Nationwide®
is on your side

The Advanced Consulting Group

Sales Idea

The upside of LTC coverage in a down market

Shawn Britt, CLU®, CLTC
Director, Long-Term Care Initiatives, Advanced Consulting Group

Linked benefit long-term care (LTC) coverage has gained much popularity in recent years. These policies have similar options that compare to traditional LTC policies but guarantee the LTC premiums and benefits — and also provide a death benefit that will return to beneficiaries at least the amount of premiums paid into the policy if LTC benefits are never used. So when is the best time to buy such a policy?

Borrowing a statement from an industry friend, "the worst thing you can do is try to time the purchase of insurance". There are a lot of excuses for why people put off purchasing insurance — particularly long-term care (LTC) coverage. One excuse could be a downturn in the market that results in uncomfortable losses in the client's portfolio; and the client's excuse being that they need to wait for their accounts to recover before committing to such an expenditure.

In reality, a down market is just as good a time to purchase LTC coverage as a healthy market. The only difference is how the policy is funded. When accounts are healthy, leveraging a cash asset with a single premium may make sense. But in a down market, longer premium schedules may result in a better total outcome when looking at the LTC policy benefits combined with a recovered account balance.

Making sense of LTC planning in uncertain times

We will take a look at some aspects to consider regarding market volatility and LTC coverage.

- The safety valve that owning LTC coverage can provide if long-term care is needed during a down market.
- How purchasing LTC coverage with extended premiums can be of value in a down market.
- Why cash indemnity benefits may provide more flexibility for the uncertainties of the future.

Owning LTC coverage in a down market

LTC coverage can be a safety valve if benefits are needed when the market is down by providing a dedicated stream of funds, off to the side, not subject to the market, that can help pay for LTC expenses. This provides an opportunity to leave the portfolio intact to grow back and grow forward, and hopefully leave plans for desired LTC services, assets for a surviving spouse and legacy plans in place.

Whether to purchase LTC coverage it is not about risk — because maybe one day you will need LTC services and maybe you never will. No one can predict who will need LTC or when a LTC need will occur.

However, the consequences of not having a LTC plan with funding in place can be much more easily recognized; and those consequences can vary based on the wealth a client possesses. There is a wide span of consequences to consider, but for now, we will just focus on a few personal and financial consequences of having no LTC coverage to pull from during a down market.

- The Middle Class — may have little leeway to withdraw dwindling funds to pay for care in a down market - which could lead to more dependence on family members to provide care than anyone intended. This in turn may financially impact the adult children or other family members being depended upon — due to a potential necessity to cut their work hours, take a leave of absence, or retire early, etc. in order to provide the care.

- The Affluent (no estate tax liability) — they could suffer a double loss in their portfolio when withdrawing funds to pay for care. Withdrawals can't be grown back or grown forward, thus impact future account growth. Concerns of withdrawing funds from a portfolio in decline could also impact a person's choice of care services. These people may feel they should consider dialing down the type of care services they originally planned for in order to conserve funds.

- The High Net Worth (with estate tax liability) — they are also subject to a double loss (as above). In addition, when these people self-fund, they are subjected to potential estate taxation on unused funds that were set aside in the estate to pay for care. Placing indemnity LTC coverage in an ILIT (Irrevocable Life Insurance Trust) is a way to help avoid unnecessary estate taxes. For more information, please request the white paper "A More Practical Way for the Affluent to Fund LTC" — NFM-12639AO.

How Nationwide CareMatters® can help

CareMatters® is a linked benefit LTC policy that may be able to help position your clients more comfortably in uncertain market times. Most portfolios have some conservative positions — and Nationwide CareMatters may work well positioned as a non-correlated asset because CareMatters has guarantees and provides:

- **Immediate leverage** of premium dollars
- **Premiums** that are **guaranteed** not to increase
- **LTC benefits** that are **guaranteed** to be what you purchased (assuming no withdrawals or loans)
- **Cash indemnity benefits** guaranteeing that Nationwide will place no restrictions on how LTC benefits are used
- **Refund of premium options** that provide liquidity if needed

Purchasing CareMatters in a down market

When purchasing Nationwide CareMatters, particularly when the market is in a state of uncertainty, multi-pay premiums can address some of the emotions associated with such a purchase by:

- providing immediate leverage with the initial premium;
- leaving more assets in the account to recover;
- providing guaranteed LTC benefits;
- providing a guaranteed death benefit can help restore the total inheritance to a beneficiary in a down market.

Let's look at some examples

Our client is a 55 year old male who is married, a non-smoker, and wants to purchase Nationwide CareMatters II® with a 6-year LTC benefit and no inflation. These examples are hypothetical and outcomes may vary. We will use the following assumptions —

- The client had a $1,000,000 account value.The market loses 20% — leaving $800,000 in this particular account.

- CareMatters II is purchased when the account value is at $800,000.

- The market recovers over next 30 years at 5% annually.

- No more dollars are deposited in to this particular account.

A single premium will provide more LTC benefits (and death benefit) than a multi-pay of the same cumulative premium amount — but it will also pull out more dollars from the account that cannot be grown back or grown forward. Utilizing a multi-pay premium schedule preserves more of the account balance in the early years to potentially recover and then increase in value.

