Hybrid & Linked Benefit LTC Insurance - A Treasure Benefiting Agents and Insurers

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"Bob, what is your position on hybrid and linked benefit long-term care insurance policies?"

This is one of the most common questions I receive when discussing options to plan for the possibility of needing long-term care services as one ages. I have always maintained the position that traditional long-term care insurance policies are superior to hybrid and linked benefit life insurance policies. This article takes an in-depth look at why I maintain this opinion and includes a recent case study as support.

What is Long-Term Care?

To start, we first need to understand what long-term care itself actually is. Long-term care or "LTC" is best defined as custodial services a person needs when that person is unable to perform basic activities of daily living (ADL's) including bathing, dressing, transferring, toileting, continence and eating or services that are necessary for one's health or safety due to a cognitive impairment. Such services can be performed by professional or non-professional caregivers in that person's home, community and/or specialized facility.

Non-professional care includes assistance received to perform these common ADL's from a friend or family member who is not compensated for the services they provide. Professional care would be provided either by a professional caregiver such as a home health aid or in a facility including adult day care, assisted living, nursing care or memory care facility.

How do People Pay for Professional LTC Services?

The additional expense people encounter when they need professional LTC services are very rarely covered by Medicare or other health insurance options and when covered are limited to a maximum of 100-days and only following an appropriate hospital stay. Medicaid may offer assistance with nursing care costs for people with very limited financial assets and income; however, financial qualification is very strict and services in one's home, community or assisted living facility are generally excluded. This leaves people who need professional LTC services paying for such care out of their own pocket unless they have secured insurance to cover some or all the additional care expenses incurred.

In the mid-1970's, insurance companies began offering long-term care insurance that would leverage a premium paid while a person was healthy and didn't need LTC services in exchange for a benefit pool with a daily or monthly allowance to help pay for their care if they needed LTC services in the future. Thus, traditional LTC Insurance was born.

From the mid-1970's until the late 2000's traditional LTC accounted for nearly 100% of insurance policies aimed to assist with the cost of LTC services. About that time, several LTC insurance companies began increasing the cost of new LTC policies and made policies more difficult to obtain through stricter underwriting guidelines. Insurers even began seeking price increases for existing policyholders as allowed through state approved in-force rate increases.

Fast forward to around 2012-2014, when the original LTC policy design was becoming less palatable to consumers. Insurance agents would meet with potential LTC insurance consumers and upon the conclusion of their sales presentation, they would be met with several objections as to why the potential consumer elected not to buy LTC insurance. These objections primarily included concerns of the high initial policy cost, lost premium spent if they never needed LTC services, the possibility of the premium increasing in the future and even concerns if they no longer needed the coverage in the future (such as an inheritance that allowed them to fully pay for the future care if needed).

Because of these objections from consumers on traditional LTC policies, insurers began heavily developing and promoting life insurance-based "hybrid" products that also offered LTC benefits. These products truly focused on overcoming consumers reasons for not purchasing LTC insurance by offering several statements to overcome such objections. These statements include:

"If you change your mind, we will give your money back."

"If you die and never needed LTC services, we will give your beneficiaries your money back with some interest as well."

"We will never increase your premium."

"If you need LTC services, we will leverage your money for those services."

In the end, these newer life insurance-based hybrid products began gaining traction given the insurance agents ability to overcome consumer objections. All the while very few agents, let alone consumers, understood the excessive financial inefficiency these hybrid products include. These substantial inefficiencies still exist today, not only in the hybrid LTC policies, but also in the increasingly common "linked benefit" life insurance policies being heavily sold in today's market.

What is a Hybrid LTC Policy?

A hybrid LTC policy is a life insurance contract with 200% - 300% of the premium paid leveraged to provide funds to pay for LTC services following standard LTC benefit triggers. The most common policy type is built on a universal life platform, originally designed with a single premium, although more recent products allow funding to be spread out over the first 10-20 years of the policy. The insurance and administration expenses for both life and long-term care coverages are taken from the policy's internal earnings and/or cash value. In short, the principal and earnings from a policy's cash value are used to support life and long-term care insurance expenses as opposed to growing inside the policy as in a normal universal life policy.

What is a Linked Benefit Life with LTC Policy?

The linked benefit life policy is the newest option offered and has widespread availability with more and more companies offering this very profitable option. As opposed to leveraging a premium paid for LTC services by 200% - 300%, the policy instead accelerates a portion of the actual life insurance policy's death benefit if the policy owner needs and qualifies for LTC services. Then, when the policy owner dies, the death benefit paid will be reduced by the total amount of funds received to pay for LTC services. The premium funding is often ongoing until death, regardless of if permanent life insurance is necessary or not. Most people do not need permanent life insurance but are sold these policies upon the suggestion that the remaining death benefit can be used for wealth succession.

What Are the Drawbacks of Hybrid and/or Linked Benefit Policies?

