NAILBA

National Association of Independent

Life Brokerage Agencies

CONFERENCE

THE "MEANING" OF THE PENSION PROTECTION ACT

A SERMONETTE CONNECTING THE DOTS!

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Resource
Brokerage, LLC

IN THE BEGINNING…

The Creation of a New Universe – TQ LTCi

There was HIPPA (1997)

HIPPA defined:

- A Tax Qualified Policy
- A Tax Qualified Claim Service
- A Tax Qualified Claim Trigger
- A Tax Qualified Tax Free Benefit
- A Tax Qualified Corporate Premium Deduction

DEFICIT REDUCTION ACT 2005

- Tightens down the screws on Medicaid planning loop holes
- Limits Medicaid Homeowner exemptions to $500,000
- Changes the transfer of assets look back period for 3 to 5 years
- Nationalizes the Partnership Plans

PARTNERSHIP PLANS

Double Dip or Drown

Dovetailed with the 2005 NAIC Model Act & Regulation

Permanent Certification Requirement to sell LTCI 8 hrs CE plus 4 hrs every two years!

The carriers are backing the Requirement. <u>No Partnership Training, NO LTCI SALES!!</u>

NOW COMES THE….
PENSION PROTECTION ACT OF 2006

The first help with consumer's LTCI planning since HIPPA

- Same as a 529 for college. As non qualified after tax dollars accumulate Tax deferred within a permanent life policy or an annuity (Section 844) expense charges may be deducted from accumulated tax deferred dollars and Tax Qualified Benefits under HIPPA are paid out TAX FREE.
- Benefits in the form of policies, riders, or endorsements <u>must</u> qualify as Tax Qualified LTCI under Section 7702B of HIPPA in order to receive Tax Qualified treatment.
- Long Term Care Insurance stand alone or in "<u>any known combination</u>" is available for 1035 exchange.

SUITABILITY

"Agents must have an 'objectively reasonable basis' for believing that the recommendation is suitable based on facts disclosed by the Consumer."

Florida Suitability Law, January 1,2009

ETHICAL CONSIDERATIONS

- What must an Agent do to educate a client ?
- Explain Long Term Care , when it is needed , including available services and settings.
- Give information on the likelihood of needing Long Term Care, costs , and PROJECTED FTURE COST !
- Discuss funding alternatives , with their potential/limitations , including advantages/disadvantages.

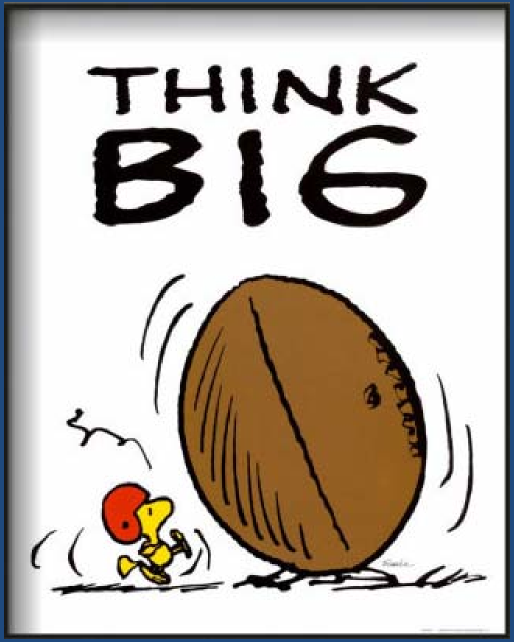
SUITABILITY WORKSHEETS

- This abbreviated financial analysis is a part of the LTCI application process.
- Where will the premium come from ?
- Can the client afford coverage as a reasonable percentage of income ?
- If you are not buying currently adequate protection ,how will the balance of the risk be paid ?
- Does the client anticipate significant changes to their assets or income in the future ?

New products?

New exchange programs?

New sales opportunities?



Think Bigger!

Much Much Bigger!!

The why of Combo's

- Combination policies have been around for some time.
- Because they address an inherent flaw in the LTCI sales argument.
- "What happens when I spend all this money on long term care insurance premium and I never access the benefit?"
- Purchasing a combination product answers this concern directly, as the death benefit or annuity fund remains in place!
- Those who wish to self insure and leverage an existing asset.

SALES HAVE NOT BEEN SUCCESSFUL BECAUSE

- Agent must make two separate and distinct sales at the same time.
- The benefit as a percentage of the death benefit or account value is often insufficient.

It's hard to sell and its not enough money anyway!

Maybe it's just "Plan B"

MAYBE ITS REALLY ONLY ONE PROGRESSIVE INTEGRATED SALE

- First apply premium directly to the risk, making sure you are providing adequate protection
- Second addressing the needs of those who wish to self insure, offering asset relocation. Either death benefit leveraging or annuity asset enhancement
- Third underwriting alternative!

IT'S A BUFFET!

- Whole Life + LTC
- Universal Life + LTC
- Variable Life + LTC
- LTC Annuity with a separate account
- LTC Annuity that multiplies the deposit.

GAZE IN THE CRYSTAL BALL!

- LTC enhanced Immediates
- Term with TQ "Chronic ABR's"
- TQ ABR's on Old Policies

  "Free Insurance!!"
- Incentives on Term conversions
- Waiver of Existing Surrender changes.

No life or Annuity contract, Old or New can escape!!

