

Advanced Consulting Group

Nationwide Retirement Institute®

Overview of Long-term Care in America - 2024

Presented by:

Derek Archey, CFP®

Comprehensive Planning, Inc.

(248) 457-2312 x313

archeyd@compreplan.com



Nationwide®

URBO Number & Disclosures



Important Things You Should Know

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

If you have questions regarding your particular situation, contact your legal or tax advisors.

This information is general in nature and is not intended to be tax, legal, accounting or other professional advice. The information provided is based on current laws, which are subject to change at any time, and has not been endorsed by any government agency.

Nationwide Investment Services Corporation (NISC), member FINRA, Columbus, Ohio. Nationwide Retirement Institute is a division of NISC.

Nationwide, the Nationwide N and Eagle and Nationwide Retirement Institute are service marks of Nationwide Mutual Insurance Company.

© 2024 Nationwide

FOR FINANCIAL OR INSURANCE PROFESSIONAL USE — NOT FOR DISTRIBUTION TO THE PUBLIC

NFM-21526AO.2 (08/24)

Important Things You Should Know

When evaluating the purchase of a variable annuity, your clients should be aware that variable annuities are long-term investment vehicles designed for retirement purposes and will fluctuate in value; annuities have limitations; and investing involves market risk, including possible loss of principal.

This information assumes that the life insurance is not a modified endowment contract, or MEC. As long as the contract meets the non-MEC definitions of IRC Section 7702A, most distributions are taxed on a first-in/first-out basis. Surrender charges may apply to partial surrenders. Loans and partial surrenders from a MEC will generally be taxable, and if taken prior to age 59 ½, may be subject to a 10% tax penalty. Loans and partial surrenders will reduce the cash value and the death benefits payable to your beneficiaries, and withdrawals above the available free amount will incur surrender charges. If your contract were to lapse with a loan outstanding, the loan amount in excess of basis will be treated as a distribution and all or a portion will be subject to income tax.

The underlying investment options to a variable annuity or life insurance product are not publicly traded mutual funds and are not available directly for purchase by the general public. They are only available through variable annuity/variable life insurance policies issued by life insurance companies.

FOR FINANCIAL OR INSURANCE PROFESSIONAL USE — NOT FOR DISTRIBUTION TO THE PUBLIC

NFM-21526AO.2 (08/24)

Important Things You Should Know

As your personal situations change (i.e., marriage, birth of a child or job promotion), so will your life insurance needs. Care should be taken to ensure these strategies and products are suitable for long-term life insurance needs. You should weigh your objectives, time horizon and risk tolerance as well as any associated costs before investing. Also, be aware that market volatility can lead to the possibility of the need for additional premium in the policy. Variable life insurance has fees and charges associated with it that include costs of insurance that vary with such characteristics of the insured as gender, health and age, underlying fund charges and expenses, and additional charges for riders that customize a policy to fit your individual needs.

Guarantees and benefits of an insurance policy are subject to the claims paying ability of the issuing insurance company.

Not all Nationwide products and services are suitable for all individuals or situations. There may be products, issued by other companies, which better suit your goals. Be sure to consider your objectives, your need for cash flow and liquidity, and overall risk tolerance when using any strategy.

This information was developed to promote and support products and services offered by Nationwide. It should not be taken as tax advice. It was not written or meant to be used by any taxpayer to avoid tax penalties, and it cannot be used by any taxpayer for that purpose.

Life insurance and annuities are issued by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company, Columbus, Ohio, member of Nationwide. The general distributor for variable insurance products is Nationwide Investment Services Corporation, member FINRA.

FOR FINANCIAL OR INSURANCE PROFESSIONAL USE — NOT FOR DISTRIBUTION TO THE PUBLIC

NFM-21526AO.2 (08/24)

