The Essential Guide to Group Long-Term Care Insurance

Long-term care insurance helps protect employees' retirement plans against the high cost of custodial care due to conditions such as strokes, Alzheimer's disease or certain types of cancer—care that is not covered by employer health plans or government programs. Long-term care insurance is an increasingly popular benefit option for employers to offer, and this guide will give you everything you need to see if long-term care coverage is right for your company.

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Introduction

Most employees planning for retirement have three major concerns — an unexpected health event, outliving their income, and passing away financially unprepared. Life Insurance programs and retirement savings programs such as 401(k)s can address two of these major concerns. Many serious health events are covered by Medicare or supplemental private health insurance policies. However, there is a large gap in the personal planning of most employees — the possibility of needing help due to the effects of aging or extended healthcare.

Conditions such as Alzheimer's, Parkinson's Disease, Stroke, or simply just getting older can lead to needing help with care. Care can take place at home, in an assisted living facility, or a nursing home — and, it can be extremely expensive! Since Medicare won't pay the costs, funding comes through savings, Medicaid, or long-term care insurance.

A long-term care insurance plan can't prevent Alzheimer's or other chronic conditions that result from disease or getting older. However, it can help the family tremendously at time of crisis by offering access to a pool of money that can be used to pay for care. **For employees who plan ahead and buy LTC coverage in their working years, they can typically buy comprehensive long-term care (LTC) coverage for around $100 per month.** And buying through an employer includes several advantages we will discuss in this report.

Whether you are an employer or a benefits professional, you may have heard that group LTC insurance is no longer available to employer groups. That is not the case! Several LTC insurance products are available in the marketplace, from traditional LTC coverage to hybrid policies that combine life insurance and long-term care insurance in one policy. Read on to learn more!

UNEXPECTED HEALTH EVENT

OUTLIVING YOUR INCOME

PASSING AWAY FINANCIALLY UNPREPARED

Why Employers should offer LTC insurance as a benefit

Long-term care insurance is a product that has been available for over 30 years, but only a small percentage of those who say they need coverage have a plan. One reason could be that a LTC insurance plan is not available through their employer, despite the desire of employees to have this option. In fact, according to a 2017 survey of 1,200 adults conducted by Genworth Financial, 4 out of 5 Americans want the option of buying long-term care insurance at work, and 68% of survey respondents would prefer to purchase it through an employer as opposed to a financial professional.

57%

SAY THEY PERSONALLY NEED LONG-TERM CARE INSURANCE

BUT ONLY

14% HAVE IT

Source: 2017 Insurance Barometer Study, Life Happens and LIMRA

There are many advantages to an employee buying LTC insurance through an employer:

1. **Premium Discounts:** Insurers typically discount premiums compared to what is available in the individual market. They can do this because offering LTC insurance to a large number of buyers lowers their customer acquisition cost. The discount can be extended to spouses and often to family members.

2. **Underwriting:** Another advantage for employees is streamlined underwriting. Most long-term care products include a health evaluation or full medical underwriting, which is important to keep the block of business stable and combat adverse selection. However, many carriers in the group market will simplify the underwriting process for employees during the open enrollment period, as long as there's a robust communication plan in place.

3. **Unisex rate structure:** Unlike products in the individual market, employer standalone long-term care plans offer the additional advantage of gender-neutral premium rates. Because they tend to live longer and need more long-term care, women pay more for LTC in the individual marketplace, but not in the employer market!

4. **Employee buying experience:** Finally, the employee buying LTC insurance through an employer group may have a better buying experience than someone buying in the individual marketplace. Robust education and awareness campaigns can help employees make thoughtful decisions. The product offering has been vetted by the employer, and an employee may avoid a high-pressure sales approach. Finally, these products offer convenient online enrollment.

Employers create thoughtful programs that help employees prepare for retirement, but the best plan can be devastated by a long-term care event. Offering long-term care coverage can help employees protect their retirement income and lifestyle. Want to know how LTC insurance works? Keep reading!

How long-term care insurance works

At its basic level, the concept of LTC insurance is just purchasing access to a pool of money for when care is needed. Buyers select how big that pool of money is initially and decide whether the pool will automatically increase over time to keep up with inflation. LTC insurance will pay for care in a variety of settings, based on the policyholder's individual needs.

