Audio file

Erik Reynolds - LTC.wpp.m4a

Transcript

But we know the drop. we Oh. Don't know the ocean.

Hello and welcome to the Newton Knowledge podcast. My name is Mark Singer, partner of Newton 1 advisors and I'm joined by our managing partner Steve Target. Steve, how are we?

Today doing well, Mark, thanks for asking.

The New Knowledge Podcast will provide meaningful content to our valued advisor community and anyone is interested in learning more about sophisticated insurance related topics focused on estate planning and executive benefits. Our discussions will deliver unique insights into the people, processes and products that make our industry so critical. Newton one is a national life insurance planning firm delivering. Customized solutions structured to help clients and their advisors engaged in solving estate planning. While the transfer business succession and executive benefits challenges we are a member of the M Financial Group, which grants our clients access to the nations elite carriers and exclusive products available only through our. Network Eric Reynolds joins us today and financials national sales practice leader for executive disability insurance and long term care to discuss long Term Care LTC and some of the legislative changes that have taken place and are being proposed across the nation. Eric, it's great to have you back on the podcast. How are we today?

We're good. I'm happy to be back. Thanks for having me.

We're happy to have you back. Much has been changing in the long term care marketplace at a high level. Please give us an overview of the the history of long term care and this long term care state premium. Tax.

Yeah, before I jump in. Just in case I do throw out the uh, acronym LPC that just stands for long Term care. For those of you maybe outside the insurance industry, so.

Getting back to your.

Question mark. Yeah, there's been a lot of noise, and rightly so in this area because of what's transpired in Washington state a few years ago. But really, it's it's important to kind of step back and understand the context of what led to that particular state program. So first is the US population is aging in a big way. And so if you start to then connect with us, typically the older you are, the more likely you are to require some type of caregiving. Services to you know, help you throughout your day, and then you add this with the fact that most people don't have the ability to self fund for this type of an event. And most people also do not own long. Term care insurance cover. And so as a result, what happens is people pay out of pocket and end up spending on their assets, and they're eventually going to qualify for social programs like Medicaid, which is funded both at the federal and state government level. And it's kind of an important Asterix on the Medicaid pieces. This is typically the only going to. Pay for nursing. Home coverage, which is going to be the. Most expensive form of care and also have kind of the highest requirement for someone to be impaired and you know have a disability to actually. You need nursing home coverage. Obviously, if you had home healthcare coverage around the clock, you know 24 hours a day, you know you had someone living in with you that could also become quite, quite expensive. But in any event, this expense is becoming larger and larger from a state government perspective and it's actually encroaching to being becoming one of the larger. Line items right up there with K through 12 public education funding. So it's a very visible item financially and state budgets just don't have the room for it to keep growing. And so some type of solution is needed and that's where a wide range of opinions and philosophies come in on how to address. This issue, there's a lot of different ways to address this.

So we're not going to discuss the the philosophies behind why and and how such funds may be created, but if you could speak directly to to the the Washington Cares Fund on a high level basis that would be great.

