

## **Long Term Care: The Next Employee Benefit**

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Group long-term care, a benefit not even thought of a decade ago, is now becoming one of the hottest new benefits offered. Employers are looking for creative ways to attract and retain key employees. They can't continue to increase salaries so they look for innovative ways to increase benefit packages. That's easier said than done, with medical and prescription costs skyrocketing, benefit administrators need new ideas to enhance their portfolios without increasing costs... and new programs that won't increase dramatically down the road.

The solution for many employers has been group long-term care insurance. It's a benefit that solves financial planning needs for all their employees. The plan can be implemented on a voluntary basis or as a simple base plan with buy-up options. The cost of a base plan is a real bargain: usual costs are approximately \$10 per month, per employee.

Employers tend to offer this simply as a new benefit. Other employers add it when they revise their medical plans and put in more cost efficient policies. Since employees generally see this as a negative, offering a new group LTC plan is a positive.

### **Many Brokers Use LTC to Get New Customers**

Most executives have been told that they need individual long-term care to finish their financial plans. Most benefit administrators have read about LTCI. It's a great product to use to get an appointment or to see your client again to further your business with them. Why not use this new benefit to distinguish yourself in front of your customers?

It is an easy benefit that plugs a lot of holes in your clients' financial plans. Selling group long-term care plans is a great way to expand income on your existing block of business. If you don't, someone else will. If you ever had a client that you could not get into see, use this as a door opener. You would be surprised to find out the ease of getting into large clients. And if you ever had a situation where you could not get the business due to a political situation, use LTC to add a product to their benefit portfolio. Because it's usually a new benefit, you don't have to displace an existing relationship. Group LTC is a perfect plan that you can use to start new relationships and expand existing ones.

### **Today's Standard Financial Plan**

I have spoken with a lot of my parents' friends and they know that I sell long-term care policies, so the topic comes up a lot and it always starts out by people telling me that they really don't see the need for LTC insurance. They have a sound financial plan. So I ask them to tell me about their plans and it almost always sounds similar to this: "I have worked hard all of my life, my house is paid off, I have a little in my savings account and I have a good retirement plan that

pays us a good income for many years to come. If one of us needs care, we will divest all of our assets as quickly as we can and then the government will pay for the care for the rest of our life."

My response starts out by telling them that it does sound like a perfect plan. You have worked your tail off and saved everything you could so you and your spouse can enjoy your retirement years. If one of you needs care, and the likelihood is that one of you will, you will get rid of that nest egg as fast as you can and then go on Welfare. Medicaid, in my opinion, is a form of Welfare for the rest of your life. Then, when that spouse dies of an illness, the caregiver spouse lives another 20 years without a nest egg.

But it's not my idea of a perfect plan. My plan includes all the hard work and savings talked about above but also the protection of that nest egg. So if there is a situation where care is required, I will have some money coming in to pay for the care and my nest egg stays secure for the rest of our lives or is willed to my heirs. I feel that this is a much better financial plan.

### **The Need**

I have seen a lot of statistics about long-term care and, quite frankly, I think statistics are boring. They are usually so specifically worded that they almost mislead you to a prefabricated conclusion. With long-term care, you don't need any statistics to sell the need and this is why I am not going to quote any in this article.

Let's face it, before we die, most of us will need some type of care, for some length of time in our lives. Only the lucky ones get to go without a fight. And, thanks to medical science, our likelihood of receiving care increases all the time.

I am a believer that everyone is a master of his own destiny and we have to make decisions in our own lives to live well today and into the future. With that said, I took control of my future early in life and put as much as I was allowed into my 401k. Over the years, I have amassed quite a lot of money, although it has shrunk a little over the past year. I still have faith that it will continue to double and finally grow into a nice little nest egg for my wife and I when we retire. I'm not alone with this type of planning; almost all of us plan for a nice nest egg at retirement. However, most people do not plan to have their nest egg completely drained when one spouse gets sick and they start to spend \$100,000 per year on care. That's not in my plans and that is why I have decided to take a little piece of my paycheck now to protect my nest egg from being depleted for a long-term care situation.