Agenda

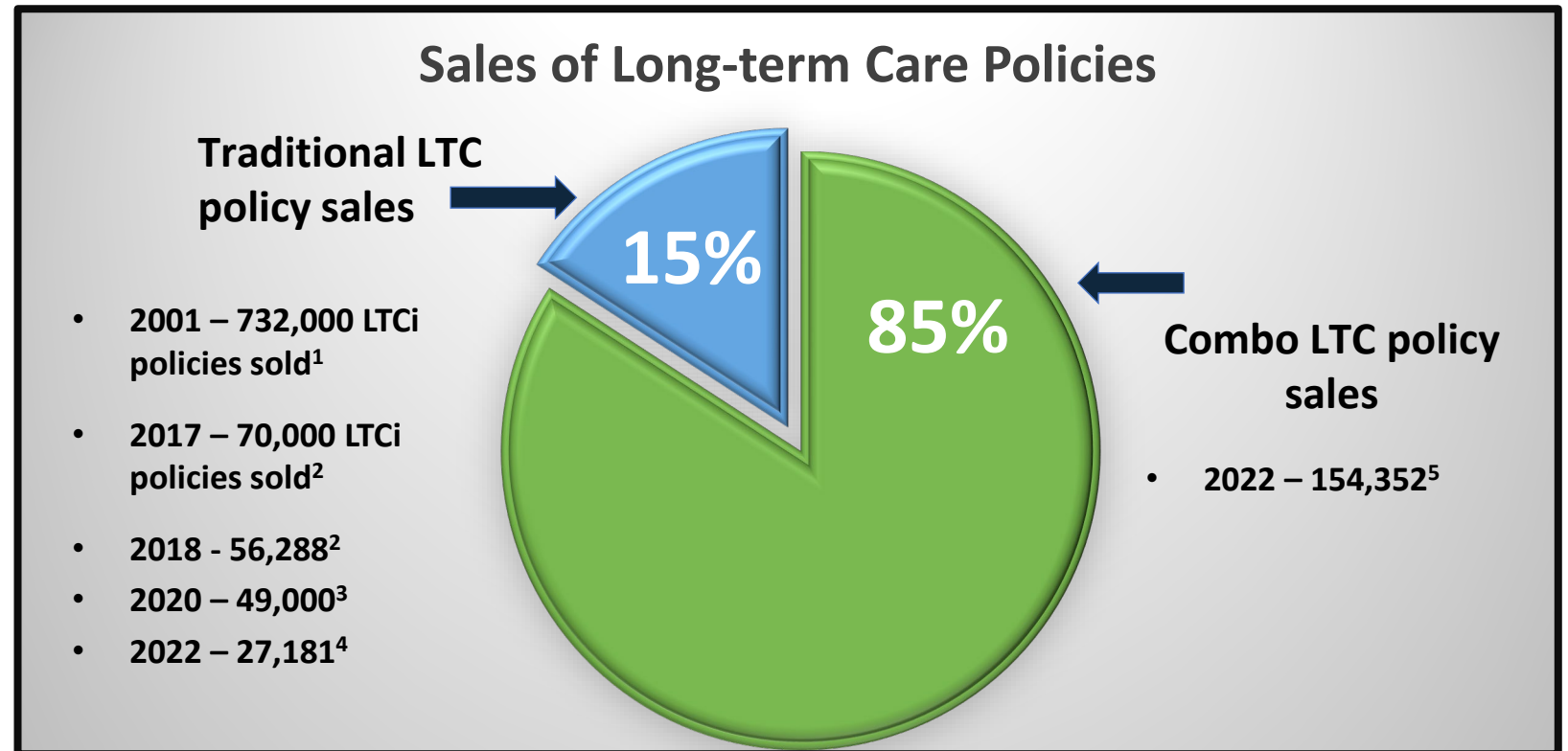
- LTC industry updates
- What is happening with state and federal legislation tied to LTC
- Understanding Benefit Models
- Claims and the HIPAA per diem
- Timing, cost and value of a purchase
- Addressing affluent clients

LTC Industry Updates

The Shifting Market

What Happened in 2021?

- In 2021, WA Cares Fund resulted in a dramatic rise in policies sold, but out of proportion to premium.
- With traditional LTC policies
 - there was a 44 times increase in policy sales
 - but only a 12 times increase in premium.
- In 2021....
 - 70% of traditional policies were sold in WA
 - 60% of Hybrids and LTC Riders were sold in WA



Many combo products today can offer:

- **guaranteed premiums and benefits**
- **No risk of “use it or lose it”**

¹AHIP Study 2015 (historical data)- Claude Thau

²American Association for Long-Term Care Insurance, March 2019

³LIMRA Newsroom – August 5, 2021

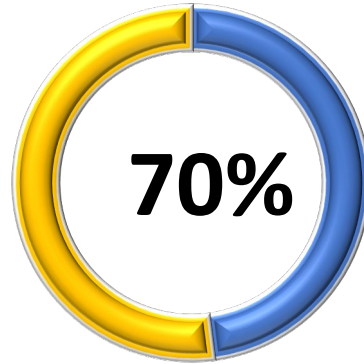
⁴Claude Thau, Society of Actuaries, Feb. 2024

⁵2022 LIMRA Combination LTC Sales Report. This includes charged for chronic illness riders

Long-term Care Basics

Which statistic below do you think is true?

