Shift In The Asset-Based LTCi Market Is Expected To Grow

Recurring-premium products are expanding the market for asset-based long-term care insurance.

By Tracey Edgar

Potential long-term care event outcomes

With no protection they will:
- Have the highest risk for out-of-pocket costs associated with a mild or severe LTC event
- Receive no death benefit

Self-funding LTC from investments
Severe LTC expenses
$724,139
Out-of-pocket cost
$724,139
Potential death benefit
$0

With health-based protection they will:
- Have premiums that may increase over time
- Need to purchase two policies to ensure they are both covered
- Receive no death benefit

Health-based LTC insurance
Severe LTC expenses
$724,139
Out-of-pocket cost (includes premiums)
$250,697
Potential death benefit
$0

With asset-based protection they will:
- Face the lowest risk for out-of-pocket costs associated with a mild or severe LTC event
- Have premiums guaranteed never to increase
- Have the option to cover both spouses with one policy
- Receive a death benefit

  Note: Potential death benefit reduced if long-term care benefits are received.

Asset-based LTC insurance
Severe LTC expenses
$724,139
Out-of-pocket cost (includes premiums)
$205,143
Potential death benefit
$125,000

Source: Planning For Every Possibility

Long-term care insurance specialist Jack Lenenberg doesn't need data to tell him there has been a major shift in the LTCi market. He needs only to look at his own business.

In 2014, his firm, LTC Partner, consisted almost entirely of matching clients with stand-alone, health-based LTCi. Today, it's split down the middle between stand-alone LTCi and asset-based, or hybrid, LTCi.

"My business has changed rapidly and in a dramatic fashion," Lenenberg said from his Alpharetta, Ga., office. "Since 2014, a significant number of consumers have requested information on asset-based products, primarily because they associate traditional, stand-alone LTCi with 'use it or lose it' benefits and a rate increase risk."

The change wasn't because he started promoting hybrid options, Lenenberg said — the shift came because clients were calling him to ask about these options.

Whether because of client demand or greater awareness among financial professionals, the market for life combination LTC protection is booming. For the past three years, sales of combination LTC products posted double-digit growth. In contrast, sales of stand-alone LTCi posted significant declines in that time (a 22.8 percent decline from 2016 to 2017, and a 12.6 percent drop from 2015 to 2016). Combination LTC protection sales are now more than 10 times the premium volume of stand-alone LTCi.

The total market for hybrid LTC protection is now more than $4 billion in annual premium with more than 260,000 policies sold. This accounts for 80 percent of the overall market for individual LTC solutions, according to LIMRA. These numbers include policies with chronic-illness and acceleration-only riders, as well as LTC extension products that offer a more robust LTC benefit solution.

Cost And Benefits: How Do They Compare?

OneAmerica looked at two LTC planning scenarios in its study, "Planning For Every Possibility." The actual costs and benefits between health-based LTCi and asset-based LTCi vary according to state, but we will use two couples living in the state of Indiana as our examples.

A 50-year-old couple estimates their potential severe LTC expenses could be $724,139, which would include a combination of home health care, assisted living and nursing home care.

Health-based LTCi would require that this couple purchase two policies to ensure both spouses are covered. Estimated out-of-pocket costs, including premium, would be $250,697 and there would be no death benefit in the event that neither partner required LTC. In addition, health-based LTCi premiums may increase over time.

With asset-based LTCi, meanwhile, this couple would incur an estimated $205,143 in out-of-pocket costs, including premium. Premiums would never increase and one policy would cover both spouses. If no LTC benefits are required, the policy would yield a $125,000 death benefit.

In addition to accelerating the policy death benefit, LTC extension products extend benefits for LTC expenses if the death benefit is exhausted. And if a policyholder doesn't exhaust the death benefit for LTC expenses, the remaining portion will still pass to beneficiaries.

Another common feature of these products is that they offer guaranteed premiums, benefits and cash surrender values. In an era of rate hikes on stand-alone LTCi policies, these products are becoming attractive to a growing number of people as they become aware of their options and the significant need for LTC planning as part of their overall financial plans.

These combination products offering extension of benefits for LTC expenses, rather than acceleration of benefits, are the fastest-growing segment of combination LTC products. The number of LTC-extension policies sold in 2017 grew 24 percent compared with 2016, while the number of LTC-acceleration policies sold grew 2 percent in that period, and the number of chronic illness-acceleration policies declined 3 percent. The latter two types are primarily life insurance sales and accordingly more closely follow life sales trends.

For the fast-growing ABLTC or LTC-extension market, three companies dominate the market, accounting for nearly 70 percent of the market share in 2017. Those three companies — Lincoln Financial, OneAmerica and Pacific Life — have remained unchanged for the past few years; although other carriers in the top 10 of market share have gained some ground.

It's a market that is still gaining momentum.

"We're attracting a much wider audience for asset-based LTC protection," said Brian Ott, an LTCi professional based in Bellevue, Wash., who primarily works with ABLTC products.

Some people like asset-based options because **they don't have the "use it or lose it" risk.** The options also attract older, wealthier people who would otherwise self-insure for LTC expenses.

"Some people don't want to go with stand-alone LTC protection because of the 'use it or lose it' risk. Asset-based options are also attractive to older, wealthier people who previously thought self-insuring for LTC expenses was their best option and now realize the risk of that option, or maybe thought they were too old to get LTC protection."

Because underwriting is typically easier with life insurance- or annuity-based LTC options, the potential market for those extends into retirement age, both Ott and Lenenberg said.

Recurring-Premium Options Expanding The Market

Asset-based LTC protection has been around for several decades, but one of the more recent product innovations is recurring-premium options that allow people to choose 10-year, 20-year, or even up to lifetime premium payment options. These options allow greater flexibility for LTC planning in the context of individuals' overall financial plans.

Recurring-premium policies account for almost 90 percent of all asset-based LTC policies sold, according to LIMRA. The average premium for these policies was $6,397, and the average face amount was $319,776. At one time, recurring-premium options couldn't compete on price with stand-alone LTCi. But as stand-alone LTCi rates have risen, the value offered by the recurring-premium options has become more attractive, especially given the guaranteed rates and additional benefits that stand-alone LTCi can't provide.

Younger clients also tend to be more attracted to recurring-premium options, Ott said.

"People in the 40- to 50-year-old range tend to choose recurring-premium LTC protection," he said. "They're still saving for retirement and they can do a limited-pay option that's fully paid up in 10 or 20 years. Some clients also choose an option where they can make a deposit and make ongoing payments. In some cases, especially if they're still working, the premium expense can be deductible. That's really attractive for some people."

Single-premium options, including annuity-based LTC protection, also continue to remain attractive for many people. Typically, older clients who have already accumulated a sizeable nest egg choose the single-payment option, Lenenberg said. While their working years are focused on growing their asset portfolio, attention in retirement tends to shift toward protecting those assets, he said.

As people re-evaluate their financial plans near retirement, using some of their accumulated savings to secure LTC protection is often an opportunity and a common sales theme. Other times, people have a lump sum — such as an inheritance or buyout. They find a single-premium ABLTC product is a good option to provide LTC protection if it's needed, or a way to leave a legacy to the next generation through the remaining death benefit, if LTC benefits aren't exhausted.

Asset-based LTCi's emphasis on guarantees is likely to resonate even stronger if uncertainty in today's broader economic climate continues to emerge. The value of this coverage will be magnified if an economic downturn occurs.

The guarantees also provide a strong backdrop for advisors, regardless of what best-interest standard might emerge. Quite simply, these products do what they are designed to do: provide peace of mind year after year.

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