The Financial and Estate Planning Council of Metropolitan Detroit, Inc.

October 2016

33006 W. Seven Mile Road, #237, Livonia, MI 48152 • (313) 530-9223 • FAX: (248) 479-0350

President's Message

Greetings,

As we enter the home stretch for another year, I want to take the opportunity to thank all of the Board Members of the Council, committee members and our hard working and diligent Administrator, Kris Wolfe, for a wonderful year of programming, networking and fine meals. All of these folks have contributed mightily to a wonderful year for the FEPCMD.

Also, I want to give grateful recognition to our sponsors during the past year. Their commitment to the Council is most appreciated and enables us to be even more ambitious in our programming and venue choices.

We have opened a new avenue of participation in our organization with our informal Lunch and Learn Program, enthusiastically spearheaded by Jeff Hoenle. We attracted significant numbers of participants to presentations on Special Needs Planning Tools and Top Ten Tips from Elder Law Attorneys. Our final Lunch and Learn program will take place on October 25, 2016, at Pasquale's Restaurant in Royal Oak and will explore issues involving "11th Hour Planning."

It has been an honor to serve as President of the FEPCMD. My involvement has allowed me to make contributions to our Council, as well as to meet and become acquainted with many fine professionals over the years. For those of you have not participated on a committee or the Board in the past, I encourage you to consider becoming involved with the Council. You will be deeply rewarded for your efforts and the contribution of your time and expertise. If you feel that you cannot devote the time to significant involvementwith the Council, consider taking the time to talk to your professionalcolleagues, associates, friends and acquaintances about their participation in our educational programs and golf outing.

We have one more wonderful event scheduled this year on November 1st at the Cranbrook Museum of Science in Bloomfield Hills. Our speaker will be Thomas J. Pauloski, JD, the National Managing Director of the Wealth Planning and Analysis Group at Alliance Bernstein.He will give a two hour CE session in the afternoon titled "Triangulation: Integrating Life Insurance into the Estate and Investment Plans" and a presentation at dinner entitled "Basis for Comparison: How Income Tax Management Is Changing the Face of Estate Planning." As a special treat for those who are interested, there will be a 30 Minute Planetarium Show - limited to the first 75 attendees that evening (tickets will be given at the registration table). This event will give the attendees the opportunity to see fascinating exhibits at the Museum, witness a planetarium show and learn from an expert in the field of wealth planning and management. I look forward to seeing you there and, as always, welcome any feedback that you may have following the event.

Finally, I look forward to a great year of programming in 2017, currently being planned by a committee under the direction of David Thoms.

Best wishes to all of you for a happy, healthy, fulfilling and prosperous 2017!

Benson J. Barr, JD, CFP® AEP
FEPCMD President

Long-term Care Planning & Insurance for High Net-Worth Clients

William R. Borton

"I hope I die before I get old." – My Generation – The Who, 1965

Most of the boomers were just coming of age when Pete Townsend wrote My Generation. Now, 50 years later, most of us are still alive and will probably live for another 20, 30 or perhaps 40 years. We are living longer, but not necessarily better. While advances in medical technology and pharmaceuticals are keeping us alive longer, lifestyle-related chronic health conditions are taking their toll. Many are too busy living in the sandwich generation1 to focus on planning for the future.

For most boomers, the burning question is "Will I have enough?" For many living beyond their means, saving too little or mortgaging their retirement to pay for college expenses, the answer is probably "no." Even for those who have amassed well over a million dollars, concerns about long-term care costs create real uncertainty.

I witnessed both my parents experience the downward spiral brought on by dementia. The burden of sustaining their lives was huge—emotional, physical, psychological and financial. Then in 2011, a close friend asked me to assist him in obtaining reliable long-term care insurance, a type of insurance with which I was only somewhat familiar. I agreed to explore the available options for the 74 year-old retired executive in earnest.

My research revealed stark realities about how many Americans spend their final days. I discovered there is a "huge hole" in the health care plan of nearly every American. A lifetime of working and saving can easily disappear in a matter of months. Living longer, for millions of Americans, may be one of the greatest crises facing our society today.

