Help your employees - for the long term

Using Long-Term Care & Disability Insurance to Attract, Retain & Reward Select Employees

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Allegiant Wealth Management

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Agenda

• Setting the Stage
• Why Disability and Long-Term Care are Important?
• How Employers Can Leverage DI & LTC Insurance to Attract, Retain & Reward Select Employees?
• Case Studies
Setting the Stage - Change

Setting the Stage – SS & Medicare

Will they be there for US?

- Social Security trust fund assets projected to be exhausted 2037\(^1\)

- Medicare trust fund projected to be exhausted in 2024\(^2\)

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1 Congressional Budget Office – 2011
2 2011 annual report of the boards of trustees of the federal hospital insurance and federal supplementary medical insurance trust funds
Setting the Stage – Savings?

**Personal Savings Rate**
Annual, % of disposable income

YTD 2012: 3.7%

Source: Leff PRM, J.P. Morgan Asset Management. Data includes households and nonprofit organizations. Right: PRM, J.P. Morgan Asset Management. Personal savings rate is calculated as personal savings (after-tax income – personal outlays divided by after-tax income. Employee and employer contributions to retirement funds are included in after-tax income but not in personal savings, and thus are not included in personal savings. Savings rate data as of May 2012. ©2012 Household Debt Service Ratio is a J.P. Morgan Asset Management estimate. All other data are as of 12/12. Data are as of 8/10/12.

Setting the Stage - Market

**Drawdown of Assets is a Real Risk**

Stocks are represented by the Standard & Poor’s 500®. S&P 500 Index is a widely recognized, unmanaged index representative of common stocks of larger capitalized U.S. companies.

Bonds are represented by the five-year U.S. government bond, inflation by the consumer price index and mutual fund expenses from Morningstar.

Annual investment expenses were assumed to be 0.83% for stock mutual funds and 0.64% for bond mutual funds. The inputs used by Morningstar are historical 1926-2010 figures. The data assumes reinvestment of income and does not account for taxes or transaction costs. An investment cannot be made directly in an index.

IMPORTANT: Projections generated by Morningstar regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Results may vary over time and with each simulation. This is for illustrative purposes only and not indicative of any investment. Individuals cannot invest directly in an index.

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Setting the Stage - Inflation

CPI and Core CPI
% change vs. prior year, seasonally adjusted

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI values shown are % change vs. 1 year ago and reflect May 2012 CPI data. CPI component weights are as of December 2011 and 12-month change reflects non-seasonally adjusted data through May 2012. Core CPI is defined as CPI excluding food and energy prices.
Data are as of 5/30/12.

Setting the Stage - Longevity

- 70,490 centenarians in 2009
- 600,000 projected by 2050

Setting the Stage - Savings

- Average retirement age 62
- Average length of retirement 18 years
- Average savings of a 50 year old $43,797
- Percentage of people ages 30-54 who believe they will not have enough money put away for retirement 80%
- Percentage of Americans over 65 who rely completely on Social Security 35%
- Percentage of Americans who don’t save anything for retirement 36%

Statistic Verification: Source: U.S. Census Bureau, Saperston Companies, Bankrate Date Verified: 2.7.2012

Setting the Stage - Cost

A couple retiring in 2018 will need approximately $325,000 to $1,064,000 to cover health care costs in retirement.

Setting the Stage – Income

Your earning potential to age 65 is substantial, even without considering annual increases.

<table>
<thead>
<tr>
<th>Age</th>
<th>$50,000</th>
<th>$75,000</th>
<th>$100,000</th>
<th>$150,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>$1,750,000</td>
<td>$2,625,000</td>
<td>$3,500,000</td>
<td>$5,250,000</td>
</tr>
<tr>
<td>40</td>
<td>$1,250,000</td>
<td>$1,875,000</td>
<td>$2,500,000</td>
<td>$3,750,000</td>
</tr>
<tr>
<td>50</td>
<td>$750,000</td>
<td>$1,125,000</td>
<td>$1,500,000</td>
<td>$2,250,000</td>
</tr>
</tbody>
</table>

For Many, the ability to earn money is their largest asset

Why is Disability Insurance Important?
Why Disability Insurance Is Important?

- Almost 1 in 4 of today’s 20 year olds will become disabled before reaching age 67*

- Almost 1 in 8 of today’s 20 year olds will die before reaching age 67*

Source: Social Security Administration, Fact Sheet 2010

Why Disability Insurance Is Important?