While there are a substantial number of drawbacks to these policies types, below are some of the more visible and most relevant:

- Nearly all hybrid and/or linked benefit LTC policies sold lack inflation protection because adding inflation coverage to a policy will double and in some cases, triple the premium required. Instead, agents generate policies with very large monthly LTC benefits up front with the suggestion that LTC costs will increase over time allowing similar purchasing power at claim time as a lower amount of benefit with inflation protection. Regardless, most hybrid policies show a delta between LTC benefit amount and future LTC costs that are well before the average LTC claim age. This means the policy owner will most likely have more out of pocket LTC expenses the older they are.

- Hybrid and linked benefit LTC policies require substantial funding, especially when insuring a couple. The American Association for Long Term Care Insurance reported that in 2015, 63% of all hybrid contracts sold had an initial premium of $100K or more. For a couple, that means two-thirds of couples would be paying more than $200K in initial premium. 36% of hybrid sales during the same timeframe had an initial premium over $150K or $300K for a couple. Linked benefit policies often have annual premiums between $10,000 and $25,000 per year per person.

- Hybrid and linked benefit LTC policies often require unfavorable asset repositioning and come with substantial opportunity costs. This is because these policies are funded with either existing investment assets or require substantial ongoing annual cash flow. Nearly all hybrid and linked benefit policies fail to build any real cash accumulation because of the excessive mortality charges for aging people as well as the internal costs associated with the long-term care benefits. In contrast, the assets or otherwise investable income used to fund these policies almost always secures higher interest rates or investment returns allowing the existing asset to continue to grow if not used for the life insurance policy.

- Purchasing a hybrid and/or linked benefit LTC policy forces consumers to purchase life insurance, most often without the need for such insurance coverage. Effectively, they are paying insurance charges for two separate types of coverage: life and long-term care. Paying for two coverage types in a single policy is the costliest option.

- Hybrid and/or linked benefit policy owners are given access to long-term care benefits *or* the cash value (asset), not both. Consumers who maintain control of their income and/or assets outside of an insurance plan have both the insurance policy's benefits plus their separate assets and/or income.

Now that we understand these hybrid and linked benefit LTC funding options, let's look at the 2024 traditional LTC insurance marketplace. In truth, it is not favorable due to very limited availability eliminating competition and current premiums being double to triple what they were a decade ago. There have been in-force policy premium increases on almost all LTC insurance policies purchased more than 15-years ago, some employer sponsored policies by as much as 350%. Some mutual insurers boast a history of not increasing premiums on in-force LTC policies; however, nearly all have eliminated dividends having a substantial impact on their policyholder's premiums over time.

The current low supply of traditional LTC insurance options combined with the high demand of care funding solutions creates an insurer favored marketplace. This is further impacted from mandatory state tax-based LTC funding solutions such as the Washington Cares Act and California LTC Insurance Task Force. The result is a market where traditional long-term care insurance is costly and only available to healthy people with favorable family histories. All the above said, I still firmly believe traditional LTC insurance remains the most financially efficient way to address one's LTC expense exposure. Here is why:

Traditional LTC Insurance vs. Linked Benefit Life Insurance with LTC: A Real 2024 Case Study (Arizona Couple – Male age 59 and Female age 59)

This article was created due to an inquiry from a consumer who was recently referred to me from their financial advisor. The financial advisor was concerned about the high costs of a linked benefit product their client was considering and wanted a second opinion. The policy that was proposed to the client was a Prudential Founders Plus Indexed Universal Life policy with a $1M death benefit that allowed access to $12,300 per month of the death benefit if the client qualified for LTC benefits. The annual premium for the 59-year-old male was $20,485 and would be payable in all years. The proposal the client received only covered the male so separate coverage would be necessary for the female spouse, which the consumer was unaware of until our discussion.

I noticed some inefficiencies in the Prudential quote that increased the premium, so I prepared a new quote resolving these inefficiencies as well as a quote for the client's 59-year-old wife. The new Prudential quotes provided $1M of death benefit each ($2M between the couple) with the male's annual premium being $18,054 and the female's being $20,782. The total annual premium between the couple is $38,836. For this premium, each spouse would have a maximum of $1M for LTC services, accessible at a rate of $12,300 per month for LTC services if qualified. The basics from the illustrations are as follows:

BenefitAccess Rider Summary Report

[redacted] Male, 59
Preferred Non-Tobacco
$1,000,000 PruLife® Founders Plus Indexed UL
Type A (Fixed) Death Benefit
Guideline Premium
Initial Annual Premium Outlay $18,054.00

Accelerated Benefits under the Chronic Illness Option

Please refer to the About the Policy and Your Policy in Action sections for guaranteed elements including any riders, and other information. This report is intended to help you understand ho predict performance.

Initial Lifetime Benefit Amount:	**$1,000,000**	The maximum amount that can be acceler the insured under the Chronic Illnes conditions to accelerate the policy's death Illness Option are met. For purposes Lifetime Benefit Amount is determined at ti
2024 IRS Per Diem (Daily Benefit Limit)	**$410**	This is the daily amount allowed by the IRS
Monthly Equivalent of the 2024 IRS Daily Benefit Limit:	**$12,300**	This is the monthly equivalent of the IRS d a 30 day month.
Maximum Monthly Benefit:	**$12,300**	This is the contractual maximum monthly the policy's death benefit. The maximum which can be accelerated is the lowest of: 1. 2% of the death benefit at the time of 2. The monthly equivalent of the IRS da of claim; and 3. The monthly equivalent of the IRS d contract date, compounded annually Compound Rate.