I am an independent life and health producer specializing in long-term care planning and insurance for high net-worth clients. In my practice, I rely on the existing and evolving array of insurance products currently available to design creative risk transfer solutions for my clients. The industry volatility over the last several years has presented me with both challenges and opportunities. Sales of new long-term care insurance policies were plummeting, as reluctant consumers now had compelling reasons not to buy.

A Shifting Advisor's Perspective

For decades, the majority of expert advisors to the wealth management industry have been saying that long-term care insurance is not right for wealthy clients, mainly because they can afford to self-insure. Therefore, many advisers have been known to tell clients with $2 million to $3 million or more of invested assets that they don't need to worry about developing a strategy to fund a long-term health care risk because they have more than enough money to cover it on their own.

This advice has been changing. As fiduciaries, many advisers are probing this assumption a little further to see if it is really prudent. They are beginning to realize a sound plan for their client's retirement includes a long-term care strategy that addresses two critical components.

- To assess the financial impact a long-term health care event may have on the individual's retirement portfolio.
- To evaluate the emotional impact the event would have on family or friends.

Because they are not comfortable talking about the second component, many advisors focus solely on the first issue. The impact on the caregivers cannot be overlooked in long-term care planning.

Creative Solutions, an example of a Diversified Risk Management Portfolio

Advisors and their clients are beginning to understand that transferring a portion of their long-term care risk to an insurance company makes good sense. They understand the leverage, tax advantages, instant liquidity and professional care coordination that insurance affords them.

What they don't understand is paying a large premium every year for the rest of their lives for a product they hope they never need and that the insurance company can unilaterally increase.

What clients really want is a policy that:

1. Has no elimination period
2. Provides a combination of indemnity and reimbursement benefits
3. Has guaranteed benefits whether care is needed, or not
4. Has guaranteed premiums that can be flexible
5. Keeps pace with inflation

That one policy, unfortunately, does not exist. For most clients what provides the most effective solution is not one policy. In fact, a combination of policies provides the richest benefits that will cover a broader range of possible claim scenarios. "Diversified risk management portfolios" are individually tailored to the needs and preferences of each client. In this example, we show a couple with four different policies.

Let's take a couple in their late 50s, both reasonably heathy non-smokers, with $5MM liquid assets. You can design **two identical traditional LTCI policies** underwritten by a carrier that offers an option to receive a portion of the monthly benefit in cash.

- $5,000 monthly LTC benefit
- 24 month benefit period
- Waiver of elimination period for home health care
- Shared benefits rider
- 3 percent compound inflation rider

The lifetime premium is reasonable because the benefits aren't rich. The use-it-or-lose-it objection is blunted with a shared benefits rider because of the high probability one spouse will need care. Concerns about rate increases are minimized by the relatively low premium and agreement that interest rates will likely rise, permitting the carrier to earn more on invested premiums.

For him, you might design a **hybrid Universal Life policy**, with accelerated death benefit LTC rider. You may also use a Guaranteed Universal Life (GUL) , Index Universal Life (IUL) or current assumption contract, depending on the couple's budget, overall objectives and preferences. The design may have a single premium, a limited pay or lifetime premiums and the following features:

- $500,000 death benefit and LTC benefit pool
- 4 percent acceleration
- $20,000 monthly LTC benefit
- 25 month benefit period
- No inflation

Because probabilities suggest that he is likely to need care and die before her, and because the length of time he may need care is two years+/-, this approach provides him with the maximum leverage and her with the maximum residual death benefit if he needs care and a $500,000 addition to her LTC pool of dollars, if he dies without needing care. Because there is no inflation protection with hybrid policies, the LTC benefit is grossed up to offset inflation.

Alternatively, a similar policy with a chronic illness rider may be presented if indemnity is preferred and there are no concerns about permanency or the discounting of the death benefit.

For her, you could design a **single premium life-linked policy**, which may have no elimination period, or a 90 day elimination period only for facility care. A return of premium rider is typically included. The policy also includes the following features:

- $180,000 death benefit
- $540,000 initial LTC benefit pool
- $7,500 monthly LTC benefit

Two year base acceleration benefit, with four year LTC extension of benefits rider

- 3 percent compound inflation

With her typically outliving him, having no natural caregiver and a significantly greater life expectancy, a six year benefit period is appropriate. There is a sufficient death benefit payable if she never needs care and a small residual one if she does. Inflation protection is included.