Yeah, absolutely. We don't need to get into obviously the philosophies on. All those types of things, a lot of differing opinions, but yeah, so the Washington Cares Fund, also known as law cares, started from a bill in the state legislature and it was signed into law by the governor in July of 2021. And so the approach in Washington is, hey, let's create. And run the state long term care benefit program. So some of the details on this, the benefits are very much. $100 a day for 365 days. So for one year of benefit, the daily benefits will adjust for inflation going forward. But really that's about it. It's not a lot of benefit, but the thought is looking at the distribution of a part of our population right 1/4. People aren't going to incur more than $100,000 in long term care expense. You know, 50% won't spend anything and about 25% will spend more than $100,000. So the problem is that 50% of people that will incur some expenses at age 65 or older, that's a really big slice of the pie. And so how the Washington Fund is operating. Is that in order to fund this program, there's a new payroll tax and it's a .58% tax, at least at this time. Who knows what the future may hold? But it's really important to note that for what Washington did is there's no path to what this payroll tax is. So essentially, it's a flat tax. As a side note, if you're not from or near the Pacific Northwest, Washington state does not have an income tax. So in some ways, this tax does wander into. Kind of a new territory in that regard. And So what happened is there ended up being an opt out provision in Washington. So if you as a taxpayer had some type of private qualified long term care insurance policy, you'd be able to opt out of the program. And this is where everything blew up very quickly, because basically, as the population of Washington and you could really say for anywhere, if you're listening to. This most people. Were caught off guard that this legislation was going into place and so most high wage earners looked at this tax and said well. I could purchase a private policy for similar, if not much more than what I'm going to be taxed for, get more benefit, avoid the tax through the state. And also some of the restrictions for the plan itself, right. So if you didn't plan to live in Washington forever and move somewhere else at some point for your career retirement, everything you paid in for is not going to come back to you because it benefits at least at this time, are only good if you're actually living in Washington. So the younger and the higher the income or projected. Higher income over one's life working in Washington, the more the impact of the tax itself. And one of the motivation to obtain some type of private coverage so as a result of this surprise to taxpayers and what I would say is primarily a negative response from employers and employees alike, this opt out deadline was extended from basically July until November 1st. So there. Was this? Several month window where all of a sudden there was a mad rush to get insurance policies so that you could opt out and then by what would happen is after you obtain that policy by November the following year, once the website was up and running. Remember this is all kind of being billed as it's. Going along then you would submit some basic information to be able to opt out of the program. So kind of the bottom line. This resulted in a ton of interest in obtaining a long term care policy, and that's probably being modest.

I never knew Washington didn't have a income tax.

Yeah, I I I lived there for a few years and yeah, before coming to Oregon. So it was kind of nice, you know, they have a higher sales tax in Washington. And Oregon is kind of the opposite, higher income tax, but no sales tax. So if you live kind of one side of the river, the other you can kind of have some tax.

I wonder if that had any reasoning behind this legislative push, but how did insurance companies manage this huge influx of insurance solutions from a long term care perspective?

Yeah. Well the short. Answer is it didn't go well. So imagine using analogy. So imagine a big group of runners at a marathon. You know all these people standing in line, ready to run the race. But it's it was just 100 meter Sprint. It turned out not a marathon. And at the finish line, everyone had to go through maybe, let's call it 4 doorways. To finish. So this was kind of the experience of what consumers in Washington expected, except we had, you know, several 100,000 people wanting a long term care policy and really any type of policy they could get their hands on. So many people wanted to buy the minimum policy a company offered. And this was not. This also was not an. Normal event that insurance companies were prepared for. So because of them, this extension and the deadline and once you could obtain a policy by November 1st. A lot of companies didn't want to get blamed for not getting a policy processed in time, and So what started to happen is company by company slowly started saying, hey, we're closed to new business until basically the entire market shut down in order to process all of the business that was being submitted to the insurance company, so. You go back to that analogy. Everyone's running for these 4 doors at the finish line, but all of a sudden one door starts to close and then another closes and basically all the doors were basically completely closed with and dead bolted shut. And people were just kind of. Out of luck. So. I wasn't on the frontline working with clients, but I hope for a lot of insurance agents this period of time was not fun. They were working a lot of hours and it wasn't fun for the insurance companies either. You know some. Companies received so many applications that not only did they stop. Selling long term care. In Washington. And they had to stop selling insurance products and other divisions of their company for the entire country because they were just so far beyond capacity of what they're able to handle. And they had to basically redirect all the resources inside of their company to be able to process all this.

Business. So Eric, does this mean that only the segment of the population in Washington that? Happen to be of age to pay attention to a long term care solution here in the individual marketplace. Those are the only people forever. That will be able to buy in a long term care policy. Future generations are are locked out, future generations will have to pay the tax. And if they want a policy, they can certainly buy one. But it it just seems interesting how you know you've got this segment of the population that was there kind of at the right place, right time that allowed themselves the opportunity to buy the coverage. But now nobody else can. Is that?

True. Yeah. And I'm sure there's. Probably a few people that when the tax got implemented this summer, as I believe it to, to be that we're probably even surprised because you know it just wasn't even on the radar. And and now it's. Too late and. We did have some very forward thinking people that were trying to buy long term care policies for their kids who are, you know, 12131415 years old. Some people that have them opt out. Before they even got into the work. But unfortunately, you know, insurance companies aren't in the business of really writing long term care policies on people under 18.