Two types of Group coverage —Standalone and Group Life/LTC combination products

Group long-term care insurance programs come in two flavors — traditional "standalone" health-based LTC Insurance and group life insurance that includes a long-term care insurance benefit. In many ways, standalone and group products are similar. Both products will pay once policyholders need assistance with any two of six activities of daily living or have a cognitive impairment requiring supervision. The benefit received by the policyholder is typically received tax-free for expenses incurred for caregiving. Both policies also allow for care to be received at home, in assisted living, or at a skilled nursing facility.

However, there are differences in how the plans work. Plans that combine life insurance will pay a long-term care benefit by allowing early access to the death benefit. Some products also include an extension of a benefits rider once the initial benefit has been exhausted. If no long-term care is needed, then the plan will pay a life insurance benefit to a family beneficiary upon death. Let's look at the advantages and disadvantages of each approach:

Advantages of Standalone LTCI

- **Best value in pure LTC benefit.** Similar to term life insurance, Standalone LTC insurance provides the most LTC benefit per premium dollar.
- **Includes inflation protection options.** Inflation protection options are designed to keep pace with the cost of care over time.
- **More coverage options.** A Standalone LTC policy can be designed to cover either the full cost of care in the future or a portion of the care cost.
- **HSA friendly.** Employees with Health Savings Accounts can use HSA account dollars to pay LTC premiums.

Challenges of Standalone LTCI

- **Use it or lose it.** If a policyholder never needs long-term care there is no return of premium or cash value.
- **Limited carrier options.** Due to historically low interest rates and widespread pricing errors on early LTC policies, many carriers have exited the market. As interest rates stabilize, it is expected new carriers will enter or re-enter the market.
- **Standalone LTC is not for everyone.** With the average premium of Standalone LTC coverage around $1,200 annually, this benefit tends to be more appealing to employees ages 45-65 with total household incomes of $100,000 or more.
- **Requires some medical underwriting.** LTC insurance provides substantial benefits and carriers are carefully underwriting coverage to avoid past mistakes. No "Guaranteed Issue" options are available in the standalone LTC market, however there is worksite or streamlined underwriting not available in the individual or retail market.

Group Life/LTC Combination plan Advantages

- **Guaranteed benefits.** Either in the form of LTC benefits or a death benefit, this product will provide a benefit to each insured who maintains the coverage.
- **Provides life insurance and LTC.** Allows insured to cover two risks with one policy.
- **Robust market of highly rated carriers.**
- **Guaranteed and simplified issue underwriting available.** For many products, 100% of eligible employees will be accepted up to the GI limit regardless of health. Employees may have the option to purchase coverage above the GI limit with medical underwriting.
- **Affordable plan designs.** Life with LTC allows for a broader range of benefits and premiums that fit many budgets and needs.

Challenges of Group Life/LTC Combination Benefits

- **Limited inflation protection options.** With most products, total and monthly benefit of Life with LTC remain level for the life of the policy, subjecting plan participants to inflation risk.
- **Smokers will have higher rates than non-smokers.**
- **Higher premiums per dollar of LTC benefit.** Due to the addition of life insurance, the cost is higher per dollar of LTC benefit.
- **Smaller pool of LTC benefits available.** The flip-side of easier underwriting is small limits on the total pool of LTC benefits available.
- **Life insurance benefit may be exhausted by an LTC insurance event.**

The shift from "True Group" LTC plans to Multi-Life

For many years the only way for employers to offer standalone long-term care insurance was by using group plans. A master policy was issued to the employer and each employee was issued certificates of coverage. Participants in this market included Unum, John Hancock, MetLife, Prudential, CNA, and Aetna. Plans were offered with guaranteed issue underwriting, and premium rates were designed to remain level for the lifetime of the certificate holder.

Group coverage allowed for efficient census-driven enrollment of employees, payroll deduction of premiums and coverage based on the situs state of the employer. With the exception of Genworth, nearly all carriers no longer offer coverage to new employer groups, yet millions of American employees and retirees still have group LTC benefits through these insurers.

