Chapter 12

The Medicare Generation

A Troubled Landscape

American consumers over the age of sixty-five could be excused for looking over their shoulders these days.

They have lived long lives, toiled at a career or just plain worked for decades, and faithfully contributed to Social Security and Medicare the entire time. Now people are telling them that it's time to change these hallowed institutions that many older Americans have come to depend on.

No matter what, proposed recommendations to change these programs will not directly affect anyone either currently receiving Medicare or within ten years of Medicare eligibility. The mere thought of anyone tampering with the public programs that they have come to rely on is frightening. Add some incendiary political rhetoric, and it's time for a revolution against anyone who threatens to alter the status quo.

But wait! Didn't the Patient Protection and Affordable Care Act (PPACA) call for nearly $600 billion in cuts to the Medicare program?[1] It sure did, between provider reimbursement cuts and funding reductions to the popular Medicare Advantage (Part C) program. Also, it called for means-testing of Part B and D premiums (i.e., the more you earn, the more you pay). As consolation, the Affordable Care Act provides almost no benefits for long-term care whatsoever (what it terms Long-Term Services and Supports or LTSS).

As discussed in Chapter 5, the ACA had a brief and unsuccessful foray into LTSS through the now-repealed CLASS Act. As mentioned, the same bill which repealed CLASS created a National LTC Commission in its place to study America's long-term care financing system over the summer of 2013.

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Objectives

Your objective with clients in this age group is to help them plan for potential long-term care costs, not to debate the future of entitlement programs. We can take it as a given that Medicare, Medicaid and Social Security will continue to be the subject of fierce political debate (there are fewer dollars to spread among more individuals), and that beneficiaries will *generally* tend to protect their benefits. Our role is to demonstrate how private insurance can positively affect the overall quality and scope of seniors' care options.

As you will see, this age group differs from Baby Boomers in that they will not argue that they won't need care in the future. They actually feel that they are closing in on needing long-term care—faster than they'd like.

The challenge is how to design a plan that provides reasonable coverage for the budget-minded. This may mean positioning the policy as a supplement to their other financial resources. It may require the use of combination products. It may be important to make the policy partnership-eligible, because the alliance between insurance and Medicaid may be viewed favorably by most people in the upper age brackets. Or it could mean repositioning a current asset to leverage long-term care assistance.

There remains one more significant challenge; underwriting could well be the biggest obstacle to completing a sale in these circumstances. Many of these folks have waited until it is nearly too late from both a pricing and a medical perspective.

Still, many people will purchase long-term care insurance for the reasons *they* want to, even if you feel that it defies logic.

The 21st Century Blues

It is axiomatic in America that each generation will despair at what's become of the country it grew up in. Some of this is based in reality, but much of this feeling is nostalgic yearning for a past that looks better a few decades later than it may actually have been.

Today's sixty-five and older crowd is genuinely dismayed by what it sees happening. Long-time bastions of the country's financial health—entitlements—are under siege as never before. Much of this has to do with the youngest members of this demographic, Baby Boomers, who represent today's sixty-five year-olds as well as those who will be turning sixty-five in record numbers for the next couple of decades.

This flood of eligible individuals into the Medicare and Social Security systems is an unprecedented test of these public programs and there is concern regarding the (likely) negative impact. Never mind that we have had years to prepare for this influx. We are not ready for it, and changes are inevitable at some point.

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Even though inflation has been kept in check the last few years, it remains a top concern of retirees (see Table 12.1 below). This anxiety is natural for those who tend to live on fixed incomes and worry about the day that rising costs rise too far out of reach.

Table 12.1. Top Retirement Risks[2]

Risk	*Retirees*	*Pre-Retirees*
Inflation	57%	63%
Affording Long-Term Care	52%	63%
Affording Adequate Health Care	51%	69%
Maintaining a Reasonable Standard of Living	48%	55%

Of course, as a financial planner or insurance adviser, retirement security is often the result of proper risk management. If you can address some of these key concerns, then you will help consumers in this age group attain peace of mind.

For retirees, inflation worries often add up to not being able to afford long-term or general health care in the future, because it erodes the value of funds set aside for retirement. If you understand this mind-set, you can more easily see why seniors cringe when they hear the threatening phrase *entitlement reform,* because they equate this with reduced benefits, further threatening the purchasing power of their retirement funds.

Of course, longevity plays into this anxiety as well—the increased number of years living in retirement today has added to these fiscal pressures. But if you can solve one aspect of this problem—the financing of long-term care expenses, and do it in a meaningful and economical way—you can help the Medicare Generation.

Real estate woes have plagued consumers over the age of sixty-five as well. Many are stuck in the current sluggish and complex housing market coming out of the Great Recession. They may want to sell their house to move to a retirement community or use the equity in their home to age in place, but may not be able to attract the price they want.