First, we will look at a scenario in which the death benefit pays in full because LTC benefits are never needed. We will look at a single premium scenario

compared to a 10-year premium schedule over a one year and a thirty year period of time, looking at the total value left to the beneficiaries.

Then, we will look at a LTC claim that takes place at age 80. We will compare a single premium with a 10-year premium schedule and compare the total of LTC benefits paid added to the account value.

Death Benefit Scenarios — No long-term care is ever needed

The chart below demonstrates that when CareMatters II is purchased with a 10 year premium schedule, the policy owner gets an immediate leverage of death benefit as soon as that first premium is paid, even on a monthly mode. This can help restore the total portfolio balance for beneficiaries, especially if a death were to occur in the early years of the policy. The total amount available to beneficiary/heirs would be $65,160 greater than if the policy had been purchased with a single premium. In addition, the cumulative amount available to heirs if death occurred 30 years later is $65,030 more by using a 10-year premium schedule. Please keep in mind that the difference will be greater if market performance is higher than 5%, or if there is a sharp recovery in early years. The difference could be less or negative if performance is less than 5%. Outcomes will vary with differing circumstances.

Start with $800,000	Single Premium $100,000	10-yr premium scheduled at $10,000/year
Account value after 1st premium is paid	$700,000	$790,000
CareMatters II death benefit	$191,969	$161,245
Account value at death — after 1st year	$735,813	$830,697
Death benefit plus account value after 1st year	$926,782	$991,906 **+ $65,160**
Account value at death 30 years later	$3,127,421	$3,223,175
Death benefit plus account value after 30 years	$3,319,390	$3,384,420 **+ $65,030**

6 year LTC claim — starting at age 80

Next, we will compare portfolio balances after a 6 year LTC claim that starts at age 80. After the market recovers over next 25 years at 5% annually, the insured goes on claim at age 80 and dies at age 86. By purchasing Nationwide CareMatters with a $10,000 annual premium paid over 10 years vs. a single premium of $100,000, the total result between CareMatters LTC benefits plus the account value could be $113,133 higher, since more money is left in the account value to potentially grow back and grow forward. Please keep in mind that the difference will be greater if market performance is higher than 5%, or if there is a sharp recovery in early years. The difference could be less or negative if performance is less than 5%. Outcomes will vary with differing circumstances.

Start with $800,000	Single Premium $100,000	10-yr premium scheduled at $10,000/year
6 year claim starting at age 80		
Account value at age 80	$3,176,628	$3,388,079
CareMatters II total LTC paid over 6 years	$575,908	$483,735
20% guaranteed residual death benefit	$38,394	$32,249
Total CareMatters II benefit paid plus account value	$3,790,390	$3,904,465
Total dIfference		**+ $113,133**

The value of cash indemnity

Nationwide CareMatters linked benefit LTC coverage pays monthly cash indemnity LTC benefits. Once the claim is verified, there are no bills, receipts or monthly paperwork required — benefits are paid in full. And Nationwide guarantees that they will place no restrictions on how benefits are spent.

This can be particularly comforting to know should there be an unexpected turn in circumstances — the benefits will be as flexible as the need requires. For example:

- An insured (Mom) is receiving care at home from a home health care service. But there has been a severe outbreak of the flu in the community. Her daughter is concerned that Mom is at risk of infection with several different caregivers coming and going to provide care. The daughter decides that in order to keep her mom safe, she will suspend care services from the agency for the time being until the flu outbreak has run its course. She will cut her work hours down by 30%, and work from her mom's home while also providing care for her mom.

  Since Mom's Nationwide CareMatters policy pays cash indemnity benefits, no phone calls, paperwork or permission is needed. Mom simply uses her benefits for now to supplement the daughter's lost income while the daughter takes care of her. This adjustment to Mom's care plan was as easy as making the personal decision.

It is important to note, the LTC benefit paid will be subject to the per diem limitation of the Code to determine its taxability for federal purposes. It will be tax free to the extent that it is used to pay for qualifying long-term care expenses.

Nationwide does not provide tax advice and makes no representation that LTC benefits taken will be tax free. A tax advisor should be consulted for additional guidance.

Summary — Certainty in Uncertain Times

CareMatters helps bring certainty to uncertain times with definable guarantees.

- Guaranteed premiums
- Guaranteed LTC benefits
- Guaranteed use of LTC benefit with no restrictions

For clients who are unsure about timing the purchase of a policy, using extended premium schedules can provide guaranteed immediate leverage upon the first premium payment, so your client will be certain of what benefits they will have in the future if benefits are needed, while leaving account values mostly intact to rebound or continue growing.

FOR BROKER/DEALER USE ONLY — NOT FOR CLIENTS USE

This material is not a recommendation to buy, sell, hold or rollover any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

Federal income tax laws are complex and subject to change. The information in this paper is based on current interpretations of the law and is not guaranteed. Neither Nationwide, nor its employees, its agents, brokers or registered representatives gives legal or tax advice. You should consult an attorney or competent tax professional for answers to specific tax questions as they apply to your situation.

Nationwide, the Nationwide N and Eagle, Nationwide is on your side, Nationwide CareMatters, CareMatters and Nationwide CareMatters II are service marks of Nationwide Mutual Insurance Company. © 2020 Nationwide

NFM-19437AO (04/20)