71% of American employees live paycheck to paycheck*

Those who do have group long term disability insurance through their employer may be unaware of its limitations.

Why Disability Insurance Is Important?

Disability Income Gap Example

<table>
<thead>
<tr>
<th>Retirement 401(k)</th>
<th>Income ‘GAP’ caused by a disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000 Bonus</td>
<td></td>
</tr>
<tr>
<td>$100,000 Salary</td>
<td>$112,500</td>
</tr>
<tr>
<td>Healthy Take Home Pay</td>
<td>$45,000 Net GLTD Benefit</td>
</tr>
</tbody>
</table>

Above chart assumes a 25% tax rate and a Group LTD plan paid for by the employer that provides 60% to $5,000 per month. “Retirement 401(k)” represents the value of plan contributions.

Why Disability Insurance is Important?

- **Source of Information**
  - Life Foundation

- **DI Self-Assessment**
  - Does your *personal* coverage protect your lifestyle and your families financial future?
  - How do you make retirement contributions when disabled?
Why Disability Insurance is Important?

- **Background - A research study presented by The American College and MassMutual**
  - Study Completed in 2010

- A phone-based data collection methodology was used to meet the study objectives.

- The sample frame for the study consisted of the 3,000 largest firms in the United States based on sales revenue.

- The sample list was purchased from Dun & Bradstreet and was augmented using the 401K Exchange and Hoovers.com databases to append contact information.
Most Plans Cover Only Base Salary At 60%

% of Employees' Base Salary Covered by Base GLTD Plan

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>60% or Less</th>
<th>51% to 90%</th>
<th>91% to 99%</th>
<th>70% to 100%</th>
<th>Other</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 500</td>
<td></td>
<td></td>
<td></td>
<td>57%</td>
<td>17%</td>
<td>2%</td>
<td>60%</td>
</tr>
<tr>
<td>501 to 1,000</td>
<td></td>
<td></td>
<td>17%</td>
<td>69%</td>
<td>6%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>1,001 to 2,000</td>
<td></td>
<td></td>
<td>11%</td>
<td>71%</td>
<td>16%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Smallest</td>
<td></td>
<td></td>
<td></td>
<td>68%</td>
<td>13%</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

Q1 6a: What is the percentage of employees’ base salary that is covered by your base long-term disability plan?

Variable Comp At Risk

Is Variable Compensation Covered By Base Plan?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>27%</td>
<td>73%</td>
</tr>
<tr>
<td>Largest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 500</td>
<td>27%</td>
<td>73%</td>
</tr>
<tr>
<td>501 to 1,000</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>1,001 to 2,000</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>Smallest</td>
<td>24%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Q2 1aa: Still thinking about your base plan, is variable compensation, such as bonuses or commissions, included in the income protected by your base long-term disability plan?
GLTD Premiums Mostly Paid For By Employers

Employee Contribution % to Base Plan Premium

- Zero
- 1% to < 100%
- 100%
- Other

<table>
<thead>
<tr>
<th>Category</th>
<th>Zero</th>
<th>1% to &lt; 100%</th>
<th>100%</th>
<th>Other</th>
<th>&lt;1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>68%</td>
<td>10%</td>
<td>22%</td>
<td>&lt;1%</td>
<td></td>
</tr>
<tr>
<td>Largest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 500</td>
<td>63%</td>
<td>12%</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>501 to 1,000</td>
<td>74%</td>
<td>4%</td>
<td>20%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>1,001 to 2,000</td>
<td>63%</td>
<td>10%</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smallest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,001 to 3,000</td>
<td>72%</td>
<td>13%</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q1.2a: What percent of the premiums for the base long-term disability plan are paid for by the employee?

Maximum Benefit Amount $10,000+ At 61% Of Companies

Larger companies tend to provide a higher maximum benefit amount.