That well-conceived strategy of a few years ago—moving to a retirement community when health declined—is now in jeopardy. The retirement community brings a new mortgage to the senior household that is acceptable as long as they don't have another home they are trying to sell. Price flexibility does not come easily to this age group, and these best-laid plans are not being realized as originally conceived. (Meanwhile, Continuing Care Retirement Communities, or CCRC's, come with steep price tags of their own—some with entry fees in the six-figures—and exist in a gray area of regulation which has seen some residents file class action lawsuits).[3,4]

The fall-back plan is to stay put as long as possible. Unable to sell or unwilling to accept a low figure for their home, these folks will try to stay put where they are as long as possible—if they can.

Long-term care insurance fits nicely into this Plan B, because this product is geared to keeping your client at home for as long as possible.

The Deficit Reduction Act of 2005 was another setback for some in this age group. The tightening of Medicaid eligibility closed some loopholes that people had been assured they could use if a long-term care event occurred. Those who were bogged down with a chronic condition relied on elder law attorneys to legally juggle assets and income and to qualify for public assistance through Medicaid. At the time, studies showed that 8 percent of all sixty-five year-olds would spend more than five years in a skilled nursing facility, the most expensive type of care.[5]

Like most of us, those over the age of sixty-five would rather avoid nursing home care even as they feel compelled to plan for a way to pay for it, just in case. An Alliance for Health Reform study showed that "older people want to live in a setting that is home-like and allows them to make decisions they are used to making for themselves—when to get up, eat breakfast, take a bath, and go to bed." They would prefer to stay at home or in a home-like environment and get care where they live, rather than in an institution that focuses on care.[6]

This consumer-directed model of care is the type of strategy for which long-term care insurance is ideally suited. The insurer's claims coordinator can help establish a plan of care with the patient, doctor, and patient's family. (This usually revolves around home care. Nearly any type of medical service can be brought into someone's home today.)

Any discussion of long-term care with clients of this age should focus on benefits designed to keep the patient at home. Most people value their independence to an extreme degree, and one way this manifests itself is by exercising where and which care is received, and by whom. This is why home health care is preferred over nursing facility care, and how an LTC policy can potentially save thousands of dollars each month, easing the financial worries recounted earlier in this chapter. Medicaid qualification does not guarantee access to home care benefits.

Although it is too soon to predict Boomer social interaction with the Medicare generation, the current over sixty-five group is very keen on personal contact and doing things as a group. When your long-term care expense strategy wins the confidence of anyone in this age group, referrals are a natural consequence. Thus, simply by protecting a potential financial exposure with insurance you can grow your business. Remember that Medicare, Medicaid and insurance are a complicated maze for those unfamiliar with such territory: you can do good by educating with clarity, accuracy, and empathy.

The (Combo) Price Is Right

Discussing long-term care insurance with clients older than age sixty-five requires that you ask some questions that younger clients may not be asked (or know the answer to yet). These include:[7]

- In what part of the country will you be seeking long-term care services?
- Do you know what care costs in that area?
- Where would you prefer to receive care if you need it?
- Will you be trying to insure all of these costs or will you be using available resources for some of them?

This age group probably lives in a different place than their children and grandchildren. Retirees may flock to Florida, Arizona, Nevada, and Texas, but the kids are going where jobs are to be found. Long-term care may not be an event older clients wish to experience alone. If they intend to move closer to their offspring and need to access long-term care services, then the cost of care should be measured for the anticipated location, not where they live today.

Now the only hurdle is, can your client over the age of sixty-five qualify? As we see in Table 12.2, the declination rate (i.e., percent of applicants rejected) rises precipitously with age. Obviously a contributor to the problem is adverse selection: LTC has been available for over thirty years by now. What would cause someone to delay purchase all the way until age seventy-five or eighty and then all of a sudden wake up and realize, "Today's the day!"

Where once carriers used to make their products available to age ninety-nine, many lowered that upper limit to eighty-nine, then eighty-four, then seventy-nine, and now we see some carriers limiting their products to age seventy-five.

Table 12.2. Declination Rate by Applicant Age[8]

Under 50	12%
50–59	17%
60–69	25%
70–79	44%
Over 80	70%

Of course, this doesn't mean financial advisors should cherry pick just the youngest applicants—it means conducting proper field underwriting to ensure that no time, money or energy is wasted on applicants unlikely to be accepted. Today's insurers have placed increased emphasis on quality of business, meaning they are losing their tolerance for agents who just take an application and "throw it against the wall to see if it sticks".