Changes for Social Security... - continued on page 4

THE FINANCIAL AND ESTATE PLANNING COUNCIL OF METROPOLITAN DETROIT

presents

THOMAS J. PAULOSKI

TUESDAY, NOVEMBER 1, 2016

FEPCMD ANNUAL MEETING – ELECTION OF OFFICERS
Cranbrook Institute of Science
39221 Woodward, Bloomfield Hills, MI 48304

2 Hours State of Michigan CE and CFP credit for afternoon session – Approved

AFTERNOON PROGRAM - AUDITORIUM
Registration: 3:00 p.m.
Presentation: 3:15 p.m. – 5:30 p.m.
Break: 4:15 p.m. – 4:30 p.m. (cookies and beverages)

"Triangulation: Integrating Life Insurance into the Estate and Investment Plans"
Life CE #70537 / CFP #229291

COST: $90.00

COST: $25.00 (CFP Discount for Those Who Completed the Oakland CFP course in the last 12 months)

EVENING PROGRAM – limited to 125 guests:
Complimentary Cocktails: 5:30 p.m. – 6:30 p.m.
Main Lobby and Our Dynamic Earth Exhibit
ALSO: 30 Minute Planetarium Show – limited to the first 75 attendees that evening (tickets will be given at the registration table)
Presentation: 6:30 p.m. – 7:30 p.m.
Dinner: 7:30 p.m.

"Basis for Comparison: How Income Tax Management Is Changing the Face of Estate Planning"

COST: $60.00

FULL DAY DISCOUNT: $125.00

THOMAS J. PAULOSKI is National Managing Director for Wealth Planning and Analysis, the research division of Bernstein Global Wealth Management's Private Client Group. He works with private clients and their advisors on wealth transfer strategies, focusing on tax-efficient wealth management and asset allocation decisions. Previously, Tom was a partner at the Chicago law firm of Winston & Strawn LLP, where he concentrated his practice in estate, tax, and business planning. Tom also has been a member of the Chicago law firm of Levin & Schreder, Ltd., a Vice President in the Private Client Group of Zurich Life in Long Grove, Illinois, and a partner at the Chicago law firm of Schiff Hardin & Waite. Tom is a nationally known speaker on estate planning, tax, and insurance issues, and has written numerous articles and continuing legal education materials on estate planning topics.

AFTERNOON PRESENTATION: The American Taxpayer Relief Act of 2012 (ATRA) changed the face of estate planning by making "permanent" an inflation-indexed transfer tax exclusion that is now $5.45 million and growing. As a result, many clients now believe that they have too much life insurance. Should they cash in those policies? Tom Pauloski will discuss why, in many cases, existing life insurance should be retained or repurposed, rather than cashed in. Bernstein's most recent research suggests that life insurance is capable of producing superior risk-adjusted, after-tax returns when integrated with a diversified investment portfolio and thoughtful wealth transfer plan. (Note that Bernstein does not sell or market life insurance products, so these findings may surprise you.) Tom will use proprietary wealth forecasting model and the case study method to advance the argument that professional advisors need to think differently about life insurance in the wake of ATRA. Please plan to join us to hear Tom's unusual take on this important topic.

EVENING PRESENTATION: Just over three years ago, Congress surprised the estate planning world by passing the American Taxpayer Relief Act of 2012 (ATRA), which profoundly affected the way that tax professionals advise their clients. In this presentation, Tom Pauloski, National Managing Director of Bernstein's Wealth Planning and Analysis Group and a former estate planning attorney, will describe how ATRA has changed the face of estate planning, focusing his remarks on how income tax basis may be created, destroyed, and shifted among family members and entities. Particular emphasis will be placed on how the income tax rules governing partnerships (Subchapter K) may be harnessed to achieve specific tax planning objectives.