What would you say during this rollout? Some of the lessons that were learned during these implementations from an insurance carrier perspective as well as from from the M financial standpoint?

Yeah. So I. Think you know? Obviously, the insurance companies were caught off guard for the most part and. Most of the lessons learned would probably be around setting the proper expectations for processing applications. But I would. Say from the insurance. Companies perspective, you know, it's not entirely. Their fault and. I think more of the lessons that are going to be learned were by every other state that may consider doing something in the future, right? It's not like any state in the country. Doesn't have this aging population. It's just how are they going to handle? So some states may allow for an opt out, but I don't believe they're going to have some type of an extended opt out period like Washington did. In the future. For someone to be able to go out and get a policy, there may be an opt out for someone that already had a policy as of the date that legislation. Was signed or some? Previous benchmark date that they had, so you'll just kind of need to kind of think proactively you know as an insurance advisor or someone thinking about their financial planning in, in the future and so.

The question some.

People might be asking is like, well, why would not would a state not allow for an opt out like Washington did? And so I would say if you're thinking about it from the states perspective, they mostly don't want thousands of potential tax dollars going away and opting out from a fund because that's going to just decrease their funding. But then you. Also have to think about it from a risk and a pool. And a spread risk. Perspective, right. Who can get insurance? It's generally healthy people that can get through underwriting. And so who are those people, generally younger people because we're generally healthier when we're younger. And so that ends up leaving you a few people that are less healthy and more likely to probably. End up claiming. Long term care benefits from the state down the road so completely. Adjust the risk profile and assumptions that states might make. Another option that has been floated by some states, namely California, is some type of partial opt out on an ongoing basis. You know, after some program might be implemented, but really this is all speculation. It's really hard to tell what may happen going forward because we really only have the Washington situation to base things upon at this point.

Let's talk a little bit more about the tax and the and the maybe the duration of the tax and what I mean by that is if somebody's close to retirement. And they don't opt out of the program, and they pay in for a couple of years. Are they in the program? Immediately upon a claim, if you take an older person that is close to retirement versus somebody who is starting off in the workforce and and puts into the program for 40 years, is there a minimum period of time that somebody needs to have contributed into the program before they're eligible for benefits?

Yeah, there is and I don't have it directly in front of me, but if you Google walk hairs fund and go out to it, it lists those exact parameters. But basically, you know, if you're closer to the point in retirement where you're being taxed, but it's not going to be for, you know, like you said, you know, the next 30 years of your career, there's I think just a couple year period and then you can be vested. For for someone younger in age, because there's a little bit longer vesting period, I believe it's five years for the broad population. And just like any state, that all of a sudden seemingly is getting into the insurance business, to some respect is how you could look at it. There's a lot of issues that have popped up. You know, like I made earlier, right. But if you're working in Washington, then leave and go work in another state that you had paid into this for 10 years in the state of Washington or, you know what, if you work in Washington? That you live in Oregon or Idaho. And so there was a lot of issues that popped up that the state continues to kind of refine and go through or I shouldn't say the state it's being run by a entity within the. Government it it does leave a lot of question marks saying, well, how's this going to happen? And you know what's, what's this scenario going to look like?

Interesting. So I guess if we continue to look at the program objectively, who is going to benefit from this, maybe who is is not going to benefit from this program?