There is room for older applicants and those who've accumulated some bumps and bruises along the way. Your first pre-screening tool is the application itself. Each one includes some definitive questions that all applicants must answer "no" to in order to continue the

underwriting process (i.e., knockout questions). Why not at least run through these with your clients? The more your clients disclose upfront, the more helpful you can be in choosing the right carrier and estimating an accurate rate.

Carriers understand that the impaired-risk market represents a substantial amount of premium, but few are willing to venture into this market. For a long time, overall industry rejection rates hovered between 15 to 20 percent; during this time we had one or two major national carriers who styled themselves as willing to assume impaired-risk applicants. By 2008, the last of these carriers had ceased writing new business. It is no accident that during the timespan while our industry had nowhere to place disenfranchised applicants (the one quarter who wanted insurance but could not obtain it), that social insurance advocates were able to push through CLASS using the argument, "Private LTCI is a broken model." Until we have a system which accomodates all those who wish to be insured, it will be difficult to counter this argument.

Nowadays, declination rates have climbed as high as 30 to 40 percent; in place of a dominant, national high-risk insurer we have a patchwork of several regional insurers. To a certain extent, STC has stepped in to fill the void—but Short Term Care is not the same as Impaired Risk, and the STC market as a whole may not rise above the level of niche unless or until a large A-rated insurer becomes its flagbearer.

Tables 12.3, 12.4 and 12.5 show selected results for long-term care insurance combo products.

Table 12.3. Life and Long-Term Care Combo Product Sales to Males[9]

2010 Sales		*2011 Sales*	*2012 Sales*	
Under 35	0.3%	0.5%	Under 45	2.0%
35–44	1.1%	1.0%	45–54	10.5%
45–54	10.0%	9.5%	55–59	15.5%
55–64	37.1%	42.5%	60–64	28.0%
65–74	40.0%	38.0%	65–69	22.0%
Over 75	11.5%	8.5%	70–74	14.0%
			Over 75	8.0%

These tables show that the majority of buyers for the combo product are over age sixty-five. Clearly, this product concept delivers the type of solution the Medicare Generation is looking for in their long-term care planning.

What is the appeal of the combination long-term care insurance product for the Medicare Generation? Probably the same as for the Boomers who prefer this type of solution: there is a fallback if a long-term care need never arises that allows the policyholder to access the account for other reasons. Flexibility is important to those older than sixty-five.

Table 12.4. Life and Long-Term Care Combo Product Sales to Females[10]				
2010 Sales		*2011 Sales*		*2012 Sales*
Under 35	0.1%	0.5%	**Under 45**	1.5%
35–44	1.2%	1.0%	**45–54**	10.0%
45–54	9.0%	10.0%	**55–59**	13.0%
55–64	34.0%	38.5%	**60–64**	25.0%
65–74	39.5%	39.0%	**65–69**	21.5%
Over 75	16.2%	11.0%	**70–74**	18.0%
			75+	11.0%

Table 12.5. Life and Long-Term Care Combo Product Sales 2010–2012[11]			
2010 Sales		*2011 Sales*	*2012 Sales*
Placed Lives	3,498	3,970	5,044
Premium	$247.5M	$295.6M	$404.0M
New Sales by Sex (M)	39.5%	39.5%	31.5%
New Sales by Sex (F)	60.5%	60.5%	68.5%

Additionally, this client group may have resources in place that younger individuals do not. The combo sale, which combines life insurance or an annuity policy with long-term care coverage, is considered an *asset repositioning* sale, and older consumers are more likely to be suited to this strategy to address long-term care needs.

Recently the author accompanied an agent on a client interview that revealed a generous number of Certificates of Deposit (CDs) in amounts from $15,000 to $150,000 for a total of nearly $600,000 spread over four banks. The sixty-nine year-old client was not using the money (sometimes called lazy money). She typically rolled over each CD at its maturity date. The money was being saved for a rainy day or a medical emergency. She was generally healthy, but felt comfortable having the money within arm's length.

This client ended up moving $150,000 of the money into an annuity/long-term care insurance combination when she saw that she would retain access to the money, that the interest earned would be tax-deferred, and that if she needed long-term care, $300,000 in addition to her own money would be available for her use during a claim.

There are many such sales to be made. The annuity/long-term care insurance product is especially interesting to the Medicare populace; the underwriting is a bit more relaxed because the insurer uses the client's funds first for a claim, creating a long elimination period in the insurer's eyes. This is another reason for the successful sale of combo products to this age group (79 percent of issued premium).

Parts One and Four of this book provide plenty of information on combo products. We suggest you study them well, because they could represent the future of the long-term care insurance business, aided in large part by older prospects' interest.

