Long-term care a big question in pandemic

COVID-19 has highlighted the necessity of planning for care in old age, and advisers are increasingly recommending 'hybrid' annuity or life insurance products

elderly-couple-at-home July 2, 2020 BY EMILE HALLEZ

The COVID-19 crisis has focused national attention on long-term care, and many people who are starting to plan for their retirement are finding that insurance for that care is not what it used to be.

Several years ago, the insurance industry dramatically changed its underwriting criteria, significantly increasing rates for long-term care coverage for people who would be the most likely to need it. Insurers had books of business that were becoming unsustainable, and many exited the market. Those that remained bumped up their rates, as increased longevity, higher health care costs and low interest rates made the products expensive to provide.

With the pandemic decimating assisted-living facilities, people are considering alternatives, such as in-home care, as well as how they will eventually pay for it.

This has become an important discussion with financial advisers, many of whom are addressing long-term care planning with annuities and other products.

“Due to the difficulty with pricing these types of policies, many insurance companies have gotten out of the long-term care business and many individuals have serious trust issues with long-term care insurance,” Mackenzie Richards, a financial planner at SK Wealth Management, said in an email.

Advisers should be doing more than discussing the effect the market has had on clients’ portfolios, and that can mean having uncomfortable conversations about how to pay for the care they may need as they get older, said Marguerita Cheng, CEO of Blue Ocean Global Wealth.

“It’s a very emotional topic … [but] you don’t want to scare them,” Cheng said. Conversations should make people aware of the range of options they have, even those that are not ideal, she said. “Clients appreciate that there are other options, other than ignoring it or buying long-term care insurance.”

“Hybrid” options in the form of life insurance or annuities are now common, Richards said. Those products allow clients to recoup at least a portion of what they pay into them, and “they guarantee that you don’t pay into a policy for years and years and then never get anything out of it.”

Long-term care planning is the top concern for clients nearing retirement, said David Lau, CEO of DPL Financial Partners, which recently designed a fixed index annuity with a “health-activated income multiplier” with Midland National. That product, which does not include a long-term care rider, is an alternative, according to the firms. The income rider it features will double the income payments for as long as five years, and it’s triggered when contract holders can no longer do at least two of the six basic “activities of daily living,” similar to the requirements in long-term care policies. Those activities include “bathing, continence, dressing, eating, toileting and transferring in and out of beds and chairs.”

The product is commission-free, and the rider has a 1% fee. The rate in the fixed account is 2.75%, Lau said.

“Insurance carriers haven’t been able to create good products around [long-term care],” he said. “The underwiring has gotten so stringent — my joke is that if you’ve ever met someone who’s got Alzheimer’s, you probably can’t get coverage.”

Midland’s Capital Income annuity “is a good down-the-middle solution for most people,” he said. “You’re always going to get a benefit from it, unlike insurance that you can pay for and never use.”

The way people view long-term care is changing, and there is more interest in in-home services, Lau said. While that is often less expensive than moving to an assisted-living facility, people still need to consider whether they will need to retrofit their homes and how they will pay for caregivers, he said.

“A lot of people feel more comfortable in their home,” he said. “This health crisis is probably going to accelerate that trend.”

Costs of long-term care vary widely. The national median annual cost of adult daycare was $19,500 in 2019, while in-home service was more than $51,000, according to data from Genworth Financial. Meanwhile, assisted living costs ranged from about $49,000 to more than $102,000, depending on whether residents get private rooms.

“More people are claiming [in their long-term care policies, and] more people are claiming longer. That’s why companies are filing for triple-digit rate increases,” said Jesse Slome, executive director of the American Association for Long-Term Care Insurance.

“Long-term care insurance is an option, not a solution, for a relatively small and defined segment of the population. That’s always been the case … The insurance companies know which segment of the population they are willing to offer this insurance to,” he said.

About 300,000 to 350,000 people buy long-term care products every year, and lately those purchases have shifted heavily toward hybrid and annuity products, Slome said.

There are more options for clients now, Cheng said.

One of her clients, who is 57, is considering swapping an out-of-surrender annuity for one that includes a long-term care rider, Cheng said. While the total benefits could end up being lower, it could be a better option than the alternative the client is facing: cashing out of the annuity early and paying a 10% penalty, on top of taxes, she said.

“This allows her to be more efficient with her assets,” she said.

For long-term care planning, “we’re answering a bit differently than 10 to 15 years ago, when benefits were rich and premiums were (seemingly) reasonable,” Dennis Nolte, financial adviser at Seacoast Investment Services, wrote in an email.

“For those who are in their 40s or younger we’re using Roth funds as a future benefit ‘pool’ of cash, in combination with HSA funds (if available),” Nolte said. “For those in their 60s or older who have coverage, we’re helping assess the options current carriers are offering as they either increase premiums or reduce benefits.

For those in between? Aye, there’s the rub.”