BROKER WORLD

The Practice Management Minute...

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CFP®, CLU®, ChFC®, is the owner of CG Financial Group, one of the fastest growing annuity, life, and long term care IMOs in the industry. Gipple's passion is to fill the educational void left by the reduction of available training and prospecting programs that exist for agents today. Gipple is personally involved with guiding and mentoring CG Financial Group agents in areas such as conducting seminars, advanced sales concepts, case design, or even joint sales meetings. Gipple believes that agents don't need "product pitching," they need mentorship, technology, and somebody to pick up the phone…

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The FYI On LTC, AOBs, COBs And EOBs

My title is tongue in cheek of course but there is truth to it. There are a lot of acronyms and terminology that can make one's head spin. So, I wanted to write a quick article discussing the meaning of some of these things, differentiate between a few areas of the long term care business, and also explain correct terminology.

I believe that the long term care opportunity for you, the financial professional, is too large to ignore. So, if you are not really familiar with the long term care space, this article may shed a little light on the topic.

Stand Alone LTCI

Although the stand-alone long term care insurance marketplace has gone through some significant "de-risking," these policies are still superior to what they were when first offered as they are loaded with various features that did not exist previously. For instance, when first offered in the late 70s by the handful of carriers that offered it, LTCI only covered expenses associated with nursing home/skilled nursing facilities. This is in contrast to the policies today that also offer coverage for in-home care, adult day care, and assisted living facilities.

The old label of "nursing home insurance" is no longer appropriate. As a matter of fact, based on many studies as well as my experience at long term care carriers, anywhere from 50 to 75 percent of first time long term care claims are for in-home care versus nursing home and assisted living facilities. These numbers are important because they demonstrate the flaw in the notion that long term care insurance is "nursing home insurance." It is important to discuss with clients that LTCI is insurance that can actually allow you to stay out of the nursing home and allow you to have more options than if you were otherwise on Medicaid.

To discuss some features of these products, some traditional LTCI policies today have return of premium options that address the "use it or lose it" concern that many consumers have had about LTCI. One can choose among a handful of benefit periods and also a handful of inflation options. One can also choose a shared care feature that allows you to use your spouse's benefit pool if yours depletes. The list of features goes on…

What about the huge premium increases that have happened over the last couple of decades? I believe that, with updated interest and lapse assumptions on new offers, the prices will be more stable than they have been in decades. No longer are carriers estimating overly optimistic long term interest rates along with six percent lapse assumptions! *(Note: For carriers, an aggressive lapse assumption can be dangerous and overly rosy because that means they are assuming they will **not** have to pay claims on those policies that lapse. Consumers have held on to their long term care policies and carriers have reflected this in their new lapse assumptions.)*

Combination/Hybrid Products

Combination products are an alternative to the traditional LTCI we just discussed. Because many people discuss "combination products," "acceleration products," and "linked benefit products" as if these terms are synonymous, I would like to spend some time differentiating the terminology as these terms are not synonymous.

Combination/hybrid products are the broad category of products that can be on a life insurance chassis or an annuity chassis. Thus, a combination/hybrid product is an annuity or life insurance policy that has some form of long term care benefit, usually in the form of a rider. These products can be life insurance with accelerated death benefit riders, annuities with long term care riders, or they can be true linked benefit products that we will discuss in a bit.

With what has happened in the stand-alone LTCI marketplace, today around 90 percent (*Milliman 2021 Long Term Care Insurance Survey*) of the long term care marketplace is combination products versus stand-alone LTCI. Clearly the flexibility of these combo products is very appealing to financial professionals and consumers. Combo products will only continue to grow in popularity.

Below are two subcategories that make up the larger combo products/hybrid products category:

- Acceleration of Death Benefit Products. (*Note: the AOB is technically a rider added on to the base policy.*)
- Linked Benefit Products

Accelerated Death Benefit Type Products

This is a subcategory of the broader combination product/hybrid world. These are usually life insurance-based products where the death benefit (and no more than the death benefit) can be accelerated for the purposes of a long term care event or a chronic illness.

When I present this product/rider I like to point out that the life insurance of the old days typically had one "trigger" in order to access the death benefit—death. However, today's products many times have a chronic illness rider or long term care rider that allows for the acceleration of the death benefit. These AOB riders are the mechanism that allows the insured to get enjoyment out of the product during their lifetimes rather than having to die. Again, the two prominent rider types offered within this category are chronic illness riders and long term care riders. Again, AOB riders will generally allow for just the death benefit to be paid out for long term care, nothing more. What if you want more of a long term care pool? That is where linked benefits might come in.

Linked Benefit Products

Linked benefit products are the second subcategory of the broader combination product/hybrid world. What separates a linked benefit product from just a normal life policy with the death benefit being available for acceleration? It is the COB rider (continuation of benefits) or EOB rider (extension of benefits). With just an AOB rider (acceleration of the death benefit) that we previously discussed, the maximum amount that is accessible is the death benefit, period! However, when you add a COB/EOB to a product that also has an AOB, you get access to multiples of the death benefit when it comes to long term care. A lot of acronyms, so allow me to give you an example.

*Example: John bought a linked benefit life insurance policy for a single premium of $100,000. The death benefit on this life policy is $200,000. Should he need long term care, the acceleration of benefits rider allows him to access all of this death benefit. What if he continues to need care even after his death benefit is depleted? Well, fortunately, because this is a linked benefit product, he has a COB/EOB rider that allows for an additional **two times** (example) his death benefit, or an additional $400,000 in the long term care pool. That COB/AOB that piggybacks on the base product and the AOB is what makes a linked benefit product a linked benefit product. Once his AOB is depleted, the COB/EOB can kick in. What if he died before depleting all of his death benefit? The remaining death benefit will go to a beneficiary.*

(Note: One of my favorite products is actually a linked benefit annuity product that triples the clients premium for purposes of long term care, with relatively minimal underwriting. The client gets access to their annuity accumulation value if they need long term care, plus they have a COB/EOB that is an additional two times their accumulation value!)