

Using Caregiver Contracts To Sell LTC Insurance

Mike Lynch

May 2010

Caregiver contracts, in which relatives are hired to take care of elderly or disabled family members, are growing in popularity. These contracts can offer both a great planning tool for families as well as an opportunity for a long term care insurance sale.

There are two primary motivations for drafting a caregiver contract (sometimes called a personal service or personal care agreement). One lends itself to LTC insurance. Let's review both, but first let me explain how a caregiver contract works.

A caregiver contract is normally drafted by an attorney. Such a contract specifies the caregiver's duties, which can include homemaking, transportation, attending doctors' meetings, etc. The length of the contract term is usually the elder's lifetime, and caregiver payment can be made with either a lump sum (not allowed in all states) or installments. When payment is a lump sum, in order for payment not to be deemed a gift for Medicaid purposes, it must be equal or less than the cost of other care available locally. There are tax consequences, including income taxes payable by the caregiver. These agreements should be set up before an elder becomes incapacitated, while he is still of sound mind. For obvious reasons, these contracts should not be done without competent local and financial counsel. There are many sound reasons for setting up a formal caregiver contract, such as taxable estate reduction, as well as the two motivations outlined below.

An uninsurable individual without LTC insurance who wants to leave money to a family member could likely be motivated to do a caregiver contract. The contract would let him transfer money to a relative (or even an unrelated person) yet not be disqualified for Medicaid. This strategy is appropriate if a relative were otherwise going to be an informal, unpaid caregiver and if the amount he is being paid is market-appropriate.

A second situation in which a formal caregiver contract is advised is when an individual is motivated to minimize disagreements between siblings or other relatives. Disagreements and even feuds frequently arise when one member feels he is giving too much in comparison to others in the family. Anticipating the problem and including a caregiver contract as a regular part of retirement and estate planning can make good sense.

How Does LTC Insurance Come into the Picture?

Purchasing an LTC insurance policy is one way to pay the compensation promised in a caregiver agreement.

However, here's a very important warning: since most LTC insurance policies do not allow a relative to be hired directly, it is important that the policy have a cash benefit. In other words, once an individual triggers benefits, there is cash paid by the insurer, regardless of who is the caregiver. A full cash benefit policy will provide the same benefit no matter who is the caregiver. I am a fan of the more affordable partial cash benefit policies, which give policyholders the option of collecting under a traditional reimbursement benefit or a cash benefit.

In a similar manner, life insurance has been used for many decades to equalize distribution of assets to children. For example, if a daughter were to inherit a house or a business valued at \$1 million, life insurance coverage could be purchased to provide her siblings with \$1 million each in compensatory cash. This kind of planning is done day-in and day-out by estate planning attorneys.

How Does an Agent Find an Elder Law Attorney?

Two websites can be particularly useful. Both allow you to look up attorneys within a certain mile radius of a particular zip code. One is the National Academy of Elder Law Attorneys, which can be found at www.NAELA.org. Another is Elder Law Answers, found at www.elderlawanswers.com.

My organization has found that when we focus on the overall problem of long term care planning, the LTC insurance sale is easier. That's why we've found it helpful to discuss caregiver contracts with both prospects and referral sources. We all know that people don't necessarily want to be sold a policy by an agent, but they want to know about important planning options, as well as other, objective solutions to long term care for their family members. If we are able to discuss solutions that are applicable in a care crisis, we have laid the groundwork for being a resource for our clients and our communities. As a referral source, we must keep abreast of not just LTC insurance developments, but other news and resources. An agent who leads with the topic of long term care planning rather than just LTC insurance may have an easier "foot in the door."

One of the reasons that my organization recommends talking about caregiver contracts is that it ties in with a unique prospecting tool we use that has no tie-in with LTC insurance. You can use this same strategy in your business, whether you use the same resource that we do or create your own alliances and resources locally and regionally. My business buys hundreds of access codes to COOL, which we use in prospecting and also at policy delivery. COOL, "CareOptions OnLine," is an online care and wellness advisor that helps clients deal with LTC crises, as well as plan advance directives, powers of attorney and caregiver contracts. COOL allows you to even help uninsurable family members. More than 1,200 employee groups have used COOL, and more than one million individuals, including almost 50,000 Wisconsin state employees and retirees, according to Bob Pearson, president of NavGate Technologies, the parent company of CareOptions OnLine.

If you choose not to use national solutions such as COOL, you can take a similar approach on a much smaller scale by being aware of the resources offered locally for families who are doing long term care planning or who are in crisis. Good sources are at your town hall, library (some have senior librarians) and even senior centers. Caregiver contracts and other long term care solutions can be very effective door openers to new clients and referral sources. Be the first agent in your area to bring up these solutions and see your production soar!

Author's Bio

Mike Lynch

Lynch is general manager at GoldenCare USA. He has more than 36 years experience in the insurance industry. Lynch received a BS from Marquette University, an MBA from the University of Wisconsin-Milwaukee, and is a licensed CPA in Wisconsin. He spent more than 10 years in personal insurance sales production, was CFO for Pioneer Life Insurance Company, COO for National Foundation Life Insurance Company, and from 1990 until joining GoldenCare in 2006, he was the VP and SVP of marketing for Aegon's Long Term Care Insurance Division in Bedford, TX. Lynch recently made a presentation at the AALTCI meeting on the use of cash benefit LTCI policies to fund family caregiver agreements as a way to market long term care insurance. Lynch can be reached at GoldenCare, 10700 County Road 15, Plymouth, MN 55441. Telephone: 800-842-7799. Email: MikeL@GoldenCareUSA.com.

**INSURANCE
PUBLICATIONS
INCORPORATED**



Online Continuing Education

powered by
WEBCE.COM

Copyright 2010 Insurance Publications, Inc. All rights reserved. The Copyright Act of 1976 prohibits the reproduction by photocopy machine or any other means of any portion of this issue except with the permission of the publisher. For permission to photocopy or to use material from Broker World magazine, please contact Sharon Chace.