Annuities in particular took a hit from the Deficit Reduction Act of 2005. By design, certain lump-sum refunds (e.g., long-term annuities with children as beneficiaries) and other Medicaid planning techniques were adversely affected by this law.[12] However, the Pension Protection Act shone a tax-advantaged light on combination products by 2010 (they were available prior to January 1, 2010, but without the tax advantages which spurred sales).

Replacing Medicaid planning annuities with combo annuity/LTCI products was arguably one of the goals of the DRA drafters all along. The older generation seems to have accepted it. The concept they like best is that these asset protection strategies also include a potential return on their premium investment. As noted previously, these clients are stretching their retirement dollar as far as possible. They will *invest* money in a long-term care insurance policy only if they see a value in doing so.

Combo products provide an obvious value-add, because they function as either life insurance or an annuity if they are not needed for long-term care. Individual long-term care insurance comes with a contingent nonforfeiture benefit (built in as a defense against high rate increases) that can also be purchased as an optional rider (e.g., regardless of contingencies) that entitles the policyholder to further benefits should he or she ever lapse for nonpayment. Going one step further, some policies also offer a full or partial *return of premium* rider which helps to answer the objections, "What if I never need it?" and "What if my rates increase?"

Advisors have also been successful simply by showing how quickly premium dollars are returned in the form of benefits once a claim occurs. The example in Table 12.6 illustrates this value and is often included in the output of today's illustration software. It is generally referred to as a *break-even analysis*.[13]

In this example, even if the client paid for twenty-five years before accessing benefits in the policy, it would take only eight months to receive more from the policy than was paid in. The inflation option helps to ensure that the monthly benefit corresponds to expenses as time goes on. It's hard to imagine another vehicle that could provide the same kind of return. And, of course, once the benefits cross the premium-paid-in threshold, the policy keeps those benefits coming for as long as your client needs them, up to the maximum benefit period in the contract.

The Case that Didn't Work Out

There was a movie and television show years ago set in New York called The Naked City, which opened with the tag line "There are eight million stories in the Naked City!" There may be

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Table 12.6. Sample Break-Even Analysis Showing Return on Premium Investment[14]			
Annual Premium Payment: $3,912.60			
Long-Term Care Monthly Benefit: $6,000.00 (plus 3 percent compound inflation)			
Number of Years Premiums Are Paid	***Total Premium Paid***	***Monthly Benefit Paid***	***Break-Even Days***
2	$ 7,825.20	$ 6,180	38
5	19,563.00	6,753	87
10	39,126.00	7,829	150
15	58,689.00	9,076	194
20	78,252.00	10,521	223
25	97,815.00	12,197	241

even more long-term care insurance stories than that, some positive and some that did not work out. The following story, recounted by a broker, is one that did not work out well for everyone.[15] Keep this in mind as you work toward helping the older generation plan for potential long-term care services.

> Lorraine and Orville are a sweet couple in their 90s. She is battling Alzheimer's disease while he deals with polio. Their son, Larry, in his 70s, experiences a physical trauma that requires medical attention. The caregiving for these three individuals falls to Larry's spouse, Judy. No one owns long-term care insurance.
>
> Judy's grandson is in the insurance business, and he talks to her about long-term care insurance, asking who will take care of her should something happen. She takes his recommendation under advisement, but no plan is enacted.
>
> In 2007, Lorraine and Orville both need nursing home care, so they spend down their remaining assets and sell their home to pay for it. Eventually they go on Medicaid, and the public program's representatives split them up, sending them to separate facilities after more than half a century of marriage. That same year, Judy is diagnosed with lymphoma. She tells her grandson she wished she had listened more to him about the long-term care insurance coverage.
>
> Since her diagnosis, a number of family members have followed through with plans to acquire long-term care insurance as a defensive measure to protect their assets.

In this story, help for the over sixty-five year-old, Judy, was possible but the opportunity slipped by. Other family members are benefiting from this situation, though, so at least some financial help is in place for the next generation.

Many Americans over the age of sixty-five need our attention to help them construct a strategy should they require long-term care. This may be some of the most important planning they do in their lifetimes. They need all the financial protection you can muster for them because their assets, income, lifestyle, and family are at risk. More important, many know they need help. It is the financial advisor's job to deliver the message.

Endnotes

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3. "Risks and Rewards of Moving to a CCRC," Kiplinger's Retirement Report, Volume 19, Number 11, November 2012.
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5. Jonathan Clements, "Long-Term Care Planning: How to Protect against the High Cost of Nursing Homes," Wall Street Journal, February 22, 2006.
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13. "LTC vs. Estate Planning: The Gloves Are off," National Underwriter (October 8, 2007): 28.
14. Many insurers illustrate this return on investment or break-even analysis, which should be used as often as possible to help people understand the value of a long-term care insurance policy.
15. "What Seniors Want," Advisor Today (March 2010): 31.