

Not Too Late: An Annuity Can Help Clients Who Need LTC Now

June 2017 BY: DEBAPRIYA MITRA

Paying for expenses later in life can be challenging, given consumers' overall lack of preparedness for retirement. Compounding the problem is the risk of needing costly long-term care, and that risk increases as people live longer. Along with that risk comes the concern that retirement savings may not be enough to cover these expenses.

A wide range of financing solutions is available for younger people in good health who want to protect their retirement assets from the risk of extended long-term care. But for people in their 70s and 80s who are in poor health and find themselves in immediate need of long-term care services, the options are much more limited.

That gap in long-term care coverage is the impetus behind a new financing solution for older Americans in poor health: a medically underwritten single-premium immediate annuity (SPIA). This product is designed for an older demographic in immediate need of care, especially those who didn't plan ahead or couldn't qualify for long-term care insurance for age or health reasons.

A medically underwritten SPIA converts assets into guaranteed, monthly income that begins immediately and is paid for the rest of the care recipient's life. The income can be used for any purpose, including care, medical expenses or living expenses.

Depending on the carrier, the underwriting process may include a review of medical records and an in-person nurse assessment of the applicant's health status. Lab tests may not be required.

Because they are medically underwritten, these types of SPIAs may generate a larger monthly payment than a traditional SPIA if the care recipient is less healthy and needs care at the time of purchase. The purpose of the underwriting is not to exclude anyone, but rather to determine the amount of income the care recipient will receive based on age and health.

A medically underwritten SPIA is different from long-term care insurance products on several levels. For one thing, the guaranteed income is not tied to performing activities of daily living (ADLs), so there are no claims to file and no ongoing health evaluations required. And, unlike long-term care insurance, the income can be used for any purpose.

It's also important to note that medically underwritten SPIAs are not investment products and there are no charges or fees.

Medically underwritten SPIAs may offer optional benefits, including enhanced death benefits or cost-of-living adjustments. A cost-of-living adjustment increases the income payment each year to help offset the potential increase in future living expenses. Death benefit options are designed to protect a portion of the premium paid into the annuity upon the death of the care recipient.

Because of the age and health conditions of the care recipients, carriers have built consumer safeguards into the underwriting process. For example, if there is any evidence of cognitive impairment, a carrier may require a power of attorney to purchase the product.

How the Product Works

To illustrate how the product works, let's look at a hypothetical case study featuring James, 80, a recent widower who just suffered a stroke and needs help preparing meals and getting around. He has been living in an assisted

living facility, where he feels comfortable and receives excellent care, and he recently was diagnosed with dementia.

Due to these unexpected medical expenses and the prospects of even greater costs for care as his dementia progresses, his three children have become concerned that his savings may not be sufficient to cover the added expenses. They fear he may need to move into a lower- cost facility to stretch his savings.

In an attempt to avoid moving him from a facility he loves, they consult a financial professional, who recommends a medically underwritten SPIA. This would provide a guaranteed stream of income to help pay for James' care or other expenses for as long as he lives.

The children decide to combine the money each had set aside to help their father and purchase a medically underwritten SPIA. They select an annual cost-of-living adjustment to help protect against potential increases in the cost of his care and other living expenses. They also choose an optional enhanced death benefit to help protect a portion of their money should their father pass away earlier than expected.

The children were relieved to know that the medically underwritten SPIA would help provide their father with the financial resources necessary to continue living in a place with which he is familiar and comfortable.

Relief for Families

When families who haven't planned ahead are suddenly faced with a parent, grandparent or spouse needing immediate care, the financial implications can come as a shock. This can be particularly true when family members realize that their loved ones' health insurance or Medicare does not cover the care they need.

Some of the financial burden of caregiving frequently falls on families. According to Genworth's Beyond Dollars Study, 62 percent of family caregivers surveyed used their own savings and retirement funds to pay for their loved ones' care. An additional 38 percent of family caregivers said they reduced their contributions to their savings and retirement to pay for care, jeopardizing their own retirement plans.

In addition to providing care recipients a guaranteed source of income that they cannot outlive, a medically underwritten SPIA gives care recipients' families a sense of security, helping delete alleviate the financial strain of caregiving.

As in the hypothetical case study above, family members also can pool their resources to pay for the single premium needed to purchase the medically underwritten SPIA.

An Immediate Solution That Lasts a Lifetime

Although a medically underwritten SPIA is not a silver bullet for the retirement income and care-financing challenges our country faces, it does help provide a potential solution for a segment of consumers who have limited funding options.

It's an innovative use of annuities that uniquely addresses the long-term care financing needs of older Americans who have adverse health conditions. This is especially true of those who are seeking a source of income to help offset the potentially significant cost of care — now and into the future.

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