Log onto our website by October 14 to make your reservation and pay with VISA or Master Card. www.metrodetroitfepc.org

OR PLEASE MAIL YOUR RESERVATION AND CHECK BY OCTOBER 14 TO:
FEPCMD ● c/o Association Expertise ● 33006 W. Seven Mile Road, #237 ● Livonia, MI 48152
Phone: (313) 530-9223 ● Fax: (248) 479-0350 ● fepcmd@associationoffice.org

Member Name:____**Phone Number:**________________________________

Guest Name:____**Phone Number:** ________________________________

Full Day________________ **Afternoon Program Only**__________________ **Evening Program Only**______________________

Amount Enclosed____ **Dietary Restriction Request**__________________________

Clients and advisors like the flexibility and limited exposure to rate increases. He feels good about protecting her and not forcing other family members to have to step in. She feels confident that she will be able to care for him and will be provided for after he is gone.

There are as many variations on the theme as there are clients, with ages, health histories, state approvals, sources of premiums and client preferences all helping to dictate the solution design.

Product Innovation

In order to gain a better understanding of the challenges and opportunities faced by the actuarial community, I spoke with Douglas Burkle, ASA, MAAA, Life& Linked Benefits Design Leader at Genworth. Doug has been a leader in the linked and hybrid product space for the last 21 years, first at Lincoln Financial where he designed and priced the MoneyGuard product line and now at Genworth, where he designed and priced Genworth's Total Living Coverage (TLC).

When I asked Doug why it seems carriers are more comfortable pricing linked benefit products and hybrids than traditional LTC insurance, he said his company, and perhaps two others he knows of, are equally comfortable pricing both types of products. They understand the dynamics of linked benefit products and are able to administer them because they have so many years of experience administering LTC claims.

"A carrier that wants to get into the business via a hybrid product, that's acceleration-only, has a choice to make. If they don't have the claims experience and systems capabilities, they will tend to want to administer as an indemnity because it's a lot easier, and go with a chronic illness product. They may also lack agents who have gone through the required CE and have the licenses necessary to sell a LTC reimbursement product."

I then asked Doug what trends he sees in the industry and with his competitors. He said with linked benefit products the trend is toward flexible premiums because there are a limited number of people who can afford a single premium product. I pointed out, that even considering the time value of money, the leading carrier selling a flexible premium linked benefit policy seems to be charging an excessive premium for that flexibility. Doug suggested as the rest of the market catches up, the competition will cause carriers to decrease their flexible premiums so they are more in line with their single premium, thus benefiting the consumer.

In addition, he said "there has been a big ramp up over the last couple years of hybrid products (chronic illness and qualified long-term care acceleration only). If you look at the entire industry portfolio of linked and hybrid, or what we call combination marketplace, from 2008 through 2014 there has been around a 33 percent compound annual growth rate of new premium sales."

"Another area that is being looked at is the annuity-linked product market. As carriers anticipate a better interest rate environment, and there is more room within the interest crediting rate, then you can afford the long-term care rider charges. So, that's a market with growth potential once interest rates go up a little." When I expressed interest in a fixed index annuity with a LTC rider, Doug said because of the higher potential crediting rate, we may see movement there first.

When I brought up how chronic illness riders are making it easier to sell permanent life insurance, Doug pointed out that there has been a lot of debate about the chronic illness products that use an actuarial discount method, where policy owners may not exercise the acceleration option because the discount might be too large and they may just wait for the death benefit to be paid in full. At least two carriers he knows of, state in their marketing materials that the age the client goes on claim, is approximately the percentage of the death benefit the client will receive. For example, if the client goes on claim at age 80, they would receive 80% of the death benefit. Doug believes carriers will begin to offer the option of an extra premium charge in return for a dollar-for-dollar payout when the insured becomes chronically ill. This will allow the policy owner to know the LTC benefit pool they are paying for.

I brought up that the industry is now promoting products with more limited benefits in response to consumer push back that LTCI is unaffordable. Doug said he expects we will continue to see cheaper products being rolled out to get the price tag down. He also said he thinks there will be a lot of innovation, with carriers tweaking all aspects of the traditional products. Some will be successful, and some not, and it will take several years to sort things out.