1st from a state government perspective, or should say we'll we'll talk about 3 items. State governments, you know citizens, which is mostly working age tax. Players and insurance companies, so they're going to be impacted in different ways. You know, state governments. In theory, there should be a positive impact to their budgets because again, that's the whole goal with this is to help minimize those expenses and offset with that with additional revenue. The question is. Will it be enough? You know, with more people than expected claim benefits and maybe this ends up causing yet another deficit in the budget or worse. Time will tell, I guess with Washington or, you know, do they need to increase that payroll tax rate from .58% to something higher from a citizen perspective? You know, taxpayers, I'd say for some, this actually could be a positive. You know, you might have people where there are no other long term care benefit options. For them, either due to their medical medical history and they can't go out and obtain a private policy, or they're just at the lower end of the income spectrum, right, and they don't have the discretionary income to go out and purchase a product. So this is probably going to help them the most compared to the rest of that spectrum of incomes. Overall, I would think it's going to raise the issue of longevity and the cost of caregiving and. Just shows the importance of having the financial plan in place and whether this requires insurance or not. You know, it's kind of up to every individual and you know, for a state like Washington, you know, healthy individuals and the high wagers and the younger you are in either of these categories, I would view that as a negative as they're going to have means to obtain. Other types of solutions. You know, younger people being impacted the most because they're going to have a longer runway in their working career to be taxed and then obviously with higher income earners with how Washington set up, you know, the more you earn, the more your taxes. And so from. The third bucket being insurance companies for the. Most part I. Say this would be a positive. You know more. People will hopefully will start thinking about. Planning and often insurance policy may be part of that long term care plan, but really, how other states approach this? Is really going to show whether it's impactful or not to them. So with Washington as an example, once you opt out, it's a permanent opt out. Right now there is no recertification. But again, who knows it could be added in the future and the reason being you know in theory a person could have. Bought a policy. That a permanent opt out and then drop their policy. Right. And so now they're not paying into the program and. They don't have. A private policy. And so they're no better off than they were before from the states. Perspective now and from an insurance company perspective, if there's too many lapses of policies, this obviously impacts the assumptions that they have made. And so you have non guaranteed products like traditional long term care in the past have had rate increases and so these additional lapses. Could end up, you know, spurring more rate increases. Again, I wouldn't think a small group, just Washington is not going to impact anyone nation. But I think this kind of simple oversimplistic answer kind of gives you the idea. The only other thing that's kind of interesting is insurance agents would. Be impacted by this? Scenario as well with lapses just with Commission chargebacks and some might say, oh, poor them. But you know most people aren't working for free when they're starting a business, and so they need that revenue and income. And so it's kind of a delicate balancing act to make sure that products are meeting the assumptions that are being put into place.

Is there any talk about a formalized almost recertification requirement from the state?

Yeah, in Washington, it has come up and been talked about. To my knowledge, nothing's been put in place yet, but I wouldn't be surprised if at some point. They do change the wording of the legislation there to require some type of recertification every few years or or something like that. You know, it's pretty easy for people to opt out. From what I understand just entering some basic information. So I imagine recertification would be the same so. If anyone listening? In the state of Washington. The other products and insurance long term care products, I wouldn't go dropping it quite yet if that's what you were planning on. Right.

What are you hearing about other states? I mean, what if you read the tea leaves now? Or do you think other states are going to kind of jump on the bandwagon here?

Some will some won't. Time will tell. You know, Washington is the only state right now that has a program in place, but a lot of other states have various task forces and proposals that are being explored. There's probably about a dozen or so states in total that are taking kind of more serious looks at this. You know, California is probably the furthest along. They put together a long term care specific task force that took two years to put together recommendations for some different plan. Designs like a state-run program with Washington, you know, different benefit levels. Provisions. And so during the course of 2023 and actuarial analysis is being done on those options. Now. Once that's done, it doesn't mean California is going to do anything. Someone would still have to write a bill and put that forward. However, this task force and the financial analysis piece. Is going to serve as a pretty meaty document to be able to point back to supporting why particular legislation may come forward so. So yeah, those in other states in total and. There's there's really. Discussions all over the place, from copying what happened in Washington and when I say copying, literally, copying and pasting the bill, some states that's proposed legislation that it's identically cut and paste basically, while other states are looking at private public and private. Partnerships. Some states may go the route of, you know, dangling the carrot out there, so to speak, in terms of having more incentives or purchases of private policies. But really, it's kind of too early to tell, but probably whatever California does, they'll be, you know, kind of that second lesson learned beyond Washington.

So. So, Eric, what LTC solutions allow an insured to opt out of the the premium payroll tax?

Today, just again speaking with what we know has happened and that's the state of Washington. Basically, you needed a qualified long term care policy. So that could be a traditional long term care policy. It could be a life. Based product, meaning it could be an accelerated long term care benefit rider on a permanent life insurance. Fee or in life insurance policy where there's we call them hybrid life slash long term care policies where there's a combination of both life insurance that accelerated benefit and kind of an extension of benefits that can be used for long term care. But any of those items as long as it's considered a qualified long term care. Policy.