BenefitAccess Rider Summary Report

[redacted], Female, 59
Non-Smoker
$1,000,000 PruLife® Founders Plus Indexed UL
Type A (Fixed) Death Benefit
Guideline Premium
Initial Annual Premium Outlay $20,782.00

Accelerated Benefits under the Chronic Illness Option

Please refer to the About the Policy and Your Policy in Action sections for guaranteed elements, details of including any riders, and other information. This report is intended to help you understand how BenefitAc predict performance.

Initial Lifetime Benefit Amount:	**$1,000,000**	The maximum amount that can be accelerated during the insured under the Chronic Illness Option conditions to accelerate the policy's death benefit unde Illness Option are met. For purposes of benefit Lifetime Benefit Amount is determined at time of claim.
2024 IRS Per Diem (Daily Benefit Limit)	**$410**	This is the daily amount allowed by the IRS.
Monthly Equivalent of the 2024 IRS Daily Benefit Limit:	**$12,300**	This is the monthly equivalent of the IRS daily benefit a 30 day month.
Maximum Monthly Benefit:	**$12,300**	This is the contractual maximum monthly benefit amo the policy's death benefit. The maximum monthly be which can be accelerated is the lowest of: 1. 2% of the death benefit at the time of claim; and 2. The monthly equivalent of the IRS daily benefit lin of claim; and 3. The monthly equivalent of the IRS daily benefit contract date, compounded annually at the Daily Compound Rate.

Before fully comparing a traditional LTC insurance strategy to the linked benefit proposal they were considering, I provided them with my analysis of current care costs and their traditional LTC options, which included the following initial details:

Please find the attached 2023 cost of care report created by Genworth. The report details the company's most recent findings on the actual costs of long-term care services in Arizona. To summarize, these costs are:

Home Health Care:	*$6,292 per month average.*
Assisted Living Care:	*$5,500 per month average.*
Nursing Home Care:	*$9,429 per month average.*

I recommend long-term care insurance coverage for 70% of the average cost for nursing care or $6,600 per month. This allows for substantial risk transfer to an insurance company without over insuring for the high nursing care costs. You would be co-insuring 30% of the risk for average nursing care at this level of coverage.

The attached comparison illustrates the cost of today's top policy options based on the above recommended coverage amount of $6,600 per month. I included 3, 4 and 5-year benefit periods with and without shared care coverage for consideration. I also included the full carrier illustrations with alternative plan designs for review.

Accompanying the above written introduction, I included a side-by-side analysis of the two most competitive traditional LTC policies based on the amount of coverage I am recommending, $6,600 per month with 3% compound inflation. The coverage and pricing are summarized as follows:

Male 59 & Female 59		
Policy Design		
	Mutual of Omaha Mutual Care Solutions	National Guardian Essential LTC
Benefit Amount at Purchase	$6,600	$220
Benefit Amount in year 15	$10,283	$343
Benefit Amount in year 30	$16,020	$534
Benefit Frequency	Monthly	Daily
Elimination Period (Facility)	90 days	90 days
Elimination Period (Home Care)	90 days	90 days
Inflation Option	3% compound	3% compound
Future Purchase Option	No	No

Annual Premiums		
Male 59	**Mutual of Omaha**	**National Guardian**
3 Year Benefit Period	$2,975	Not Separated
3 Year Benefit Period (Shared)	$3,451	
4 Year Benefit Period	$3,389	
4 Year Benefit Period (Shared)	$3,932	
5 Year Benefit Period	$3,734	
5 Year Benefit Period (Shared)	$4,331	
Female 59	**Mutual of Omaha**	**National Guardian**
3 Year Benefit Period	$5,048	Not Separated
3 Year Benefit Period (Shared)	$7,856	
4 Year Benefit Period	$6,050	
4 Year Benefit Period (Shared)	$7,018	
5 Year Benefit Period	$6,908	
5 Year Benefit Period (Shared)	$8,014	
Combined Total	**Mutual of Omaha**	**National Guardian**
3 Year Benefit Period	$8,023	**$6,293**
3 Year Benefit Period (Shared)	$11,307	**$7,929**
4 Year Benefit Period	$9,439	**$7,426**
4 Year Benefit Period (Shared)	$10,950	**$8,911**
5 Year Benefit Period	$10,642	**$8,181**
5 Year Benefit Period (Shared)	$12,345	**$9,490**
Payment Options: Annual, Semi-Annual, Quarterly, Monthly		

Based on my analysis, I recommended the National Guardian 3-year shared care policy, which offers a pool of funds equal to $712,800 at the start of the policy, with access to $6,600 per month ($220 per day) each. The unique three pools of funds (3-years for the male, 3-years for the female and 3-years they can share) is unique to National Guardian Life and offers substantial financial efficiency with an annual premium of $7,929.