Now, most long-term care insurance sold through the employer is individual contracts — so-called “multi-life” LTC. Why did the market for standalone LTC move from group contracts to individual contracts issued at the worksite?

- **Group carriers left the market.** With the exception of Genworth, nearly all of the true group carriers no longer offer coverage, and some of them have stopped accepting applications on existing groups as well. Because LTC insurance was underwritten on a guaranteed issue basis, and in most cases was a voluntary program, adverse selection could occur as employees more likely to need care in the future may buy richer plans.
- **Individual contracts allow for carriers to more effectively manage pricing and underwriting.** By using individual contracts, carriers can ensure that the products they are placing are using the latest underwriting standards and pricing assumptions. True group plans suffered from new entrants to the group that were subject to older rates. For example, many older group plans only offered one type of benefit that may have paid only for professional home care. Individual plans allow new employees or late entrants to the plan to get the latest product features and premium rates.
- **More flexibility in policy benefits.** Individual multi-life products offer more flexibility in up-to-date product features. For example, newer plans often offer “cash alternatives’ that can pay a benefit even if an at-home spouse is doing the caregiving, a feature often not available on “one-size-fits-all” group plans.
- **Technology allows for individual products to be enrolled online.** As mentioned above, an appeal of group products was census-driven enrollment — individual contracts years ago would have required pages of paper applications. Now, individual multi-life plans offer online applications.

Recommendations for employers with in-force Group LTC plans

Over the years, numerous employers, both small and large, implemented group LTC plans for their employees. Some of the carriers that used to offer group coverage but are no longer writing new groups include Aetna, CNA, John Hancock, MedAmerica, MetLife, Prudential, and UNUM.

These programs provide valuable benefits for employees and retirees, but they can present employers some challenges. Here are some of the issues:

1. Most of the legacy true group carriers no longer offer coverage to employees who didn't participate in the initial plan offering or new hires.
2. Numerous carriers have suspended new business sales or exited the marketplace.
3. Carriers are implementing in-force rate increases.
4. Older plans don't incorporate the latest LTC benefits, such as plans that pay for informal care at home.

Employers in this position may need help with:

1. Marketplace analysis (in-force coverage vs. today's coverage)
2. Help determining whether a new offering (and carrier) is suitable for employees
3. Managing the communication of in-force rate increases
4. Advising employees of their options for what to do when they receive an in-force premium increase

Voluntary long-term care insurance —an overview

More and more employers are offering voluntary insurance products including long-term care insurance. Long-term care insurance is unique in that it both augments a medical plan and also helps protect retiree savings and investments.

Once an employer has decided voluntary LTC fits into their benefits offering, they'll need to work with their benefits specialist to design an effective communication and enrollment strategy. Here is a broad overview of the key aspects of a successful voluntary offering:

1 EMPLOYER SUPPORT

The important way to insure success is to have an engaged employer committed to a robust education campaign.

2 EMAIL COMMUNICATIONS CAMPAIGN

A customized email campaign including personalized rate quotes and enrollment deadline reminders are critical for success.

3 LIVE AND PRE-RECORDED WEBINARS

While on-site meetings are still an effective way to educate employees, more and more employers, especially those with remote employees, are using webinars.

4 ONLINE ENROLLMENT AND EDUCATION

5 CALL CENTER SUPPORT WITH LTC PLANNING SPECIALISTS

6 DIRECT BILLING FOR EMPLOYEES

LTC insurance is 100% portable and a product that employees and dependents take with them beyond their working years. Payroll deduction is not necessary.

7 DUAL-ENROLLMENT STRATEGY

Due to the lack of awareness in LTC planning, most employees need time to determine if this benefit is right for them. An off-cycle enrollment can be complimented by an offering coverage during an employer's core enrollment. This enables employees to better understand and plan for long-term care.

This is a list of the basics of enrollment success and each piece is part of the puzzle. In order to really encourage planning, read on...

Behavioral finance and LTC enrollment best practices

We all have unconscious and conscious biases that direct our decision-making, especially with financial decisions such as retirement and healthcare planning. You've probably heard about how the evolving field of behavioral finance is changing the way benefits are communicated. Behavioral finance is a relatively new field that combines behavioral and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions.