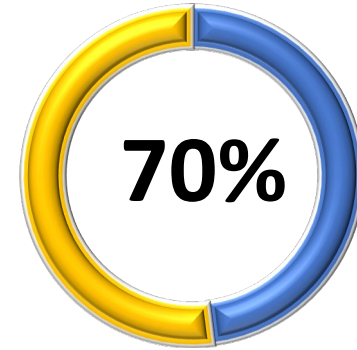
#1



of LTC claims begin with
care at home

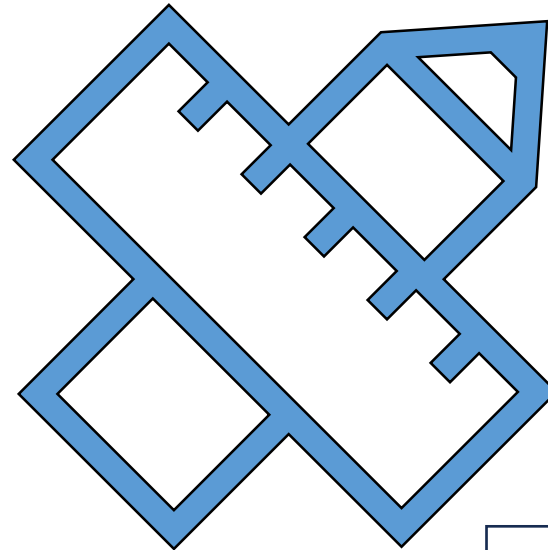
or

#2



of people over age
65 will need LTC

The Answer Is



73%
of LTC claims begin
with care at home¹

56% percentage of people aged 65 plus that
will need LTC.... that's still a lot of people²

7% percentage of people aged 50 and older
that have LTC coverage

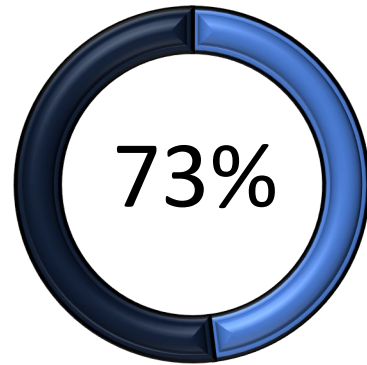
¹American Association for Long-Term Care Insurance, 2022, www.aaltci.org

²ASPE Research Brief, Long-Term Services and Supports for Older Americans: Risk and Financing, 2022", August 2022

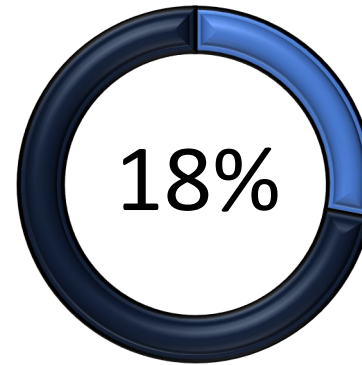
³Forbes Health "What is Long-Term Care Insurance"- Elaine Shelly, 2/20/2024

Home Health Care Increased by 40% post-Covid¹

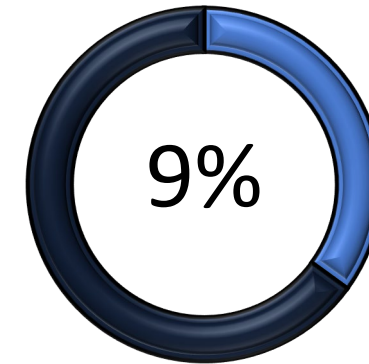
Home Health Care – even a stronger story



Home Health Care ²



Assisted Living



Nursing Home

- Claims are changing
 - Pre-Covid, Home Care hovered around 52% - 54%¹
 - Home Care has continued to rise since COVID, not decline ²
 - Assisted living now exceeds nursing home care
 - Nursing home utilization is not expected to return to pre-pandemic levels³

¹ Historical reference: American Association of Long Term Care Insurance Study, April 2018

² American Association for Long-Term Care Insurance, 2022, www.aaltci.org

³ 2023 Senior Living Industry Pulse, plante moran Living Forward report, 2023

Effects of the Pandemic on Cost of Care

Long-term Care inflation over last few years	2020 ¹	2021 ²	2023 ³
Homemaker Services	4.44%	10.64%	7.1%
Home Health Care Aide	4.35%	12.50%	10%
Adult Day Care Services	-1.33%	5.41%	5.56
Assisted Living Facility (ALF)	6.15%	4.65%	1.4%
Nursing Home – Semi-private Room	3.24%	1.96%	4.4%
Nursing Home – Private Room	3.57%	2.41%	4.9%



→ since 2021, ALF costs have risen a total of **18.9%**³

Drivers in current cost increases:

- Inflation was top factor, particularly for ALFs and Adult Day Care
- Shortage of skilled workers, particularly for homecare services and nursing homes
- Wage pressures
- Regulatory changes
- Supply and demand

¹Genworth 17th Annual Cost of Care Survey - Dec. 2, 2020

²Genworth - Cost of Care Trends and Insights - Feb. 7, 2022

³2023 Genworth Cost of Care Survey – March 12, 2024

The Changing Face of Informal Caregivers

Change in Percentage of Caregivers from Each Generation

	2015	2020	Trending
Generation Z (born 1997 or after)	---	6%	Up
Millennial (born 1981 to 1996)	23%	23%	No change
Generation X (born 1965 to 1980)	25%	29%	Up
Baby Boomers (born 1946 to 1964)	39%	34%	Down
Silent/Greatest (born 1945 or earlier)	13%	7%	Down

