

THE COST OF *Living*



COMMENTARY

By **ELAINE F. TUMICKI,**
CLU, ChFC, LLIF
*Corporate Vice President,
Product Research,
LIMRA*

Baby boomers start turning 65 in 2011. As this cohort of about 77 million ages, more and more people will suffer from serious illnesses — and given the advances in medical treatments and interventions, more and more will survive.

I'm reminded of the *Harry Potter* series, and the hero — the young wizard Harry Potter. Harry's early claim to fame was that he survived an encounter with the evil wizard Voldemort (something unheard of among those who faced Voldemort). Harry was "The boy who lived."

A few decades ago, people stricken with heart attack, stroke, cancer, and many other diseases were much more likely to die than to live. Thankfully, that's not the case today. Now many more patients with serious illnesses are surviving ... just like Harry. Yet, unlike Harry, they don't escape with just a scar on their foreheads — they often have rehabilitation and other long-term care needs.

Long-term care services don't come cheap. According to Genworth's *2010 Cost of Care Survey*, median annual costs range from \$43,000 for a home health care aide to \$75,000 for a private room in a nursing home. If you live in a higher-cost state (like I do in Connecticut), the range is \$49,000 to \$137,000. For the most part, these costs are not covered by Medicare or private medical insurance.

With fewer than 5 million policies in force, it's estimated that only about 5 percent of the over-50 population currently own stand-alone individual LTCI. That leaves over 85 million U.S. citizens over 50 without

individual LTCI coverage. Group products cover only a little over 2 million more. How will the inevitable long-term care bills for the rest of the population be paid?

Combination products — such as life insurance-long-term care insurance (LTCI) — have been touted as the next great product development for a decade or more. And, indeed, some companies have had a lot of success with these products. The Pension Protection Act of 2006 provided more optimism by granting new tax benefits to annuity-LTCI and life-LTCI products. But when are they *really* going to take off?

LIMRA's survey of companies selling combined life insurance-LTCI sales reported premium increases of 37 percent in 2009 and 62 percent in 2010. That's compared with a decline of 16 percent in total individual life premium in 2009 and a mere 4 percent increase in 2010. Nonetheless, only a little more than a dozen companies sell the combination life insurance-LTCI products. Compare the number of life and LTCI policies sold to the coverage it is combining: The 17,500 life-LTCI policies sold in 2009 represent a fraction of a percent of total individual life policies sold and there were more than 10 times as many individual LTCI policies sold.

Even fewer companies offer annuity-LTCI products — fewer than a dozen at last count. Some annuity writers are waiting on the sidelines (some with products ready to go) for clarification on 1035 exchanges and the impact of suitability regulations.

Even if many more companies introduce products, what will spur

CONTINUES ON PAGE 37

PRODUCTS COMMENTARY

CONTINUED FROM PAGE 31

sales growth? While some combination products are designed with middle-market consumers in mind, as a whole they have tended to be geared to more-affluent markets. Many often require a fairly substantial single premium — something beyond most middle-market consumers. Indeed, that can be said of stand-alone long-term care insurance as well. The primary market has been upper middle income to mass affluent. The truly affluent can self-insure and those in the middle-income market often can't afford the premiums. That leaves the cost of long-term care for the vast nonaffluent baby boom population to Medicaid. Given the condition of federal and state budgets, that model is likely unsustainable.

What about a 401(k)-type solution? The federal government started edging toward this with the CLASS Act (Community Living Assistance Services and Support) as part of the 2010 health care law. The fate of this portion of the law is uncertain (as is the fate of the entire health care law) and the benefits proposed are meager. Perhaps combination products (life-LTCI or annuity-LTCI) could use a similar tactic, but provide a more robust solution? They could be offered through employers, and employees could start saving

for potential long-term care expenses from day one. This scenario would be a much less painful option than realizing at age 55 or 60 or 65 that the potential need for long-term care services is real and too expensive to fund at that age (particularly for the average middle-income American). Using the combination-product option will



lessen the “suppose I don't need it” concern that many potential stand-alone LTCI buyers express. The employee (or eventual retiree) will have the annuity or life insurance policy as an asset if they don't need long-term care services to use themselves or pass on to their heirs. An even better option would be for the employer-sponsored combination product to become an opt-out benefit instead of opt-in. It could be 100 percent employee-funded (ideally with pretax dollars) or perhaps employers could choose to kick in a little, as they do with 401(k)s.

This solution may be too late to help any but the youngest baby boomers. In addition, there will be legislative and regulatory hurdles. But perhaps it can help Generations X, Y, and generations that follow to plan for “the cost of living.” 🌐