As an example, for years 401(k) plans lacked participation that would have been expected with a benefit that often provided "free" money. The breakthrough in 401(k) participation came when more employers engaged in automatic enrollment for employees. Much of the thinking behind these "nudges" became the basis for the field of behavioral finance, led by research from economists like Richard Thaler, who won the Noble Prize in 2017.

Although auto-enrollment for long-term care coverage would be ideal, not many employers would be willing to do this on a voluntary basis. However, there are several lessons that behavioral finance teaches us that can help increase participation in group LTC insurance plans. Here are some of the most powerful:

- **Keep choices as simple as possible.** Long-term care insurance can be very complicated with many moving pieces, but a smart voluntary LTC program will pre-package two or three choices that employees can select from, offering ways to streamline decision-making without removing the employees' ability to customize plans if they'd like.

- **Use stories, not statistics.** Statistics, such as the odds of going into a nursing home and how long care will last, are the typical starting points for education on LTC. However, a more powerful approach is through stories, which can reach clients on an emotional level.

- **Focus on the possible gain LTC will provide instead of the possible loss.** Research has shown that, just like gamblers, we all want to win, and we don't like to think about losing. People who are considering LTC insurance don't want to think about loss when planning for care, such as how their retirement savings may be depleted. Instead, focus on the fact that a small LTC insurance premium gives the policyholder the possibility of a big payoff in benefits. For example, a $120 monthly premium could result in $250,000 to pay for high-quality care at home.
- **Focus on "now" benefits, not the future.** It's incredibly difficult for people to imagine aging and needing help. Instead, focus on the "now" benefits of LTC insurance. The "now" benefits are more difficult to quantify, but they can include peace of mind, streamlined underwriting, and locking into a lower premium before a birthday.
- **Forced choosing.** LTC planning is easy to delay, and people need motivations to keep them from delaying this decision. One technique is to require an eligible employee to make a decision on learning more about group LTC coverage before being allowed to complete their open enrollment.

Decision support technology in enrollments

Most of us need guidance when purchasing voluntary products. Traditionally, the most used enrollment technique has been face-to-face meetings with employees at the worksite.

Although this method continues to be effective, and used in some voluntary long-term care settings, there are some challenges as well, including:

- Scheduling without mandating meetings
- The rise of a remote workforce
- The majority of LTC sales are purchased by couples, and it is challenging to meet face-to-face with busy families today

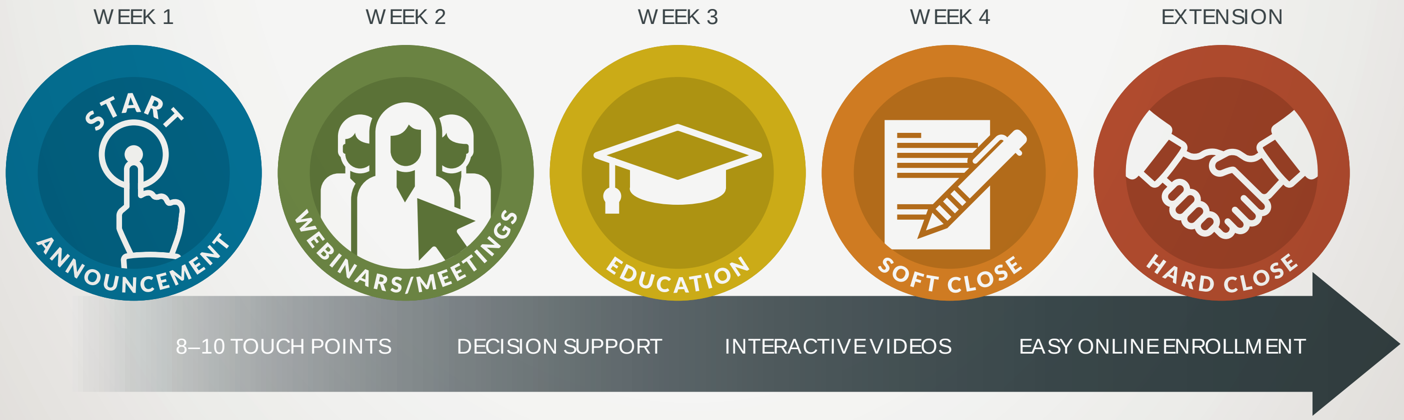
The good news is there are alternatives. The rise in online purchasing means people now feel comfortable researching and buying products online. Helpful online coaches can help guide a decision, from plan design options to applying for coverage.