Boomers are still the most predominant generation of caregivers, but are transitioning to becoming the cared-for

Challenges of Informal Caregiving



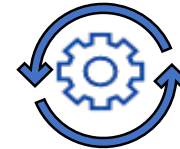
25%

25% of informal caregivers are **sandwich caregivers** who care for a parent or other elder while also raising children. They average just 41 years old.¹



\$50K

Millennials are more likely than other caregiving generations to also be working, yet many earn lower incomes.²
\$50,000 or less is the household income for majority

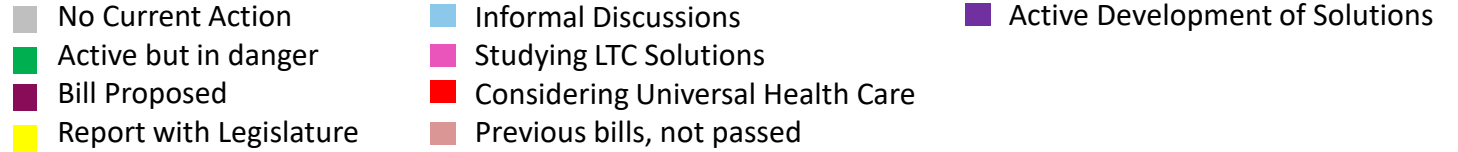


53%

53% of informal caregivers say they had **no choice** in taking on the caregiving role³

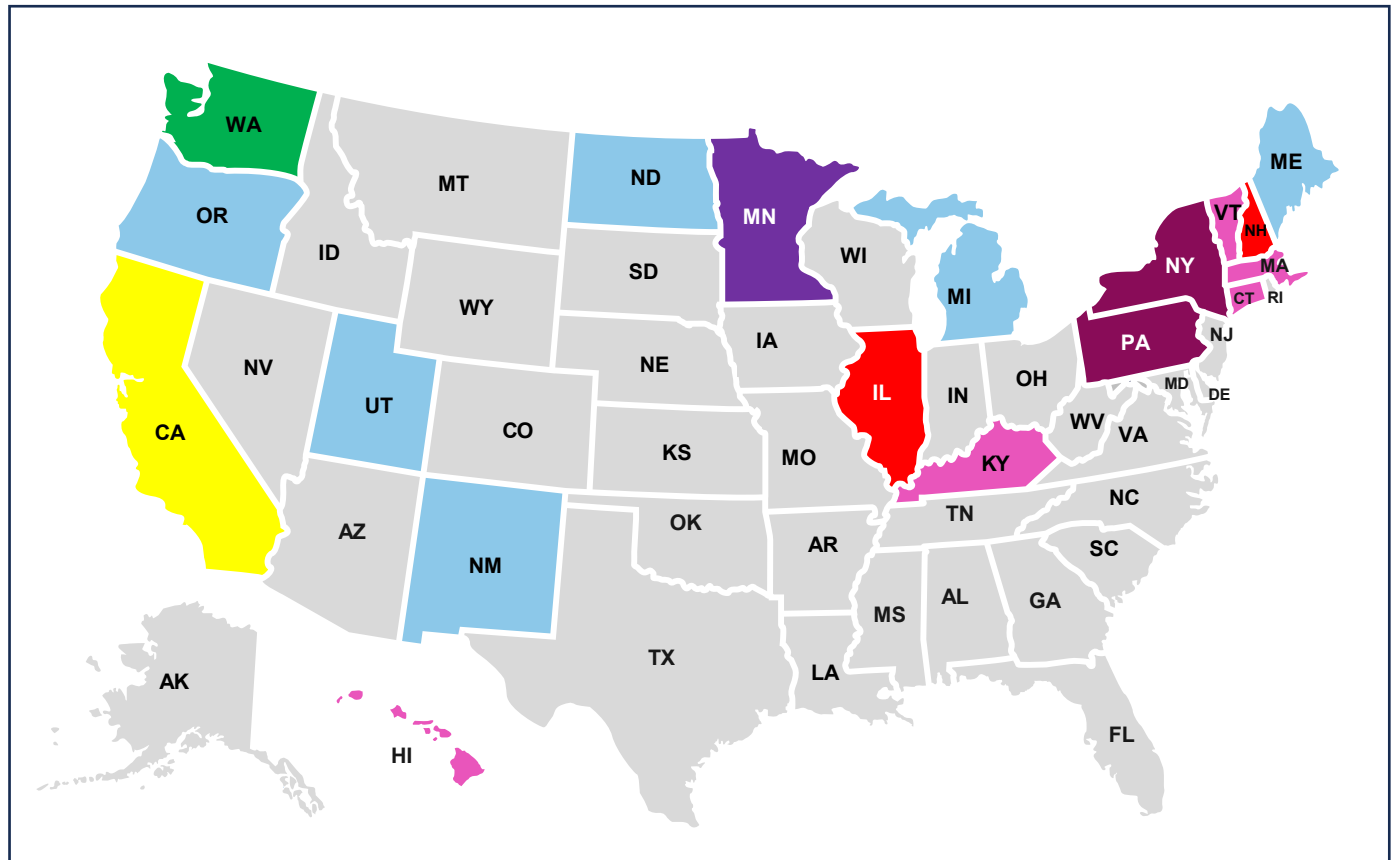
LTC Legislative Updates

Who may be next to follow Washington?