So some of the life insurance solutions that have LTC riders can vary from traditional LTC to chronic illness for our audience. Can you share what the the differences are for those two solutions and if that will vary the the option of opting out or not depending on which one is? Provided.

Yeah, it's it's a good question and it can be really confusing to a consumer that's not in the insurance industry at the end of the day. So really when we're talking. About two different. Things one is a qualified long term care policy, another is chronic illness, and they come up frequently on life insurance policies as an accelerated. Benefit, so there's a long term care. Rider or there's? A chronic illness rider. What makes it kind of confusing isn't the definition of long term care. It talks about you being chronically ill, and so you can see where there can be some confusion by someone just reading an insurance policy. And so. Really how this? It's how these policies are put together. It's based on the Internal Revenue Code, qualified long Term care is what's referred to commonly in the tax code is 7702, Capital B and a chronic illness rider is under a different provision and it's called 101. Lower case G, so I'll call them 7702 B and 101 G So these these are what insurance companies utilize when they're filing a product. So what does this actually mean? So. A 7702 B product is qualified long term care and so you you know that if a policy is filed under that part of the code, it's going to be exactly the same whether it's a hybrid policy, a long term care rider, or a traditional long term care product. So there's continuing education requirements required by insurance agents to sell the product. There's mandatory forms to be completed when applying, such as a third party unintentional lapse notice in case premiums aren't paid, there's someone else that can be reached out to to make sure, like, hey, is the person on claim did they intend to drop their policy. You know, we want to make sure that they're continuing. To pay. If that's the case. On the other hand, the 101 G or chronic illness riders give a lot more leeway into product design and requirements based really at the discretion of the insurance company. So some have different triggers in being able to qualify for benefits. For example, it may require a permanent condition. Whereas a long term care rider that's qualified, it's only. A temporary condition. It doesn't mean that a chronic illness rider may not require a temporary condition, only permanent, but you really have to look closely at each product and so some products really in the chronic illness category, those one 1G products can look really close to a qualified product, you know under 77-O2. For the most part, though, in Washington it. Was all under. The qualified side of things, but there were some products that look nearly identical that I was told that were not filed as a qualified rider, but then ended up being allowed. Code for opt out so the states will really have the power to determine this themselves. What they think is appropriate. But since states regulate insurance products primarily, it's really and it's at the state level where all of these legislative initiatives are being discussed. They'll ultimately have the decision making. Authority on what will qualify and what does not.

I guess if if a consumer is looking to buy a policy, a life policy with a chronic illness rider and they feel comfortable with the definitions and the triggers within that contract. Correct. And let's assume they're beyond working years. They're retired. I guess it doesn't really matter as much, right? I mean, now they're now. They're not concerned about the payroll tax. They're just concerned about buying the the best product to protect themselves and and their theirs in the most efficient manner is that. Does that sound right?

Yeah, I think those are probably pretty safe assumptions. I would find it hard pressed at this point for legislation to go taxing people that are, you know, in traditional retirement years and are working for income actively. I think that would be a politically unviable. You will. And so yeah, in that scenario, I think a chronic illness rider long as they understand how it works and how you qualify and all that I think would be an appropriate solution.

Yeah, because it's earned income, it's taxed.

Correct. So if you're a working person. Today, are you going to be working? For several more years, going to take a. While for states to. Get to this point. But you know, if you're in California and you're. Not 55 yet, and you plan on working with 65? I'd probably be considering a qualified long term care product to give me the best options or potential to be able to opt out of the future and most people, if they don't have that as part of their plan, it's probably a good idea to just start thinking about the planning for it anyway.

So let's get creative here. And again, you're you. You've got the inside track with some of the insurance companies that are in the long term care market. What are you seeing? What are you hearing about potential new product opportunities, product developments in the in the? Good.