Enrollment best practices and timing

A successful long-term care insurance enrollment won't get 100% participation, but it should try to achieve 100% awareness. A robust educational campaign to build awareness includes:

1. Email communications that are well designed, educational, and allow for those not interested to opt out for additional reminders.
2. Personalized rate quotes that help employees determine the suitability of this benefit.
3. Live and on-demand webinars.
4. Onsite employee group meetings.
5. A call center of LTC planning specialists available who can answer questions from employees and spouses.
6. Online enrollment with live chat functionality.

Sample Timeline—Implementation



The tax treatment of LTC insurance

With the passage of HIPAA in 1996, long-term care insurance was given similar tax treatment to health insurance. Although deductible to businesses, premiums paid are not taxable to employees, and benefits for qualified long-term care services are income tax free. This unique and preferential tax treatment is why LTC insurance is an especially attractive group and executive benefit.

Here's an overview of the tax treatment of long-term care insurance:

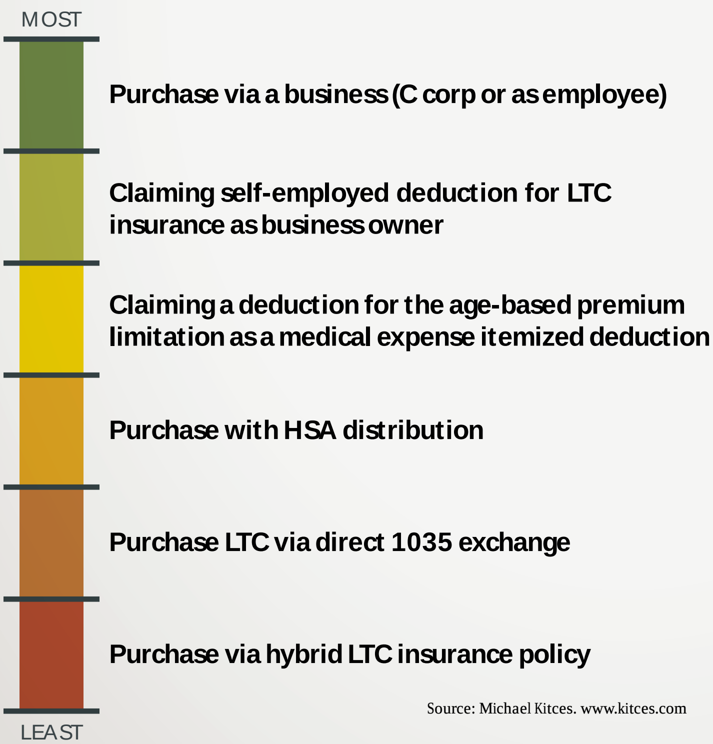
PREMIUM PAYER	CIRCUMSTANCE	DEDUCTIBILITY
Individual Taxpayer	Individual who itemizes deductions and pays premiums for self and spouse.	Adds eligible premiums (see chart p.16) to other unreimbursed medical expenses and may deduct amount in excess of 7.5% of AGI (sunsetting to 10% in 2020)
All Business Types	Employer pays premiums for non-owner employees and spouses (includes S Corporation employees with a 2% or less ownership interest.)	Employer may be able to deduct up to 100% of premiums (if total compensation is "reasonable"). Premiums paid by employer are not included in employee's taxable income.
Sole Proprietor	Sole proprietor pays premiums for self and spouse.	Deducts eligible long-term care insurance premium (see chart p.16)
Partnership (as well as limited liability company taxed as partnership)	Parnership pays premiums for partner and spouse.	Premiums attributed to each partner/member included in their income. Partner/member deducts eligible long-term care insurance premium (see chart p.16).
C- Corporation (as well as Limited Liability Company taxed as corporation)	C Corporation pays premiums for owner who is employee and spouse.	C Corporation may be able to deduct up to 100% of premium expense (if total compensation is "reasonable".) Premiums paid by employer are not included in owners/ employee's taxable income.
S Corporation	S Corporation pays premiums for greater than 2% of shareholder and spouse.	Premiums attributed to each greater than 2% shareholder are included in their income. If greater than 2%, shareholder deducts eligible long-term care insurance premium (see chart p.16).