States to watch are.....

- **Washington**
- **California**
- **Minnesota**
- **New York**
- Connecticut
- Hawaii
- Illinois
- Kentucky
- Maine
- Massachusetts
- Michigan
- New Hampshire
- New Mexico
- North Dakota
- Oregon
- Pennsylvania
- Utah
- Vermont



This list is not necessarily complete. States shown are at various levels of consideration which could change at any time

Summarizing Potential for States to Implement a LTC Tax

- **WA Cares Fund** (Long-Term Services and Supports Trust Program)
 - 0.58% now being taken from employee paychecks
 - Program in danger – Initiative 2124 would make program optional
- **California**
 - Final report on the Task Force’s 5 options are now with the legislature and governor
 - Nothing will be proposed in 2024 – deadline to propose bills has passed as of Feb. 16th, 2024
- **New York**
 - Bills proposed looking similar to WA with some improvements
 - NY out of session for rest of 2024. Look to see if bills reappear again in 2025
 - The opt-out only recognizes traditional LTC insurance, no other LTC product at this time
- **Minnesota**
 - Working on a 3-tiered approach and could implement all three over time
 - Education
 - Medicare Wrapper
 - Catastrophic lite LTC program

LTC Planning and Product Updates

Understanding LTC Benefit Models



Reimbursement Plans

- Only actual LTC costs are reimbursed
- Bills and receipts must be submitted each month
- Care providers may not agree to do direct billing with insurance company
- Licensed providers generally required
- Non-covered expenses are paid out of pocket
- Less flexibility but may help with money management

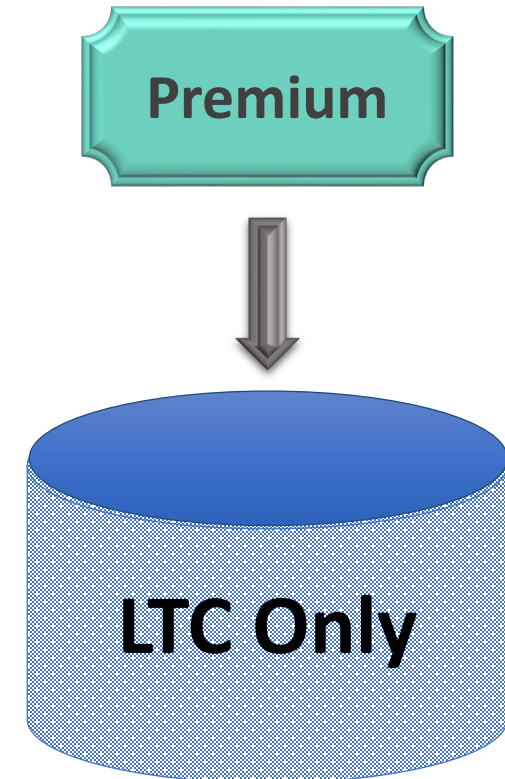


Cash Indemnity Plans

- Full monthly LTC benefit paid to policy owner
- No monthly bills or receipts to submit
- No restrictions on how LTC benefits are used
- 100% of care can be provided by family or other unlicensed care givers
- Alternative care, transportation, prescriptions, etc.

