insurance; Nov. 2021 data analysis



American Association for Long-Term Care Insurance

LTCi Policy Usage: First Benefit

Where
Claims
Begin



Source: American Association for Long-Term Care Insurance, Nov. 2021 data analysis

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

Break-even 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.Innovatortfs.com to see a webinar on this product



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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

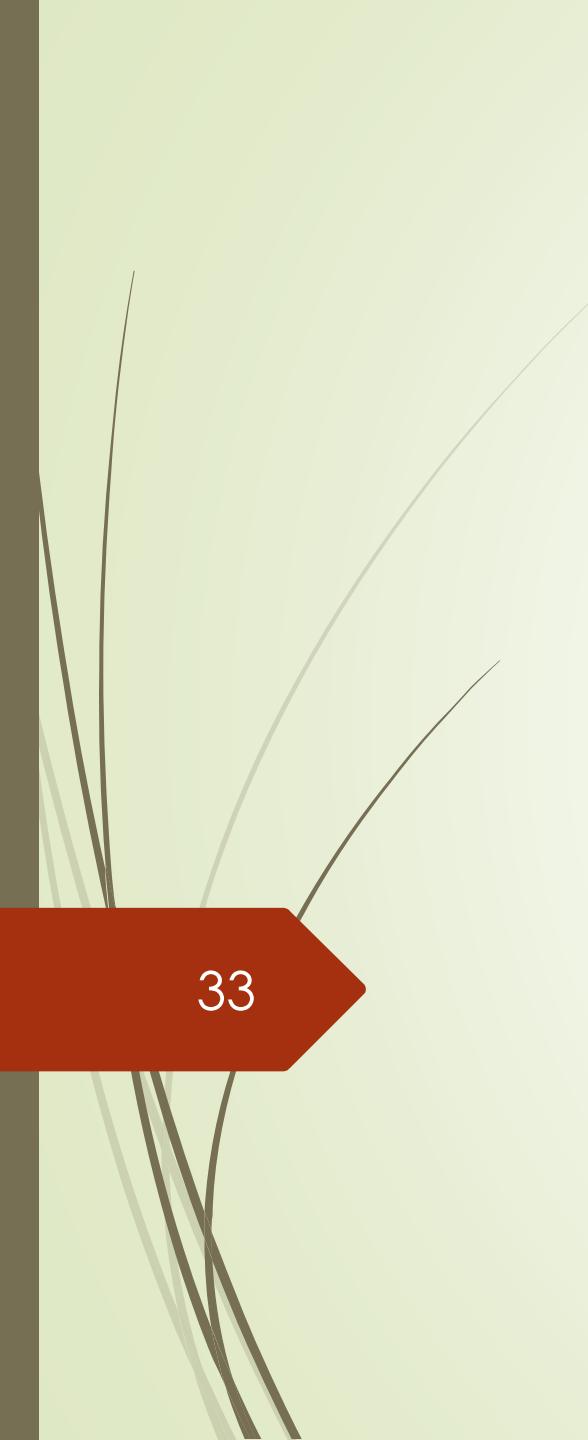
- ▶ \$200k hybrid annuity paying \$4k/mth for LTC expenses up to max of 108 mths
- ▶ \$300k structured settlement paying ~\$4k per month for 7yrs to cover LTC expenses
- ▶ \$125k insurance paying max ~\$10k/mth for ST home care coverage **for very low premium**
- ▶ Coverage all jointly held with my spouse 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

- ▶ www.aaiiaustin.org/members/
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LTC Q&A

“Hope is not a Strategy”

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