

# TOOLBOX

By Janet Freedman

## COVERAGE CONUNDRUM

Long-term care insurance is expensive, but you still need to lay out the options for clients.

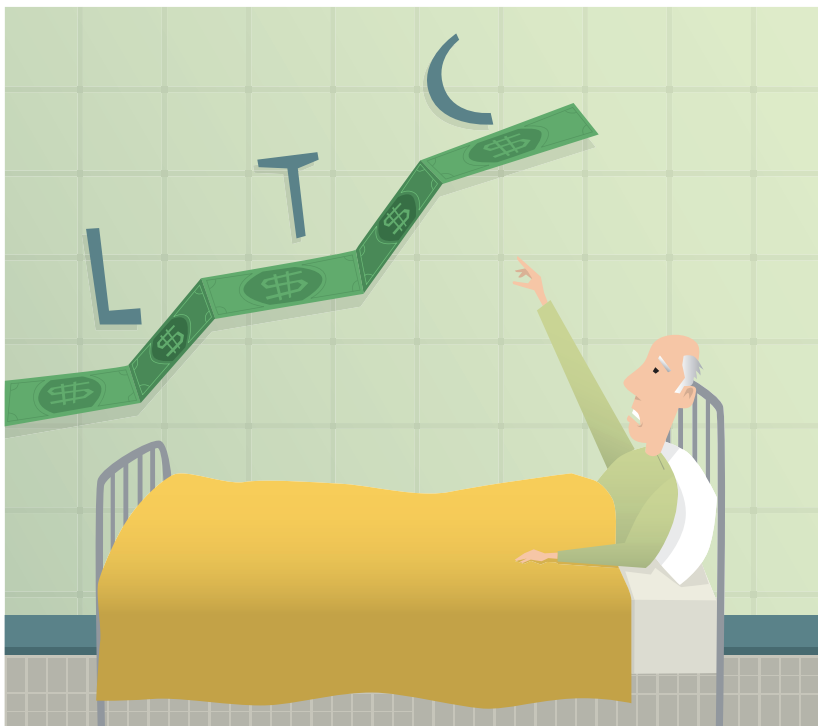
**Stephen Smith** has been selling insurance and providing financial planning services since the 1960s. A strong proponent of ensuring adequate insurance coverage, he applied for long-term care (LTC) insurance for both himself and his wife, Val, as soon as the product became available in Canada. “My father had been in a nursing home with Parkinson’s for some years before his death and it was a strain on my mother’s financial resources,” recalled Smith, a financial planner with Yorkminster Insurance Brokers in Port Hope, Ont.

Val was accepted for coverage but Stephen was turned down. That turned out for the best, though, because Val was diagnosed with Alzheimer’s three years ago when she was 66. Initially, she went into an adult daycare facility. That was supplemented by in-home care as well as occasional stays in a nursing home to provide respite for Stephen. Now, Val is in a nursing home full-time and the insurer is paying the maximum daily amount of \$200.

According to a June 2005 Statistics Canada survey, there are 1.1 million mature singles in Canada. So it’s logical that much of the marketing for LTC has been geared toward singles and asks people to think about who will provide and pay for care, when there’s no spouse to look after them.

But is this really the best market for advisors to target? A single client with a good job, who owns his or her home and has a pension plan, will likely have assets to pay for future needs. The clients who will actually need LTC are couples in which one spouse requires care in a facility, while the other is still fit and wants to remain in his or her home.

LTC insurance is a relative newcomer and sales are either flat or declining, depending on whom you talk to. A lot of



companies in Canada simply don’t offer the products—the notable exceptions being Great West Life and Canada Life. And, while it’s been suggested that children purchase coverage for their parents, in reality few people raising their own families have means to do this. Catherine Thompson, an Oakville, Ont. broker with a diverse client base, has quoted on LTC but says that’s where discussions usually end. “Clients are enthusiastic until they get the quote,” she says.

Even Smith agrees cost is a barrier. “I paid about \$400 monthly for Val’s coverage for about eight years before she became eligible for a claim. Then they reimbursed home-care expenses for about two years. Now that she is in an institution, they pay the full \$200 per day.”

An LTC insurance contract is usually guaranteed renewable, but with increasing premiums. This lack of premium guarantee acts as another stumbling block to sales. Clients are

Continued on page 15

Continued from page 13

accustomed to fixed premiums for permanent life and disability insurance (DI), and for critical illness (CI) coverage. Premiums that increase every five years, especially during retirement, can become cost-prohibitive.

I've seen this happen with a group plan. When the coverage was first offered for existing retirees, it provided \$100 per day of coverage for a \$50 per month premium. The premium was supposedly guaranteed for five years, but after two-and-a-half years clients received a letter saying the claim rate was too high. They were given the options of keeping the premium the same for half the coverage, more than doubling the premium for the same coverage, or cancelling the policy. My clients chose to cancel the coverage and then self-insure, but they were people with substantial assets.

Some plans provide for an annuity purchase program that allows the individual to pay for premiums using an annuity income stream. Others have a limited premium-payment period for 10, 15 or 20 years. At the end of that time, the policy is fully paid, no further premiums are required for that level of coverage. In some cases, clients may not even be considered for LTC based on family medical history. Clients with family histories of Alzheimer's or dementia, muscular dystrophy, Parkinson's disease, stroke, multiple sclerosis, or who have received Canada Pension Plan disability benefits, or benefits from a long-term disability plan would not be considered.