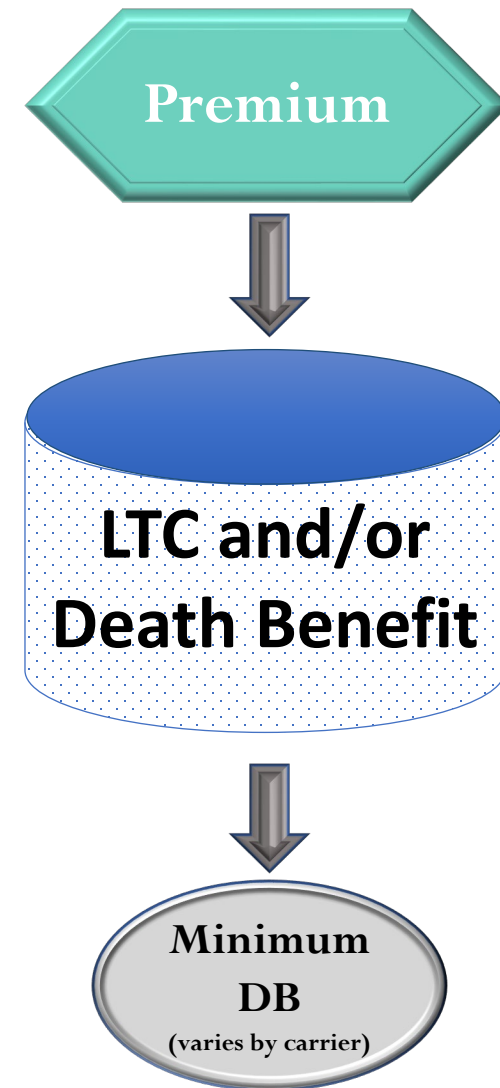
Traditional Long-term Care Insurance

- Covers long-term care only
- For people only wanting LTC coverage and/or on a budget
- May be the most economical solution
- State Partnership policies available
- Cost-of-living adjustment
 - 3% to 5% (simple and compound), CPI
- Generally, only Reimbursement plans available
- Purchases most LTC, possible loss of premiums
- Premiums not guaranteed
 - subject to rate increases
- Life pay premiums often the only option



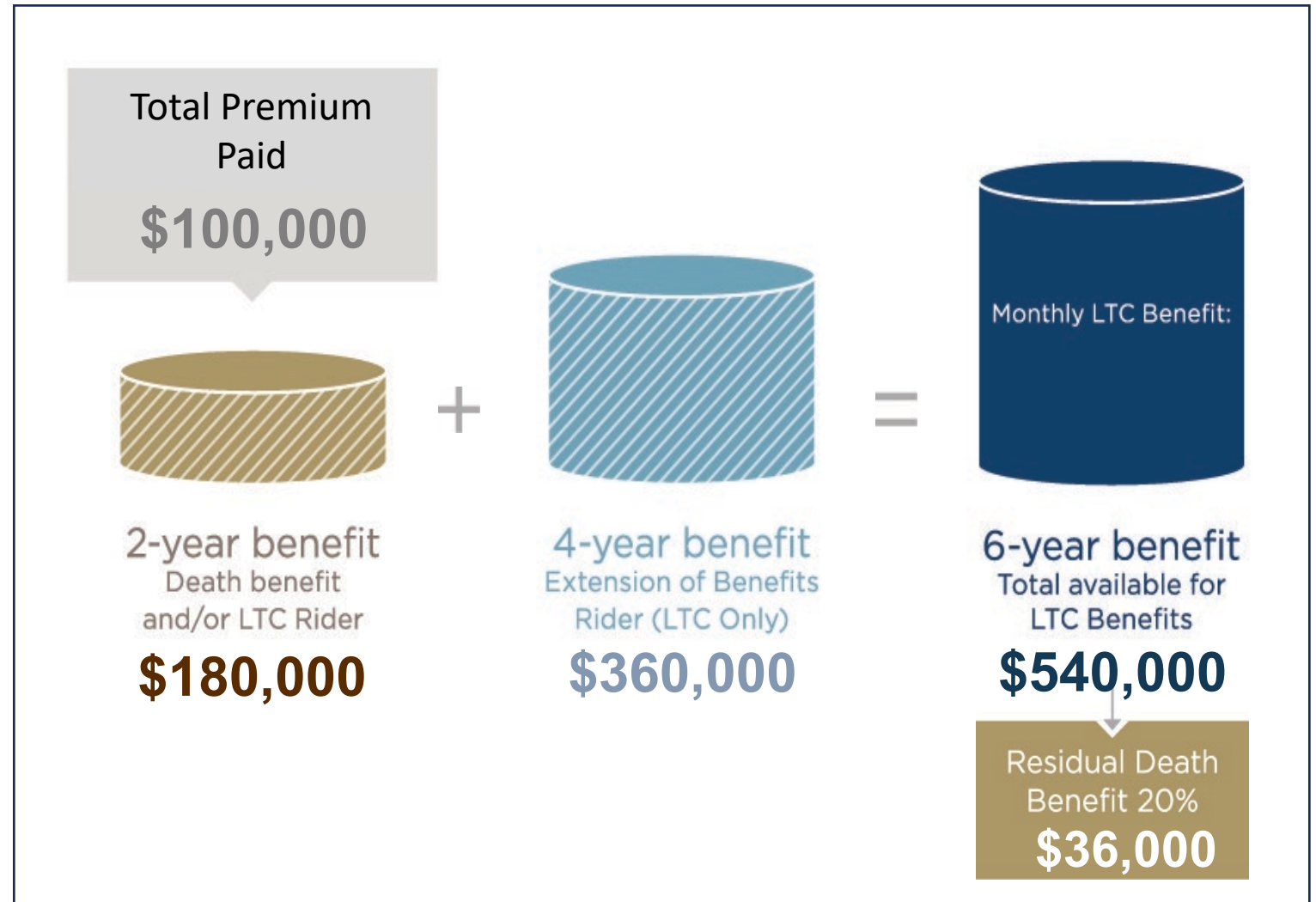
Life insurance with LTC Rider

- Life insurance need (legacy/family protection) – and LTC concerns
- Provides leveraged benefit to someone, live or die
- Premiums, LTC/DB can be guaranteed*
- Variety of premium schedules
- Variety of base insurance products
- Substantial death benefit leverage
- Guaranteed minimum death benefit
- Minimal customization (varies by carrier)
- Generally, the least LTC coverage – but most death benefit



