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Advisers shy away from LTC insurance dialogue: Study

Low comfort level makes advisers recoil; some advisers think that's a weak argument, though

By Greg Iacurci | *October 20, 2015 - 11:40 am EST*

Although it's generally understood that evaluating a client's long-term-care needs is an important part of retirement planning, few advisers are using LTC insurance products with clients or having conversations with them about LTC.

A new Lincoln Financial Group study, "Managing Long-Term Care Risk," indicates that around 40% of consumers have discussed long-term-care planning with their advisers but only around 10% of the adviser population has implemented an LTC product in a client's financial plan.

The main reason advisers shy away from the LTC dialogue is because they're uncomfortable having that conversation, according to Andrew Bucklee, head of insurance solutions distribution for Lincoln Financial Distributors. Indeed, the majority of LTC insurance sold is client-driven rather than adviser-driven.

"There's bit of a disconnect between the adviser and the client," Mr. Bucklee said. "You've got a client who has concern about it and an adviser who's scared of talking about it."

The marketplace for traditional long-term-care insurance has shrunk significantly in recent years due to low interest rates and longer life expectancies. The number of policies sold has taken a hit — last year, roughly 120,000 policies were sold, compared with just under 300,000 policies in 2008, according to the American Association for Long-Term Care Insurance.

LTC CONFUSION

Part of the LTC confusion for advisers comes from the number of factors advisers must consider when deciding the most appropriate course for a client's long-term care, including deciding between traditional LTC insurance and hybrid life insurance-LTC policies, Mr. Bucklee said.

Jesse Slome, executive director of AALTCI, said advisers are much more comfortable discussing hybrid products, which combine life insurance and long-term care benefits, and have grown much more popular with advisers. While gross premiums for such products swelled to $2.41 billion as of the end of 2014 from $632 million in 2008, according to AALTCI.

The conversation around hybrid products is much simpler than that around traditional LTC insurance because it's easier for advisers to present to clients, Mr. Slome said. With hybrid products, advisers can explain a simple transfer-of-money concept — the money in a client's life insurance policy is used for any qualifying LTC claims, and when that's exhausted an additional LTC benefit is triggered, according to Mr. Slome.

"You're basically using your own money plus the investment return," Mr. Slome said. It's typically a 15-minute, versus 60-plus-minute dialogue, he added.

The complexity argument is one that Peter Gaines, a financial planner at Integrated Financial Partners, dismisses, however.

COMPLEXITY NOT A GOOD EXCUSE

“Compared to other products we offer our clients, in my opinion, long-term care is a lot easier to understand once you get into it than some of the other products we sell. I don't accept [complexity] as a good reason why advisers aren't recommending it to their clients,” Mr. Gaines said. “To me that doesn't hold any water whatsoever.”

Variable annuities, for example, are much more complex than LTC insurance, Mr. Gaines said. Plus, advisers need securities and insurance licenses to sell VAs, whereas an adviser only needs an insurance license to sell LTC products. Some states may require a separate proficiency exam for LTC, Mr. Gaines added.

“Long-term care is always on my agenda, and I always discuss it or recommend it to my clients in their early 50s and up,” Mr. Gaines said.

Advisers may shy away from discussing LTC with clients if they have a revenue model based on assets under management because LTC contracts don't boost AUM, he added. Mr. Gaines is paid on AUM, as well as commissions on products such as annuities, life insurance and LTC insurance.

“If you're gathering AUM, every dollar your client spends and commits to something other than giving to you … is a competing dollar,” he said, adding he thinks this is a “highly unprofessional” practice.