In my experience, carriers that fully underwrite life-linked policies offer the policy owner significantly more LTC leverage than those who rely only on simplified underwriting (telephone interview and prescription drug check). I asked Doug about this and he explained that with full underwriting, you get a better risk profile and can produce 20 percent to 25 percent more leverage than with simplified underwriting. My preference is for managing my clients' expectations and taking the time to go through full underwriting to get maximum LTC leverage. I understand from conversations with some of my colleagues that many agents prefer simplified underwriting because they get faster policy issue and commission payment.

When I asked Doug about the future, he stated he thinks that most agents still think there is a strong future for traditional LTC insurance because it still affords the most leverage in the case of a long-term care event, but you do have the main objections (use-it-or-lose-it, non-guaranteed premiums) and they are both answered by a linked benefit product.

To bring our conversation to a close, I circled back to my target market, high net-worth clients. Doug said many high-net worth individuals understand the concepts of leverage and risk management. While they may have the ability to self-insure, they may lack liquidity. In addition, many are in the position they are in because of a fiscally conservative lifestyle. They purchase long-term care insurance policy because it allows them to practice what they have been taught to do throughout their lives: minimize risk, work with experts and avoid selling assets below their value.

The LTC insurance industry should consider creating products that offer more guarantees and more flexibility. Things like more carriers offering linked products with the option to get better leverage through full underwriting, more hybrids with true LTC riders, chronic illness riders that offer full acceleration and traditional LTC insurance that is non-cancellable. While this is only a small sampling of ideas, this should give you something to think about. Our combined mission is critical. Time is of the essence.

William R. Borton, CLU, RHU, REBC, is managing principal of W.R. Borton& Associates LLC in Marlton, N.J. He can be reached at bill@wrborton.com.

1 http://www.usatoday.com/story/news/nation/2015/05/21/pew-aging-family-support-america-germany-italy/27578831/

Society of FSP
Financial Service Professionals

NAIFA GREATER DETROIT

NAEPC

OAKLAND UNIVERSITY
Professional and Continuing Education

Four Organizations Come Together To Present

"A Working Lunch On 11th Hour Planning"
Tuesday, October 25, 2016

PASQUALE'S RESTAURANT
Mediterranean Room
31555 Woodward Avenue, Royal Oak, MI 48073
(Near 12 Mile Road)
Panel Discussion

Certified Public Accountant
Will share information on gifting, step up basis issues and deductions.

Elder Care and Estate Planning Attorney
Will discuss various elder care and estate planning issues to include Medicaid basic, Beveran's benefits, durable power of attorney issues, patient advocate issues, HIPAA considerations, will and trusts review, funeral representative and electronic data laws.

Insurance Professional
Will discuss inventory of existing coverage, beneficiary review and considerations, rider analysis for liquidity, hybrid coverage and long term care issues and triggers, cahs value considerations and short and long term disability.

Financial Planner
Will discuss titling considerations, required minimum distributions pre-death, asset allocation for liquidity, and disposition of real assets.

AGENDA:	**10:30 a.m.**	**Registration& Networking**
	11:20 a.m.	**Buffet Dining**
	11:30 a.m. – 12:30 p.m.	**Presentation – Q&A**

~~~~~~

Log onto our website by October 18 to make your reservation and pay with VISA or Master Card.
www.metrodetroitfepc.org

OR PLEASE MAIL YOUR RESERVATION AND CHECK BYOctober 18 TO: **COST: $10.00 PER PERSON**
FEPCMD●33006 W. Seven Mile Road, #237● Livonia, MI 48152
Phone: (313) 530-9223 ●Fax: (248) 479-0350

MEMBER NAME: ______________________________ **COMPANY NAME:** ______________________________

GUEST NAME: ______________________________ **TOTAL ENCLOSED:** ______________________________
~~~~~~

The Financial and Estate Planning
Council of Metropolitan Detroit, Inc.
33006 W. Seven Mile Road, #237
Livonia, MI 48152

First Class
US Postage
PAID
Permit 220
Plymouth, MI

The Financial and Estate Planning Council of Metropolitan Detroit, Inc.
33006 W. Seven Mile Road, #237, Livonia, MI 48152
Phone (313) 530-9223 Fax (248) 479-0350
email: fepcmd@associationoffice.org
website: metrodetroitfepc.org