HIPPA SECTION 101(G) – CLARIFIES TAX TREATMENT OF ACCELERATED BENEFIT RIDERS

LTC and Critical Illness Riders

- Amounts paid to a terminally ill or Chronically ill insured are treated as if the insured had died
- Proceeds are received Tax Free
- Some ABR'S allow the Death Benefit to be accelerated for permanent confinement in a nursing home, the need for LTC or the occurrence of a specific dread disease.

MAYBE ITS ALL JUST "CHRONIC" ACCELERATED BENEFIT RIDERS

- Combo products allowing separate contracts for LTC portion under code Section 7702B – Allowing tax free payouts

OR

- Accelerated Tax Free death benefits under section 101(g)

EXAMPLE

- Prudential's "Living Needs Benefit" rider now added FREE to all permanent and level term plans.
  - "The living needs benefit should be discussed with all individuals considering a purchase of permanent or level term insurance."

Can be added to all In-force Policies…Absolutely FREE!

IS IT REALLY FREE?

No, there are administration fees deducted from the payments. Therefore there is a rear-end load. Expenses are of course only incurred if you access the benefit!

ANOTHER PREDICTION

- ABR Riders will proliferate like mushrooms in the dark.
- Their language will go beyond a terminal and catastrophic nursing home need and they will begin to look more and more like TQ LTCI
- Marketing competition will expand their use and availability.
- Every sale will involve a conversation about LTC needs and the best way to leverage risk.

LIFE COMBINATIONS

- Primarily single premium
- LTCI premium establishes a separate benefit
- This cost is still 50% to 70% of traditional LTCI
- DB and Account values are reduced during the claim
- Extension of Benefits up to Lifetime is available
- Full underwriting
- Front End Load vs. Rear End Load

ANNUITY COMBO'S

- The only way to pay out gain tax free!
- Only available if LTC benefits and trigger are defined under HIPPA.
- LTC withdrawals are a reduction of cost basis.
- Expense charges are fixed and non cancelable.

ADDITIONAL ISSUES:

- There must be a charge and a risk to the insurance company.

Current Range of Basis Charges: .40 to 1.25

- Pricing concerns with maintaining adequate inflation protection for LTC at 5%.
- How do combo products work with Partnership Plans?

COMBO PRODUCTS

- PPA will stimulate tax free exchange into new annuities with stronger LTC benefits
- 1035 Exchanges to policies with accelerated benefits is currently at 20%
- Wrap around of existing LTCI policies. Once is not enough.
- Combo Life – Reduced D.B. dovetails with reduced need for beneficiaries
- Expanded Co-Insurance options

"STICKY" ANNUITIES

- Cost Basis reducing, Tax Basis increasing if surrendered
- Annuity plus LTC has lower lapse rate. LTCI persistency is very high.
- Reduces underwriting because of deferral periods, larger elimination periods and the built in "managed Care" of using the clients money first.
- You can rear-end load expense charges dramatically enhancing perceived benefits.

When you relocate you may be stuck!!

SPINNING PLATES AND UNDERWRITING PERSPECTIVES.

- One underwriting process is concerned with how long you will live.
- One underwriting process is concerned with how soon you will die.
- One underwriting process is concerned with how long you will linger.

This is compounded by the fact that the majority of sales will involve joint mortality and morbidity.

FUTURE
THREE NEW AND CRITICAL COLUMNS.

- What is the actual risk charge to the account value?
- What is the size of the benefit “kicker” or benefit payout?

And

- What is the underwriting concession of the day?

DON'T FORGET IMMEDIATE'S

- Enhanced LTC payouts
- Carriers desire to maintain death proceeds

PANDORA'S BOX

- 1035 tax free exchanges of QLTCI for another QLTCI
- Tax free exchange of life, annuity or endowment contract for QLTCI
- Further clarifies that combo products may be exchanged for other combo products or stand-alone contracts.
- (What does this mean to Senior Settlements?)

NOW LETS CONNECT THE DOTS

In the very near future

- Almost all policies will have some form of Accelerated LTCI benefit
- LTCI will be an integral part of all sales; life and annuity
- Leveraging America's greatest exposed LTCI risk is now a mandatory component of your profession. It is no longer optional.
- Discussing options in a vacuum will result in wear and tear on your Errors and Omissions insurance
- LTCI partnership/ NAIC certification is already mandatory in a majority of states

- Certification is required to sell Tax Qualified Benefits under HIPPA and all current and new combo products offer tax qualified benefit in order to provide Tax free payments. If you are not certified to sell you are out of business. Each client will require a comprehensive LTC risk evaluation examining <u>all</u> the choices and then the application of some form of risk management
- Existing life contracts permanent and term are vulnerable to 1035's with ABR's.
- Existing annuity contracts all the way back to Dec. 31, 1996 are vulnerable to 1035's with ABR's
- New products can hide expense changes until the time of payout.
- Underwriting concessions will expand into a 1035 Exchange War with no boundaries.

- Products with built in deferral periods, long elimination periods, limited payouts and managed care courtesy of the clients money first will make Actuaries bold.
- In an industry driven by “fear and greed” companies will first act to protect their own blocks of business and then begin to covet their neighbors premium.

It’s a Milking Stool

EACH OF YOU MUST THINK IT THE SAME TERMS:

- Am I prepared professionally to respond to this changing world where LTCI is an intrinsic part of every sale?
- What do I need to do to shore up the defenses on my own block of business?
- 1035 unto yourself or a 1035 will be done unto you.
- How do I take advantage of the many new sales opportunities?

FINALLY…

Long Term Care Insurance <u>is</u> everybody's future!