Given we have identified the most competitive traditional LTC insurance option, we can now assess the differences between the Prudential linked benefit universal life policy and the National Guardian traditional LTC policy. To do so, we must first map out each option's annual cash flow, LTC benefit amount and alternative performance of invested assets.

I began by preparing a detailed side-by-side review of the linked benefit universal life policy showing the combined annual premium for the couple, the cumulative premium paid, the monthly LTC benefit amount and the total amount of LTC funds available. Then for the traditional LTC policy, I included the annual premium for the couple, the cumulative premium paid, the monthly LTC benefit, the total amount of LTC funds available and the annual account balance of a side investment account assuming the couple were to take the difference in premium between the two options and invest elsewhere. For the analysis, I showed the investment results using a 4% and a 6% net rate of return. Given traditional LTC policies can and likely will experience in force rate increases, I included a 20% compound increase in the traditional LTC premium every 10-years.

Lastly, I included a column showing the total funds available when accounting for the traditional LTC insurance policy's benefit pool combined with the side investment account, which could also be used for care if all the LTC policy's benefits were used. The full report is at the back of this analysis marked as Appendix A, a 5-year age banded summary is found below:

The Numbers, Side-by-Side:

Linked Benefit IUL with LTC Compared to Traditional LTC by the Numbers
59 M/F Couple, AZ, 5-Year Age Milestones

	Prudential Founders Plus IUL ($1M each)				National Guardian LTC (3% compound, 3Y Shared - Lifetime payments) Assumes Premium Increases Every 10-Years							
Age	Annual Premium	Cumulative Premium	LTC Monthly Benefit	Total pool of funds (combined)	Annual Premium	Cumulative Premium	LTC Monthly Benefit*	Total pool of funds	Investment account from Premium Savings (4% ROI)	LTC Pool of Funds PLUS Investment Account	Investment account from Premium Savings (6% ROI)	LTC Pool of Funds PLUS Investment Account
59	$38,836	$38,836	$12,300	$2,000,000	$7,929	$7,929	$6,600	$712,800	$32,143	$744,943	$32,761	$745,561
60	$38,836	$77,672	$12,300	$2,000,000	$7,929	$15,858	$6,798	$734,184	$64,336	$798,520	$65,634	$799,818
65	$38,836	$271,852	$12,300	$2,000,000	$7,929	$55,503	$7,881	$851,120	$245,677	$1,096,797	$262,059	$1,113,179
70	$38,836	$466,032	$12,300	$2,000,000	$9,515	$98,320	$9,136	$986,682	$463,071	$1,449,753	$521,653	$1,508,335
75	$38,836	$660,212	$12,300	$2,000,000	$9,515	$145,894	$10,591	$1,143,835	$722,209	$1,866,044	$863,375	$2,007,210
80	$38,836	$854,392	$12,300	$2,000,000	$11,418	$197,274	$12,278	$1,326,018	$1,033,609	$2,359,627	$1,316,757	$2,642,775
85	$38,836	$1,048,572	$12,300	$2,000,000	$11,418	$254,362	$14,234	$1,537,218	$1,406,050	$2,943,268	$1,916,677	$3,453,896
90	$38,836	$1,242,752	$12,300	$2,000,000	$13,701	$316,018	$16,501	$1,782,057	$1,854,522	$3,636,579	$2,714,802	$4,496,859
95	$38,836	$1,436,932	$12,300	$2,000,000	$13,701	$384,525	$19,129	$2,065,893	$2,392,447	$4,458,340	$3,774,704	$5,840,597
100	$38,836	$1,631,112	$12,300	$2,000,000	$16,442	$458,512	$22,175	$2,394,936	$3,041,325	$5,436,261	$5,187,447	$7,582,383
105	$38,836	$1,825,292	$12,300	$2,000,000	$16,442	$540,720	$25,707	$2,776,387	$3,821,533	$6,597,920	$7,068,213	$9,844,601
110	$38,836	$2,019,472	$12,300	$2,000,000	$19,730	$629,504	$29,802	$3,218,594	$4,764,066	$7,982,660	$9,578,330	$12,796,923

More total LTC between both spouses (LTC only)
More total LTC Pool + Investment Account between both spouses (LTC + Investment)
Assumed Rate Increase of 20% every 10-years on Traditional LTC
Non-Reducing Investment Account Exceeds Death Benefit (Reduces by used LTC)
Greatest Monthly LTC Benefit Per Spouse

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This data allows us to answer several critical questions related to each of the policies being reviewed. Let's start with the key reason LTC insurance options are considered, which is:

What if I Need Long-Term Care Services?

The linked benefit life insurance policy has a defined pool of funds with a maximum of $1M per spouse or $2M between the two. The policy includes a monthly benefit of $12,300 that does not increase over time so we must discount the monthly benefit due to inflationary erosion. This results in a present value equivalent of $6,612 per month at age 80, or $4,920 equivalent at age 90 (assuming 3% inflation).