It's it's interesting. You know, the market has really shifted from traditional long term care policies. You know where years ago, you know like a million policies were being sold a year. I think that's down to, you know excluding Washington which is a little bit of an anomaly. It's probably more about 50,000 policies being sold a year in that space. And really everything. 'S shifted to life insurance based solutions and the reason for that is people like the pricing guarantees for some of those. Products and the fact that they've never used long term care benefits. You know there's a death benefit that's paid to one of their beneficiaries. If you ask anyone that's had a. Traditional long term. Care product and they had purchased it, you know, 15 plus years ago. They've probably a high likelihood they've had a rate. Increase of some. Sort and I'm right there with you. As I am one of those people. So I do think the traditional product. Do you have a much smaller risk of rate increase today compared to those products written 1015 or more years ago and this has been supported by some reports done by the Society of Actuaries, but going back to these hybrid products, there's a lot more choice in plan designs than there were years ago. Well, so in the hybrid life, long term care space, it used to only be single premium products as an example. But today 50% of the of their new sales at insurance carriers are multi year premium structures. So the most. Popular being a 10 year payments, you pay a premium every year for 10 years and. Some carriers will even allow you to pay out on a monthly basis. There's 20 pay options, you know, 20 year payments. That is, you can pay to age 65, and there's even lifetime payment designs. So you're paying all the way till age 95 or 100.

Obviously that lifetime pay is going to cost you a little bit more than a traditional product. You have a death benefit component to that. And then you'll also have some type of return or premium. Option and so people really like that feature and so usually that additional premium kind of outweighs some of the objections of traditional product. You know, in terms of other innovations and things happening, one carrier recently came out with a joint plan design in that space. So that makes now two options in the market and that creates a lot of pricing efficiencies for couples that are out there. And then it seemingly like more. And more carriers. Keep coming out with long term care riders and chronic illness riders. It seems like these. We're pretty easy for carriers to bring to market and add to their existing life insurance portfolio. I would say though a big impact on this space is interest rates, interest rates obviously impact insurance companies in a lot of different ways, but many carriers have actually lowered their pricing in the hybrid life long term care. Base as interest rates have gone up, so this is really good news for consumers. You're able to get a policy for less expensive than you could a year or two. Though, and I think these increasing rates will make some carriers interested in jumping back into this market or getting into it for the first time. So that not only could we see new entrants, but maybe some innovation as a part of that too.

Are you seeing any opportunities in the executive benefit market for companies to offer long term care to their employees?

Yeah, there's there's a lot of interest. Washington drove a lot of that, but unfortunately, there's not a lot to report in terms of, you know, really great executive benefit offerings or any type of employee benefit offering like there was 20 years ago. There's definitely options that are held there, but the product landscape is pretty. Limited, which is disappointing because there are, you know, advantages for businesses depending on their type of tax entity to put in a plan or pay for for a business owner as an example. So we see more of that planning done on kind of a one-on-one basis just for business owners. But this is a segment I think. Ripe for disruption and hopefully we'll see some more innovation in this market. And I think you know driving that's going to be not only the. Risk, but just more long term care awareness in general with our aging population, people being involved with caregiving, and of course, this higher interest rate environment that we're in now, but who knows where things go from here.

I think the timing couldn't be more right to start having those discussions from an executive benefit standpoint, because if you can offer long term care to a tranche of executives. To great benefit adds tremendous value, but give them the ability to opt out of a tax that, as you said, is flat and not cap. That could be a huge differentiator in that market space. We're coming up on time though, Eric. This has been extremely informative. Is there anything else we missed or anything else you want to add before we we end our our episode with you.

Yeah, I should. Maybe just kind of add on one more piece on the executive benefit piece, you know we do see a lot of policies being put in, they're just handled more like an individual sale than they are as a group sale, meaning you're still going through the normal underwriting process. You're still saying the same, you know, premium, there's just not those discounts and. Avoiding the medical underwriting that we used to because carriers rightly so don't want to get burned like they did in the past and you know different types of products have different risks. And so they're trying to accurately, you know manage their their block of business. The other thing I should say just always as a disclaimer another this is tax or legal advice. I'm just a insurance enthusiast. You know, you want to talk to someone like Mark or Steve to help get solutions and advice on your own specific situation.

Eric, this has been great. Thanks. For your time. Thanks, Eric.

Yeah. Thanks for having.

Bye bye.

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