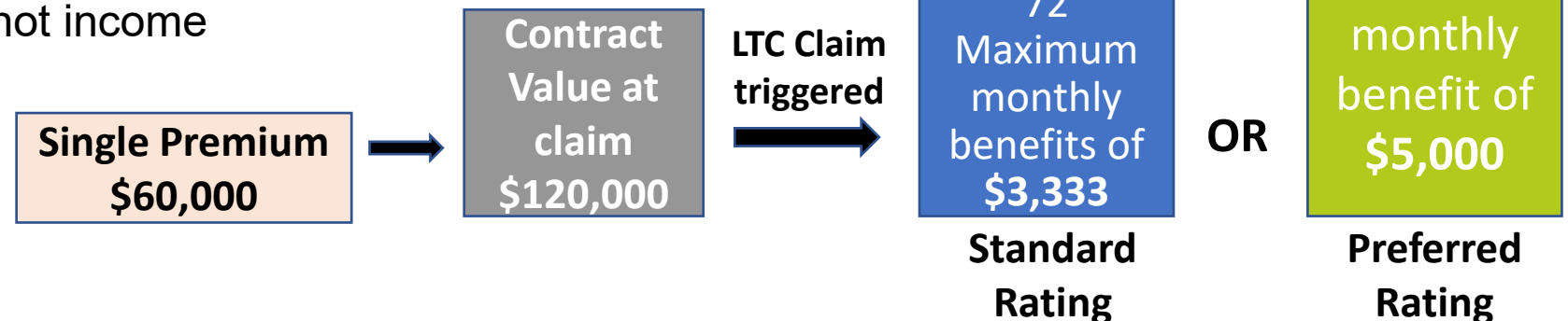
Linked Benefit Long-term Care Insurance

- Return of Premium Feature (to owner)
- Features more features similar to traditional LTC policies
- Variety of premium schedules
- DB at least \$5,000 to 20% of Specified DB Amt. (varies by carrier)



Annuity with LTC Rider

- Generally, on a fixed annuity product
- Single premium
- For people who are not life insurable but still LTC insurable
- Contract value grows tax deferred
- Contract value doubles/triples to create benefit base for LTC claim
- Provides tax free monthly LTC benefits
- Benefit periods offered vary by company
- Annuity taxation rules apply to death benefit (remaining contract value)
- No “use it or lose it”
- Primarily designed for LTC, not income



Design shown is a commonly used design policy structure

The Health Risk of Waiting to Buy

Underwriting Updates –

Traditional LTCi & Linked Benefit LTC

- There is a **health risk** to waiting
 - Underwriting is more fine-tuned now than in past
 - Waiting comes with the risk in a change in health
- **Declines are going up**
 - Between 2012¹ and 2021² declines in the **Traditional LTCi space**

	Under 50	50 - 59	60 - 69	60 - 64	65-69	70-79	70-74
2007¹	7%	14%	23%			45%	
2019²	19.4%	21.9%		28.7%	37%		46.2%
2021³	12.4% *	20.4%*		30.4%	38.2%		47.2%
	177%	145%					
Increase %	277% (2019)	156% (2019)					

*This anomaly was caused by the unusual number of younger WA applicants wanting exemption from WA Cares Fund

- **Good news** – Declines for **linked benefit LTC applicants** are **25% to 50% lower** (depending on age) than traditional LTCi³

¹The SCAN Foundation – Long Term Care Insurance Buyers Profiles, Spring 2011 (historical reference)) and American Association for Long-Term Care Insurance study of data from leading traditional LTC insurers. December 2019

²American Association for Long-Term Care⁶www.AALTCI.org/LTCfacts-2022 ³Insurance company data

There is also a Financial Cost to Waiting

- The longer you wait
 - The more the policy could cost..... AND
 - The less your LTC benefit may be at claim time if you choose inflation

How Waiting Effects Cost and Benefits on Linked Benefit Policy					
Age	Monthly LTC Benefit at Issue	Inflation	Monthly LTC benefit at age 80	Annual Premium	Total Premium paid over 10 years
55	\$5000	3% compound	\$10,469	\$9,841	\$98,410
60	\$5000	3% compound	\$9,031	\$11,423	\$114,230
65	\$5000	3% compound	\$7,790	\$14,685	\$146,850
When inflation may not make sense					
70	\$5000	3% compound	\$6,720 (age 80)	\$21,922	\$219,220
70	\$7,511	No inflation	\$7,511 (all yrs.)	\$21,922	\$219,220
70	\$6720	No inflation	\$6,720 (all yrs.)	\$19,613	\$196,130

Inflation does not equal no inflation amount until age 84

This is a hypothetical example, and actual results may vary. The cost/age comparison is based on CareMatters II, female, non-tobacco, couples-rate with a 6-year benefit period, 3% compound inflation and a 10-year premium payment schedule.