For the traditional LTC policy, there is a 3% compound inflation provision which increases the monthly benefit each year and actually surpasses the linked benefit monthly benefit at age 81. For the best accuracy, the traditional future monthly benefit amount has also been discounted by 3% to show the present value of the increased monthly benefit amount. The below table confirms the monthly benefit amount from the traditional LTC policy exceeds the linked benefit product from age 81 on.

More **Monthly Future LTC Dollars** with Traditional LTC That Includes Inflation Protection Than the Linked Benefit Product

Prudential Founders Plus IUL with Chronic Illness Rider (no inflation available) – Discounted Present Value

2024 Benefit Value – Age 59	2040 Benefit Value - Age 75 - 3% Inflation Rate	2045 Benefit Value - Age 80 - 3% Inflation Rate	2055 Benefit Value - Age 90 - 3% Inflation Rate
$12,300 per month	**$7,665 per month**	$6,612 per month	$4,920 per month

National Guardian Traditional LTC with 3% Compound Inflation – COLA increased value Discounted for Present Value

2024 Benefit Value – Age 59	2040 Benefit Value - Age 75 - 3% Compound	2045 Benefit Value - Age 80 - 3% Compound	2055 Benefit Value - Age 90 - 3% Compound
$6,600 per month	$10,591 per month	$12,277 per month	$16,500 per month
Discounted PV	$7,651 per month	**$6,599 per month**	**$6,600 per month**

Now that we know the traditional LTC policy offers a larger monthly benefit after age 81, we need to assess the total amount of funds available for the couple's care as time passes. The linked benefit product will always offer the maximum of $2M between the couple; however, the traditional LTC policy option increases the total pool of funds annually. Further, the annual premium not paid to Prudential for the linked benefit life insurance policy can also be set aside to grow in the side investment account. These side investment account funds are also available for care if the traditional LTC policy funds were to be exhausted. Because of this, we must add the LTC policy's pool of funds to the investment account value for the total amount of funds available for care. A 5-year age banded account of each option's total funds available for LTC services is found below and confirms the traditional LTC plus investment account offers more funds at age 75 based on a 6% rate of return or age 77 at a 4% rate of return.

At age 85 the traditional and side investment account offer between $943K and $1.453M more funds available for care services than the linked benefit policy option. This increases to $1.636M - $2.453M more funds at age 90.

More **Total Future LTC Dollars** with Traditional LTC That Included Inflation Protection Than Linked Benefit Product. Adding LTC Pool of Funds to Investment Account Balance

Age	Prudential Founders Plus IUL Total LTC Benefits (combined)	Traditional LTC Pool + Investment Account Value based on a 4% Return on Investment	Traditional LTC Pool + Investment Account Value based on a 6% Return on Investment
65	**$2,000,000**	$1,096,797	$1,113,179
70	**$2,000,000**	$1,449,753	$1,508,335
75	**$2,000,000**	$1,866,044	**$2,007,210**
80	$2,000,000	**$2,359,627**	**$2,642,775**
85	$2,000,000	**$2,943,268**	**$3,453,896**
90	$2,000,000	**$3,636,579**	**$4,496,859**
95	$2,000,000	**$4,458,340**	**$5,840,597**

What becomes clear is the traditional LTC policy with side investment account from conserved premium offers more funds available for LTC services if needed. The later in life services are necessary, the greater the disparity of total funds available becomes.

Now that we can confirm the traditional LTC policy option and side investment account is superior when it comes to funding LTC services, let's look at the other areas of concern many of today's consumers have. More specifically, what if the insured never needs LTC services? If the linked benefit life insurance policies were to be canceled in the future, the policy owner would receive the cash surrender value. This is a variable number and based on internal policy performance. The below table shows the combined cash surrender value of the linked benefit policies and includes both the guaranteed and current (most likely best-case) assumptions. The chart also shows the side investment account value based on either a 4% or 6% rate of return.

What If I Change My Mind and Cancel the Policy?

Age	Combined Prudential Founders Plus IUL Cash Surrender Value (GUARANTEED)	Combined Prudential Founders Plus IUL Cash Surrender Value (ILLUSTRATED @ 5.4%)	Investment Account Value based on a 4% Return on Investment	Investment Account Value based on a 6% Return on Investment
65	$60,542	$164,026	**$245,677**	**$262,059**
70	$122,752	$370,682	**$463,071**	**$521,653**
75	$99,610	$579,660	**$722,209**	**$862,375**
80	$23,356	$749,475	**$1,033,609**	**$1,316,757**
85	$0	$889,874	**$1,406,050**	**$1,916,677**
90	$0 (Male Lapsed)	$998,147	**$1,854,522**	**$2,714,802**
95	$0 (Both Lapsed)	$1,073,419	**$2,392,447**	**$3,774,704**

It is very clear the side investment account offers a higher retained asset value than the linked benefit life policy's surrender value. If the policies were cancelled at age 75, the side investment account would provide $282K more than the cash surrender value of the linked benefit life policy, even in the current (most likely best-case) scenario. At age 85, the side investment account provides over $1M of additional retained assets than the poorly performing life insurance policy option's likely best-case scenario. Of additional importance, the side investment account is not impacted by increased mortality charges or lower than illustrated market returns. These variables cause substantial policy viability concerns for the male given under guaranteed assumptions; his linked benefit policy lapsed prior to age 90.

