

The Effective Advisor Process for Leveraging Hybrid LTCL for Your Clients

The long term care insurance (LTCL) product landscape has changed dramatically over the past decade. Today, consumers have more options and in particular, hybrid LTCL.

LTCL:

LTCL with a life insurance or annuity chassis is one of the more popular options and a good fit for many advisors to use to help their clients meet their planning objectives. The six-step process outlined below can serve as a tool to help advisors when working with clients for whom a hybrid LTCL policy is the right option to meet their needs.*

Advantages

Hybrid products offer many advantages to consumers that traditional LTCL products don't. These include day-one return of premium, no "use it or lose it" risk, tax-free benefits (living and death), no future rate increases and flexibility in contributions and benefits. They also provide consumers and advisors an opportunity to create a plan that is priority-driven and supported by contributions from

The Process

How does an advisor who has previously sold traditional LTCL, or an advisor who is new to LTCL planning become proficient in making product recommendations in today's landscape? Developing a process that identifies the appropriate **source of contributions** in conjunction with understanding the **prospects' priorities** will enable an advisor to refine the many product options down to a select few to levy a recommendation.

Six-Step Planning Strategy

Step 1:

Understand the consequences

It is important for an advisor to understand the **financial, emotional and physical consequences** clients and their families could face if they do not have an effective LTC plan. A helpful resource is The Conversation by Harley Gordon. This book outlines the consequences of not having an LTC plan, how to ask the right questions for an effective conversation with clients and how to move the process toward identifying appropriate solutions within the financial plan to mitigate risk.

Step 2:

Review potential sources of funding

An **insurance review** is a great place to start looking for sources of funding. Today's LTCL policies accept funds from a wide range of sources to accommodate planning objectives. To make a suitable product recommendation requires an assessment of a client's insurance holdings, assets within portfolios and cash flow/income plans



Know Your Sources

Next, highlight potential sources.

Funding sources may include:

- Cash value life insurance
- Annuities
- Safe harbor positions such as money markets (MMs), savings accounts, certificate of deposits (CDs), etc.
- Required Minimum Distributions (RMD) / Qualified Savings
- Inheritance
- Current and future cash flow
- Business cash flow, retained earnings and bonding positions
- Health Savings Accounts (HSAs)

Cash Value Life Insurance and Annuities

It is important to review a client's in-force insurance plan as a potential source of funding (**cash value**). In addition, some life insurance products contain living benefits including critical, chronic and terminal illness. Some **annuities** contain provisions for LTC needs.

Safe Harbor Positions

A prolonged low-interest rate environment creates challenges to balancing a portfolio with conservative to moderately conservative assets for pre-retirees and retirees. Asset-based LTCI is a viable alternative to **safe harbor allocations** as it permits the downside of low growth due to the upside of significant income asset protection.

RMD Strategies and Qualified Savings

Using **RMD strategies** to fund LTCI plans is common among financially stable retirees who recognize they are not dependent on any/all of their **qualified savings** to support their lifestyle.

Inheritance

Using an inheritance to fund an LTC asset protection and legacy strategy to "pay it forward" is a great conversation to have with clients.

Current/Future Cash Flow

Leveraging an LTC strategy with current/future cash flow might be a viable alternative. An LTC plan designed with systematic contributions is a helpful method to fund traditional LTCI plans

Business Cash Flow

Corporations that recognize deductibility for premiums paid into LTCI also can receive benefits tax-free. They can leverage cash flow, retained earnings or bond reserves to provide business owners, their spouses and employees LTC benefits with significant tax advantages. Employers can also elect to provide benefits to key employees for retention purposes.

Health Savings Accounts

Another way for people to use pre-tax dollars to fund their LTCI plan is a **Health Savings Account**.

Know Your Client

After the appropriate funding strategy has been identified, talk to clients about LTCI planning. Often, they can fund their LTCI asset and family protection strategy with no additional out-of-pocket costs. When asking clients what asset they would access "if" they needed care tomorrow due to an accident or illness, you will likely already know the answer



FYI:

Transfer of Wealth

Stay alert to shifts in the financial market. "Millennials are about to benefit from one of the largest intergenerational wealth transfers in history."**

**Source: Business Insider, June 22, 2017, <http://www.businessinsider.com/ubs-on-millennials-expectations-of-money-management-2017-6>

Hold the Conversation

The LTC conversation between advisors and clients could begin with an opening such as:



"Mr. and Mrs. Client, if something were to happen to you today that required some or a significant amount of assistance to allow you to continue to live in your home, what asset would you access first to pay for care?"

Step 3:

Discuss LTC planning priorities with clients/prospects

Planning priorities may include:

- Largest LTC benefit available
- Lifetime benefits • Inflation (COLI)
- Return of premium • Legacy/death benefit
- Tax mitigation
- Joint benefits for spouses
- Third-party ownership (trust or business)
- Indemnity vs. reimbursement
- Care coordination
- Company rating/claim paying history
- Underwriting considerations

Work with the clients to put these priorities and other considerations in order of importance to them. This step is critical to the refining process to determine which products best address their priorities, allowing for planning to start.

This step changes the dynamics from selling products to making a recommendation based on your clients' stated priorities.

FYI:

Older Insurance Policies

Review older insurance policies to see if they provide living benefits. Many do not, which enables advisors to leverage account values and plan contributions to implement a plan that contains living benefits.

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Step 4:

Consult with CBS Brokerage

The source of funding coupled with the clients' priorities enable CBS to provide several product solutions that will precisely meet their priorities and accommodate the source of funding. Underwriting concerns should also be addressed at this time.

Step 5:

Make recommendation to the client

Communicate to your clients how their assets are exposed to financial risk inherent to the aging process. Restate the consequences of this financial risk and demonstrate how the LTCI plan recommendation will be funded recognizing their stated priorities. This approach can help you make a recommendation without making a sales pitch.

Step 6:

Submit the application

Submit applications through the proper channels.

Questions?

For questions about the LTC planning process, please contact CBS Brokerage at 763.450.1870

*Recommendations regarding reinvestment of distributions from IRAs and qualified plans are subject to the Department of Labor's new fiduciary standards. This includes additional documentation requirements and different compensation practices for these sales. Please make sure you understand and follow your fiduciary obligations before recommending such strategies.