ATTAINED AGE DURING TAXABLE YEAR	2018 LTC INSURANCE PREMIUM MAXIMUMS
40 or under	$420
41 – 50	$780
51 – 60	$1,560
61 – 70	$4,160
71+	$5,200
“Per diem” cash benefit taxable limit	$360 per day
Reimbursement taxable benefit limit	No Limit

Benefits for LTC insurance are received tax-free. The only exception is for “cash” style benefits, which are tax free up to a certain daily amount.

Here’s a helpful overview of the tax advantages of LTC Insurance, from the most favorable to the least.

Hierarchy of tax-preferenced methods to purchase LTC insurance

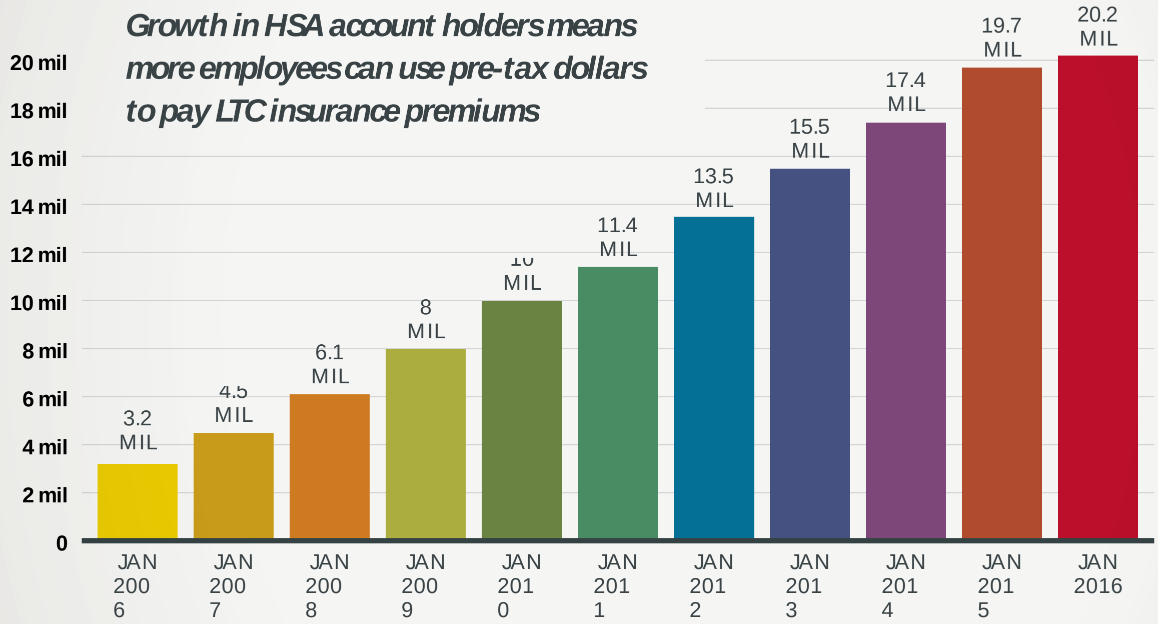


Source: Michael Kitces. www.kitces.com

Note: This does not constitute tax advice. Nothing contained on this webpage represents a guarantee that amounts paid for or received through LTC insurance are excludable from gross income for tax purposes. This material is provided for general informational purposes only. Consult with your LTC insurance advisor, attorney, accountant or tax advisor regarding tax implications of purchasing long-term care insurance.

Health Savings Accounts and Long-Term Care Insurance

The growth in Health Savings Accounts over the last several years has been tremendous. More employers and employees are becoming comfortable with the plans and the flexibility they provide.