The last scenario we need to review is the impact of death for both products and strategies. The below table shows the total death benefit at 5-year age markers and shows the remaining death benefit assuming 50% of the funds available were used for LTC services. The table also includes the side investment account balance at the same age markers assuming a 4% and 6% rate of return.

What if I Die?

Age	Combined Prudential Founders Plus IUL Death Benefit – NO LTC USED	Combined Prudential Founders Plus IUL Death Benefit – 50% LTC USED	Investment Account Value based on a 4% Return on Investment	Investment Account Value based on a 6% Return on Investment
65	$2,000,000	$1,000,000	$245,677	$262,059
70	$2,000,000	$1,000,000	$463,071	$521,653
75	$2,000,000	$1,000,000	$722,209	$862,375
80	$2,000,000	$1,000,000	**$1,033,609**	**$1,316,757**
85	$2,000,000	$1,000,000	**$1,406,050**	**$1,916,677**
90	$2,000,000 (not guaranteed)	$1,000,000 (not guaranteed)	**$1,854,522**	**$2,714,802**
95	$2,000,000 (not guaranteed)	$1,000,000 (not guaranteed)	**$2,392,447**	**$3,774,704**

There is argument that the investment account would have some potential tax issues that the life insurance proceeds may not based upon the account type used and basis calculations. That said, there is also an argument that the side investment account is not reduced by used LTC funds if care is needed. Further it is notable that if LTC services were needed, the side account would grow at a greater level since the traditional LTC policy's premium would most often be waived while on claim.

If perhaps, both spouses used 50% of their LTC pool from the life policy and then passed at age 90, there would be $1M in death proceeds payable to the beneficiaries. In the alternative, if the same amount of care expenses were reimbursed from the traditional LTC policy, the amount transferred to their heirs upon death would be between $1.854M and $2.714M based on the rates of return shown in the side account. This is between $854K and $1.714M more than the linked benefit life insurance option's death benefit.

Setting the two LTC funding solutions themselves aside, why do these linked benefit products have so much support from both insurance companies and insurance agents? The answer is very simple, profitability! For the insurance company, they have less risk since they use the client's money more then theirs. Appendix A shows the total cumulative premium paid for the linked benefit life policy and the traditional LTC policy. At age 90, the linked benefit product would have a combined premium paid of $1.242M as opposed to only $316K paid into the traditional LTC policy. Remember, the traditional LTC policy assumes the premium increases by 20% every 10-years and still only sees $316K in total premium. This is a $926K difference in funding between the linked benefit policy and the traditional LTC policy.

So now we know why insurance companies really like the linked benefit products, but what about the insurance agents selling these products? Well, let's look at the compensation difference between the two options.

How Much Does the Insurance Agent Make in Commission?

Product	Commissionable 1st Year Premium (target for IUL)	Commission Rate (assumes top producer)	Total First Year Commission	Renewal Commissions
Prudential Founders Plus IUL	$42,220	102.96%	**$43,470**	**$844 (2%), years 2-10 - $8,444 total over 10-years**
NGL Traditional LTC	$7,929	59.5%	$4,718	$317 (4%), years 2-99 - $11,412 total through age 95

Clearly, the agent makes substantially more from one couple on the Prudential linked benefit life policy than nine couples on the traditional LTC policy. Also, the agent has no financial incentive after the 10th year, so servicing is less likely, whereas the traditional LTC policy has agent compensation until claim or death incentivizing ongoing servicing of the policy.

For the reasons above, I rarely recommend hybrid or linked benefit LTC coverage to clients and see traditional LTC coverage as a far superior option. By understanding proper use of traditional long-term care coverage and asset leveraging, consumers can create better residual death benefits, self-funded return of premium provisions and long-term care coverage aligned with actual care costs and patterns.

In contrast, hybrid and linked benefit contracts allow insures to capture all asset growth with limited exposure substantially increasing their profitability. Hybrid and linked benefit long-term care insurance contracts are designed to benefit the insurer substantially more than the consumer and allow insurers to dramatically increase assets under management while limiting risk exposure by using the insureds assets as opposed to the insurers. All the while, the insurance consumer believes they somehow beat the system and have a golden egg that solves all concerns. Unfortunately, this perception is false, but requires a substantial amount of analytical work to illustrate why, often leading consumers to bite the marketing bait.