Some policies pay the benefit for care in a facility (such as a nursing or retirement home) or for the reimbursement of services provided by licensed healthcare agencies to provide home care—which

## LTC CHECKLIST

Review policies to ensure they provide adequate coverage.

**Does a long-term care policy meet your client's needs?**  
Answer these questions to find out:

- What triggers payment of benefits? (In most cases, benefits don't get paid unless the client is unable to perform activities of daily living stated in the policy, or suffers mental incapacity that might result in harm coming to them if they're not cared for.)
- What type of plan is it: reimbursement plan, indemnity plan, fixed-income plan?
- What is the benefit amount?
- Will coverage include both home care and facility care?
- What is the waiting period: 30 days, 90 days, 180 days?
- How long will benefits last: one year, three years, five years, or life?
- How long will premiums have to be paid—for the life of the policy or for a set period?
- Are premiums annual or monthly?
- Does the policyholder have control over who provides care, or are caregivers provided through a service contracted by the insurance company?
- Is there flexibility as to the purposes for which benefit payments can be used?
- Is there a return of premium feature? What are the conditions?
- What riders are available?
- What are the exclusions on the policy?

Source: *Hit by an Iceberg: Coping with Disability in Mid Career*, by Janet Freedman and Marie Howes, Trafford, 2003.

can include everything from housekeeping to respite care—or both. Some policies require receipts for reimbursement, others don't. The main policy riders are:

- Respite care
- Waiver of premium
- Return of premium
- Cost of living protection
- Future purchase option/  
option to increase

Some policies will pay out the daily amount to the policyholder once a physician's diagnosis is received, regardless of how the money is to be spent. This gives total control to the policyholder or family to hire care providers and services and allows for the use of non-licensed caregivers, taxis for transportation, or paying a neighbour to provide some homemaking. The care

level provided by licensed and trained caregivers may be superior to that of untrained help, but the costs are generally higher. And sometimes the quality isn't there either. If local agencies are unable to meet the demand, sometimes it's best to go outside the system.

In other cases, caregivers may be properly trained but not necessarily honest. (In my own case, one agency care provider got hold of my and my daughter's credit cards and ran up more than \$2,000 in charges before we caught on.) On the flipside, if the insured is unable to oversee the hiring and firing of caregivers, family members may step in and skimp to save cash. For clients who will remain in major urban centres, a policy requiring licensed

Continued on page 17

Continued from page 15

providers may be the best option. The liberal caregiver benefit may, however, be suitable for those in remote areas.

Limits on the length of time benefits are paid—two years or five years—are common and of course reduce the premium. Others provide lifetime payments. Surprisingly, lifetime benefits may not always be the way to go. According to recent U.S. research, the average length of stay in a nursing home was 2.4 years. This would suggest a lifetime payment plan is not necessarily the best option. At the same time, who would want to take the risk and advise a client to take only five years?

Of late, there's been much discussion of liability at conferences and educational sessions. Just how should advisors protect

themselves? Since not all insurance agents actively promote LTC, the best advice seems to be to include a disclaimer in the disclosure letter given to each client stating he or she was offered the opportunity to apply for LTC, CI, or DI and has declined; or that the agent does not sell LTC and if the client wishes to purchase or investigate these products, she must do so elsewhere.

Reallocating premium dollars to LTC when life insurance or DI is no longer needed is an answer many advisors are looking for. A product that offers life insurance with an option to designate part as CI is a good start—letting it convert at a later age to an LTC policy would be even better. Mutual Life has a universal life policy which can be used for LTC purposes.

And one of my single clients is using the premiums that paid for a whole life policy, which she had owned for years, to fund LTC. Another advisor has on his wish list a joint policy with premium discounts for couples. **AE**

*Janet Freedman, CFP, R.F.P., is president of Finance Matters, a fee-only financial planning firm in Toronto.*

*advisorsedge@rmpublishing.com*

More online  
**@ADVISOR.CA**  
www.advisor.ca/interact

For more on our long-term care insurance and living benefits, visit [www.advisor.ca](http://www.advisor.ca)

www.advisor.ca

ADVISOR'S EDGE | AUGUST 2006 17



## There Are Many Income Funds.

## But Only One is Premium.

**Citadel Premium Income Fund got its name for a good reason: its unrelenting focus on delivering premium performance for you and your clients.**

It fulfills its mandate of generating regular monthly cash distributions (\$1.02 annualized) and opportunities for capital appreciation by leveraging its stature as one of Canada's largest closed end funds.

With some \$750 million in assets, Citadel Premium Income Fund has the strength to take meaningful and diversified positions in the most attractive income funds and public companies in Canada - weighted according to the manager's expectations for sector performance.

What's more, the Fund is managed by Fiera-YMG, one of the country's largest and most successful managers of fixed income products with \$26 billion in assets under administration.

To discover more about the one and only Citadel Premium Income Fund, its flexible redemption features and size advantages, call Joe MacDonald, Executive Vice President, Sales & Marketing at 1 877 261 9674 or visit [www.citadelfunds.com](http://www.citadelfunds.com).



**CITADEL**  
GROUP OF FUNDS™  
*Setting the standard in structured products.*

Commissions, trailing commissions, management fees, and expenses all may be associated with exchange-traded fund investments. Exchange traded funds are not guaranteed, their values change frequently, and past performance may not be repeated. Please review all information, including the risk factors, set out in the Fund's prospectus.