### **What to Look for in a Plan**

Today, almost a dozen group carriers offer group LTC programs, and those carriers that don't offer it today have a plan on the drawing board and expect to roll it out in the next 12 to 24 months.

Flexibility is the key. Your plan must have choices for the participants. The plan should have at least three durations: the standard ones are three and six years and always include an unlimited duration. The elimination period is 60 or 90 days. Benefit options usually run \$1,000 to \$6,000 per month or \$100 to \$300 per day. Include the best coverage for informal care and always have

an inflation-protection option. All the carriers will have a 5% simple or compound option that continuously doubles your benefit.

Unfortunately, the unlimited inflation protection costs too much and most employees do not purchase it because of this. I like to limit the amount of doubling to two times. This makes the inflation protection affordable --then most employees will purchase the option. Obviously, unlimited doubling is better, but if it is priced too high, it drives people into a plan without inflation protection and that's not best in the end.

### **Models of Care**

There are two models to choose from, *reimbursement* and *disability*. Both have the same trigger, usually the loss of two activities of daily living. The reimbursement model is the original and, as the name states, it reimburses the claimant for expenses incurred while receiving care. This model is complex -- you are not guaranteed to receive your full benefit and it leaves the decision power in the hands of the insurance carrier. The disability, or indemnity, model is new and much simpler. Simple is what sells. It treats your care like a disability. If your physician declares that you are disabled, the loss of two ADLs, you receive your benefit. You never have to submit expenses to the carrier and you are guaranteed your full benefit. Best of all, this model usually covers informal care.

### **What are the Advantages of Group?**

First, there are no significant differences between individual and group policies. In most cases the policy features are identical. Group is designed to be offered to a large amount of people, all at once. Individual policies offer the highest amount of flexibility and also cost substantially more. A well-designed group plan offers almost as much flexibility but also offers a lot of extras that make a lot of sense.

Because the plan is sponsored by an employer, it offers group rates. Group rates can be a significant cost difference, especially for the younger ages. An average annual cost of an individual policy is approximately \$2,500; a group policy is around \$600. Group coverage is offered on a guaranteed-issue basis to the employees, then simplified underwriting to all other participants. This policy has an expanded eligibility and can be considered a family benefit, not just an employee benefit. It covers all employees, union members, spouses, in-laws, parents, grandparents, retirees, siblings, adult children and board members. Group coverage also allows you to lock in the cost at your age bracket. This means that if you sign up as a 30-year-old, you will always pay the 30-year-old rates. Furthermore, the coverage is portable. This allows you to take your exact coverage with you, at the exact costs, if you ever leave your employer.

Group plans are easy to implement and are one of the easiest to administer. The carriers will host employee meetings where employees listen to group presentations and receive customized enrollment packages. The employer will receive a list bill showing all the employees and spouses' payroll deductions. All other participants will be direct-billed by the carrier. Once the plan is implemented, payroll deduction usually remains constant. The costs do not increase with age or change with salary increases. The plan administrator simply needs to monitor the adds and deletes each month.

### **The Next Step in Your Financial Plan**

My own plan covers my spouse and me for \$4,000 per month, an unlimited duration with a 5% inflation protection built into the plan. Therefore, in 20 years our benefits will be at \$8,000 a month. Our plan also covers all levels of care, including informal home care. Because we signed up when I was 30, our costs are less than \$250 per year, per adult. This means that if we pay for the coverage for the next 40 years, until age 70, we will both invest about \$10,000. That's about two months in a nursing home today.

My situation is unique. I have been in the employee benefits field for the last 15 years and worked for a company that trained their employees well and acquired a lot of knowledge about benefit planning. So I was ahead of the game. But I took advantage of my group plan and, to this day, I think that it was one of the best choices I ever made.

Group long-term care is simple and is one of the best benefits to talk about to your customers. The need is high and plan is exceptional. Everyone loves the benefit, especially the executives of the corporation, who are your individual clients. It's a win-win-win sale. Your client gets a great benefit, the employees get unbelievable coverage and your income increases dramatically. Go out and sell group LTC.

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