ADVISOR INSURANCE RESOURCE

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Linked Benefit IUL with LTC Compared to Traditional LTC by the Numbers - 59 M/F Couple, AZ

		Prudential Founders Plus IUL ($1M each)				National Guardian LTC (3% compound, 3Y Shared - Lifetime payments). Assumes Premium Increases Every 10-Years							
Year	Age	Annual Premium	Cumulative Premium	LTC Monthly Benefit	Total pool of funds (combined)	Annual Premium	Cumulative Premium	LTC Monthly Benefit*	Total pool of funds	Investment account from Premium Savings (4% ROI)	LTC Pool of Funds PLUS Investment Account	Investment account from Premium Savings (6% ROI)	LTC Pool of Funds PLUS Investment Account
1	59	$38,836	$38,836	$12,300	$2,000,000	$7,929	$7,929	$6,600	$712,800	$32,143	$744,943	$32,761	$745,561
2	60	$38,836	$77,672	$12,300	$2,000,000	$7,929	$15,858	$6,798	$734,184	$64,336	$798,520	$65,634	$799,818
3	61	$38,836	$116,508	$12,300	$2,000,000	$7,929	$23,787	$7,002	$756,210	$97,816	$854,026	$100,479	$856,689
4	62	$38,836	$155,344	$12,300	$2,000,000	$7,929	$31,716	$7,212	$778,896	$132,636	$911,532	$137,415	$916,311
5	63	$38,836	$194,180	$12,300	$2,000,000	$7,929	$39,645	$7,428	$802,263	$168,849	$971,111	$176,567	$978,829
6	64	$38,836	$233,016	$12,300	$2,000,000	$7,929	$47,574	$7,651	$826,331	$206,509	$1,032,840	$218,068	$1,044,398
7	65	$38,836	$271,852	$12,300	$2,000,000	$7,929	$55,503	$7,881	$851,120	$245,677	$1,096,797	$262,059	$1,113,179
8	66	$38,836	$310,688	$12,300	$2,000,000	$7,929	$63,432	$8,117	$876,654	$286,411	$1,163,065	$308,689	$1,185,343
9	67	$38,836	$349,524	$12,300	$2,000,000	$7,929	$71,361	$8,361	$902,954	$328,774	$1,231,728	$358,118	$1,261,071
10	68	$38,836	$388,360	$12,300	$2,000,000	$7,929	$79,290	$8,612	$930,042	$372,832	$1,302,875	$410,512	$1,340,554
11	69	$38,836	$427,196	$12,300	$2,000,000	$9,515	$88,805	$8,870	$957,944	$417,067	$1,375,010	$464,464	$1,422,407
12	70	$38,836	$466,032	$12,300	$2,000,000	$9,515	$98,320	$9,136	$986,682	$463,071	$1,449,753	$521,653	$1,508,335
13	71	$38,836	$504,868	$12,300	$2,000,000	$9,515	$107,834	$9,410	$1,016,282	$510,915	$1,527,197	$582,273	$1,598,555
14	72	$38,836	$543,704	$12,300	$2,000,000	$9,515	$117,349	$9,692	$1,046,771	$560,673	$1,607,443	$646,531	$1,693,302
15	73	$38,836	$582,540	$12,300	$2,000,000	$9,515	$126,864	$9,983	$1,078,174	$612,421	$1,690,595	$714,644	$1,792,818
16	74	$38,836	$621,376	$12,300	$2,000,000	$9,515	$136,379	$10,283	$1,110,519	$666,239	$1,776,758	$786,844	$1,897,363
17	75	$38,836	$660,212	$12,300	$2,000,000	$9,515	$145,894	$10,591	$1,143,835	$722,209	$1,866,044	$863,375	$2,007,210
18	76	$38,836	$699,048	$12,300	$2,000,000	$9,515	$155,408	$10,909	$1,178,150	$780,419	$1,958,569	$944,499	$2,122,649
19	77	$38,836	$737,884	$12,300	$2,000,000	$9,515	$164,923	$11,236	$1,213,494	$840,957	$2,054,451	$1,030,490	$2,243,985
20	78	$38,836	$776,720	$12,300	$2,000,000	$9,515	$174,438	$11,573	$1,249,899	$903,916	$2,153,816	$1,121,641	$2,371,540
21	79	$38,836	$815,556	$12,300	$2,000,000	$11,418	$185,856	$11,920	$1,287,396	$967,491	$2,254,887	$1,216,358	$2,503,754
22	80	$38,836	$854,392	$12,300	$2,000,000	$11,418	$197,274	$12,278	$1,326,018	$1,033,609	$2,359,627	$1,316,757	$2,642,775
23	81	$38,836	$893,228	$12,300	$2,000,000	$11,418	$208,691	$12,646	$1,365,799	$1,102,372	$2,468,170	$1,423,181	$2,788,979
24	82	$38,836	$932,064	$12,300	$2,000,000	$11,418	$220,109	$13,026	$1,406,772	$1,173,885	$2,580,657	$1,535,990	$2,942,763
25	83	$38,836	$970,900	$12,300	$2,000,000	$11,418	$231,527	$13,416	$1,448,976	$1,248,259	$2,697,234	$1,655,568	$3,104,543
26	84	$38,836	$1,009,736	$12,300	$2,000,000	$11,418	$242,945	$13,819	$1,492,445	$1,325,607	$2,818,052	$1,782,320	$3,274,765