Claims and the History of the HIPAA Per Diem for LTC

Historical HIPAA Per Diem Rates				
1997	\$175		2011	\$300
1998	\$180		2012	\$310
1999-2000*	\$190		2013	\$320
2001	\$200		2014-15*	\$330
2002	\$210		2016	\$340
2003	\$220		2017-18*	\$360
2004	\$230		2019	\$370
2005	\$240		2020	\$380
2006	\$250		2021	\$400
2007	\$260		2022*	\$390
2008	\$270		2023	\$420
2009	\$280		2024	\$410
2010	\$290			

- HIPAA per diem helps establish formula for tax free LTC benefits
- LTC benefits are tax free, cumulative of all benefits paid for an insured, to the greater of:
 - **The HIPAA per diem in year of claim - or - actual qualifying LTC costs incurred¹**
- No justification of expenses are needed if benefits received are equal to or below the HIPAA per diem
 - Any amount received in excess of the IRS limits will be taxed as ordinary income.
- HIPAA per diem usually increases each year
 - 2022 first time ever for a decrease
 - Due to a change in formula per Tax Cuts and Jobs Act

¹ A tax professional should be consulted to help determine which of the insured's expenditures would be considered a long-term care expense for purposes of the IRS formula for tax-free benefits.

Maximizing Value with Linked Benefit LTC

- A claim lasting 1 year will average 3.9 years¹ (4 years)
- Consider value when purchasing a linked benefit policy
 - Most popular linked benefit sale is **6-year benefit period**
 - **For the identical cost**, a 6-year benefit period will pay much more in total LTC benefits than a 4-year benefit period.
 - Monthly benefit will be slightly less
 - Break even generally less than 4.25 years or less

60-year-old female, couple rate, NT

BENEFIT PERIOD	SINGLE PREMIUM	DEATH BENEFIT	LTC BENEFIT	MONTHLY BENEFIT	2-YEAR CLAIM	4-YEAR LTC CLAIM	6-YEAR LTC CLAIM	BREAK EVEN WITH 6 YR. vs. 4 YR. BENEFIT
4 - year Benefit	\$100,000	\$194,000	\$387,000	\$8,061	\$193,000	\$387,000	Exhausted after 4 years	
6 - year Benefit	\$100,000	<u>\$184,000</u> \$10,000 less	\$551,000	<u>\$7,652</u> \$409 mo. less	<u>\$183,000</u> \$10,000 less	<u>\$367,300</u> \$19,700 less	<u>\$551,000</u> \$183,700 MORE	\$387,000 in 4 Yrs. & 3 mo.

¹Forbes Advisor – “How Hybrid Life Insurance Pays for Long-Term Care” – Cameron Huddleston – July 20, 2020URBO Number & Disclosures • Nationwide Retirement Institute

Linked benefit
policies have
become more
affordable

Currently,
30% of combo
LTC sales

- Originally thought of as LTC coverage for affluent and wealthy
 - Only single pays were available in the past
- Became more affordable with the advent of short pays
 - up to 10 years
- Now more affordable to the masses
 - 5-year schedules
 - 10-year schedules
 - 20-year schedules
 - Pay to age 65
 - Pay to age 100

Some things remain the same....

Many affluent clients still believe in self-funding LTC

“Self Insuring”

Dedicate
\$100,000
of assets to pay for LTC

If LTC is needed

Pay for care using the
\$100,000
Ease of use – flexibility

But when that runs out

Client uses more of their
own income/assets to pay
for additional LTC bills

vs.

Self Assuring with Linked Benefit

Reposition
\$100,000
\$540,000 of LTC coverage¹

If LTC is needed

Policy pays LTC benefits first
from **\$100,000** premium
*Ease of use - flexibility – cash
indemnity*

If LTC is still needed – “stop loss”

Policy pays monthly LTC benefits
up to an additional
\$440,000¹

\$180,000
DEATH
BENEFIT

\$7,500
Monthly
for LTC

For heirs
\$36,000
DEATH
BENEFIT

Residual DB 20%

¹ Stated benefit amounts are based on hypothetical generic example, actual benefit amounts received may vary..

² Assumes at least \$100,000 spent on care

Summary

- LTC market is shifting towards **combo and hybrid sales** – and its guaranteed premium and benefits
- The long-term care story now centers around **home care**
- Proposed state and federal programs are **wait and see**
- Waiting to purchase brings **risk** of higher cost and decline
- Now is the time to start **planning** with your clients