Long-term care insurance premiums don't qualify as Section 125 pre-tax eligible. However, as more employees get HSAs and build balances, they will find that long-term care insurance is a natural fit. Health Savings Accounts can be used to pay LTC insurance premiums for employees and their spouses up to the annual tax limits shown above. As an example, if a 61-year-old employee and same aged spouse both have LTC insurance plans with a combined annual premium of $5,000, they can take that amount out of their plan to pay for the premiums using "pre-tax" dollars. That's because the combined limit for couples between the ages of 61 and 70 is $8,320.

What if an employee isn't able to pay their full LTC insurance premium from their HSA due to the limit associated with their existing age? The good news is that once they advance to an older age range, they can recoup the shortfall from previous years. For example, if an employee purchased LTC with a premium of $2,000/year when they were age 60, they would only be able to use $1,560 from their HSA and would need to pay the remaining $440 with after tax dollars. The next year, at age 61, their limit goes up to $4,160. They would be able to pay the entire $2,000 premium for that year from their HSA, as well as recoup the $440 they paid out of pocket the previous year.

Since employers often provide funds to HSA for employees, those employees who wish to purchase LTC insurance have a nice pre-tax benefit.

Executive LTC Plans

Executives can benefit greatly from a long-term care insurance plan. Often executives are at an age in which they are dealing with aging relatives while paying for college costs for their own children, a "sandwich" situation that creates stress and anxiety. Adding LTC coverage to an executive's benefit offering has several advantages, including:

- **Tax incentives.** Employer-paid LTC insurance has the advantage of not being considered income to the employee, and benefits are received tax-free. Premiums are also deductible to companies. For more details, take a look at the **tax rules** for LTC insurance. Rules for hybrid life/LTC plans follow similar rules to employer paid life insurance.
- **Ability to "carve-out" class of employees.** Unlike many other employer provided benefits subject to non-discrimination (ERISA) rules, this strategy enables employers to "carve out" and create a class of select employees to offer long-term care insurance. It works well for closely held family businesses. It is suggested that an employer use a category such as years of service, job title, compensation, or other criteria to create the class and offer coverage. Often employers create a corporate resolution that spells out eligibility for the program.
- **Streamlined Underwriting.** Buying LTC insurance for an executive class means they may have access to special underwriting concessions. And, when they leave their employer or retire, these plans are 100% portable.

- **Limited premium plans.** Some LTC insurance carriers offer accelerated premium plans such as 10 premium payments or pay to age 65. These programs call for an executive to leave or retire with a fully paid-up LTC Insurance plan. Some plans also offer a return of premium feature, so that a premature death can lead to the corporation recovering premiums paid. Limited pay plans are available for both traditional LTC and linked life/LTC plans.
- **Planning for extended family.** Depending on the plan, discounts on the program may be available for extended family members, including spouses, adult age children, parents, and grandparents.

Should your company offer Long-Term Care Insurance?

Offering long-term care insurance in the workplace provides numerous benefits to employees. Here are a few:

- **Timely and valuable education on the need for LTC planning.** Getting old and planning for care is hard! People have a hard time envisioning being dependent in the future. Education can have an impact just as employer education has helped with retirement planning.
- **Addresses a significant "gap" in the employee's financial plan and helps protect their 401(k).** The biggest risk to a well thought-out retirement plan is an unplanned health or long-term care need.
- **Simplified underwriting.** Employees can often get easier underwriting than what they would be able to get on the individual marketplace. In some cases, plans may offer guaranteed issue coverage.
- **Unisex rates and group discounts.** An employer-based LTC plan provides gender-neutral multi-life rates that are generally lower than comparable coverage in the individual market. The rates in the individual market will be based on age, marital status, and state of residence.

- **Ability to carve out select classes of employees.** LTC insurance can be offered in creative ways. For example, C-level executives could be offered a high benefit plan paid by the employer. Other executives and managers can buy meaningful standalone coverage, while younger employees can look at payroll deduct life insurance with LTC riders.
- **Benefits are generally received income tax-free.**
- **Employees can pay for LTC Insurance through an HSA.**

Most employees probably don't think about needing long-term care (LTC), especially if they feel young and healthy. But now's exactly the right time for you to help them plan for the future.

Looking to fill the gap in your employee benefits portfolio with an LTC insurance program that fits your company? We have you and your employees covered.

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