27	85	$38,836	$1,048,572	$12,300	$2,000,000	$11,418	$254,362	$14,234	$1,537,218	$1,406,050	$2,943,268	$1,916,677	$3,453,896
28	86	$38,836	$1,087,408	$12,300	$2,000,000	$11,418	$265,780	$14,661	$1,583,335	$1,489,710	$3,073,045	$2,059,096	$3,642,431
29	87	$38,836	$1,126,244	$12,300	$2,000,000	$11,418	$277,198	$15,100	$1,630,835	$1,576,717	$3,207,551	$2,210,060	$3,840,895
30	88	$38,836	$1,165,080	$12,300	$2,000,000	$11,418	$288,616	$15,553	$1,679,760	$1,667,203	$3,346,963	$2,370,082	$4,049,842
31	89	$38,836	$1,203,916	$12,300	$2,000,000	$13,701	$302,317	$16,020	$1,730,153	$1,759,026	$3,489,179	$2,537,422	$4,267,575
32	90	$38,836	$1,242,752	$12,300	$2,000,000	$13,701	$316,018	$16,501	$1,782,057	$1,854,522	$3,636,579	$2,714,802	$4,496,859
33	91	$38,836	$1,281,588	$12,300	$2,000,000	$13,701	$329,720	$16,996	$1,835,519	$1,953,838	$3,789,357	$2,902,825	$4,738,344
34	92	$38,836	$1,320,424	$12,300	$2,000,000	$13,701	$343,421	$17,505	$1,890,585	$2,057,126	$3,947,710	$3,102,129	$4,992,713
35	93	$38,836	$1,359,260	$12,300	$2,000,000	$13,701	$357,122	$18,031	$1,947,302	$2,164,546	$4,111,848	$3,313,391	$5,260,693
36	94	$38,836	$1,398,096	$12,300	$2,000,000	$13,701	$370,823	$18,571	$2,005,721	$2,276,262	$4,281,983	$3,537,329	$5,543,051
37	95	$38,836	$1,436,932	$12,300	$2,000,000	$13,701	$384,525	$19,129	$2,065,893	$2,392,447	$4,458,340	$3,774,704	$5,840,597
38	96	$38,836	$1,475,768	$12,300	$2,000,000	$13,701	$398,226	$19,702	$2,127,870	$2,513,280	$4,641,149	$4,026,321	$6,154,190
39	97	$38,836	$1,514,604	$12,300	$2,000,000	$13,701	$411,927	$20,294	$2,191,706	$2,638,946	$4,830,651	$4,293,035	$6,484,740
40	98	$38,836	$1,553,440	$12,300	$2,000,000	$13,701	$425,629	$20,902	$2,257,457	$2,769,638	$5,027,095	$4,575,751	$6,833,208
41	99	$38,836	$1,592,276	$12,300	$2,000,000	$16,442	$442,070	$21,529	$2,325,181	$2,902,818	$5,227,999	$4,872,691	$7,197,871
42	100	$38,836	$1,631,112	$12,300	$2,000,000	$16,442	$458,512	$22,175	$2,394,936	$3,041,325	$5,436,261	$5,187,447	$7,582,383
43	101	$38,836	$1,669,948	$12,300	$2,000,000	$16,442	$474,953	$22,841	$2,466,784	$3,185,373	$5,652,157	$5,521,088	$7,987,872
44	102	$38,836	$1,708,784	$12,300	$2,000,000	$16,442	$491,395	$23,526	$2,540,788	$3,335,182	$5,875,970	$5,874,748	$8,415,535
45	103	$38,836	$1,747,620	$12,300	$2,000,000	$16,442	$507,837	$24,232	$2,617,011	$3,490,984	$6,107,995	$6,249,627	$8,866,638
46	104	$38,836	$1,786,456	$12,300	$2,000,000	$16,442	$524,278	$24,959	$2,695,522	$3,653,018	$6,348,539	$6,646,999	$9,342,521
47	105	$38,836	$1,825,292	$12,300	$2,000,000	$16,442	$540,720	$25,707	$2,776,387	$3,821,533	$6,597,920	$7,068,213	$9,844,601
48	106	$38,836	$1,864,128	$12,300	$2,000,000	$16,442	$557,161	$26,479	$2,859,679	$3,996,788	$6,856,467	$7,514,701	$10,374,380
49	107	$38,836	$1,902,964	$12,300	$2,000,000	$16,442	$573,603	$27,273	$2,945,469	$4,179,054	$7,124,523	$7,987,977	$10,933,446
50	108	$38,836	$1,941,800	$12,300	$2,000,000	$16,442	$590,044	$28,091	$3,033,833	$4,368,611	$7,402,444	$8,489,650	$11,523,483
51	109	$38,836	$1,980,636	$12,300	$2,000,000	$19,730	$609,774	$28,934	$3,124,848	$4,562,462	$7,687,310	$9,018,135	$12,142,984
52	110	$38,836	$2,019,472	$12,300	$2,000,000	$19,730	$629,504	$29,802	$3,218,594	$4,764,066	$7,982,660	$9,578,330	$12,796,923

More total LTC between both spouses (LTC only)

More total LTC Pool + Investment Account between both spouses (LTC + Investment)

Assumed Rate Increase of 20% every 10-years on Traditional LTC

Non-Reducing Investment Account Exceeds Death Benefit (Reduces by used LTC)

Greatest Monthly LTC Benefit Per Spouse

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