Maximum Monthly Benefit Amount for Base Plan

- < $5K
- $5K to < $10K
- $10K to < $15K
- $15K to < $20K
- $20K +

<table>
<thead>
<tr>
<th>Category</th>
<th>&lt; $5K</th>
<th>$5K to &lt; $10K</th>
<th>$10K to &lt; $15K</th>
<th>$15K to &lt; $20K</th>
<th>$20K +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>12%</td>
<td>27%</td>
<td>33%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Largest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 500</td>
<td>7%</td>
<td>16%</td>
<td>23%</td>
<td>22%</td>
<td>32%</td>
</tr>
<tr>
<td>501 to 1,000</td>
<td>1%</td>
<td>22%</td>
<td>40%</td>
<td>22%</td>
<td>12%</td>
</tr>
<tr>
<td>1,001 to 2,000</td>
<td>11%</td>
<td>32%</td>
<td>32%</td>
<td>18%</td>
<td>7%</td>
</tr>
<tr>
<td>Smallest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,001 to 3,000</td>
<td>20%</td>
<td>31%</td>
<td>35%</td>
<td>8%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Q1.7a: What is the maximum benefit amount per month of your base group long-term disability plan?
25% Offer Employees “Buy-up” Coverage Within Group Plan

- The largest companies are somewhat more likely to offer buy-up coverage compared to “smaller” firms.

| Do You Offer Buy-Up Coverage Available Through GLTD Program? |  
|--------------|--------|--------|
|               | Yes, To All Employees | Yes, To Select Employees | Not Offered |
| **Total**     | 19%    | 5%     | 75%     |
| **Largest**   | 27%    | 3%     | 70%     |
| Top 500       | 27%    | 2%     | 71%     |
| 501 to 1,000  | 16%    | 8%     | 77%     |
| 1,001 to 2,000| 16%    | 6%     | 78%     |
| Smallest      | 16%    | 6%     | 78%     |

Q2.3: Do you offer “buy-up” coverage that is available through the group long-term disability program to all employees, some employees, or to none of your employees? This does not include any supplemental individual long-term disability plans that you may offer.

Half Of Companies Aren’t Advised Of Executive Shortfalls

Benefits Provider Has Discussed The Fact That Base Plan Doesn’t Fully Cover Executives
Base: Offer Buy-Up Coverage

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>53%</td>
</tr>
</tbody>
</table>

22% say they have plans to talk to their benefits provider about Base Plan not covering executives.

Q2.12: Has your benefits provider discussed with you that your base long-term disability program doesn’t fully cover employees who have income in excess of the group base plan limits?
Q2.13: Do you currently have plans to talk to your benefits provider about your concerns?
* Caution: Base size is less than 50.
**Example: Challenge of the Highly Compensated**

<table>
<thead>
<tr>
<th>Employee</th>
<th>Earning $50,000</th>
<th>Total Income Replaced: 60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$20,000</td>
<td></td>
</tr>
</tbody>
</table>

*Income Replaced Through Group LTD*  
*Income Loss resulting from disability*

<table>
<thead>
<tr>
<th>Executive</th>
<th>Earning $200,000</th>
<th>Total Income Replaced: 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$140,000</td>
<td>$60,000</td>
<td></td>
</tr>
</tbody>
</table>

*Income Replaced Through Group LTD*  
*Income Loss resulting from disability*

**Total Income Replaced:**  
**60%**  
**30%**

*Example shown: Group LTD covers 60% of earnings up to $6,000 per month. For the disabled executive who had been earning $200,000 annually, the Group LTD policy provides insufficient income.*

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**Why is Long-Term Care Insurance Important?**
Why is Long-Term Care Insurance Important?

An estimated 70 percent of people who reach the age of 65 will need some form of LTC before they die.¹


Long term care defined:

- Long term care is a variety of services and support to help meet personal care needs over an extended period of time. Long term care may involve non-skilled personal care assistance, such as help performing everyday Activities of Daily Living (ADLs).
Activities of Daily Living (ADLs)

• Bathing
• Dressing
• Using the toilet
• Transferring (to or from bed or chair)
• Caring for incontinence
• Eating

Where do people receive long term care?

• In their homes
• Community-based care
• Adult day care centers
• Assisted living facilities
• Nursing homes
Why is Long-Term Care Insurance Important?

Annual Costs for Nursing Home Care in U.S.

$61,503 /yr.

Source: The Genworth Cost of Care Survey 2011, conducted by CareScout®.
1 Figures above are median values to private rooms.

Long term care costs:
National averages

<table>
<thead>
<tr>
<th>Nursing home (private room)</th>
<th>Home health aide</th>
</tr>
</thead>
<tbody>
<tr>
<td>$87,235/year</td>
<td>$21/hour</td>
</tr>
<tr>
<td>$7,270/month</td>
<td></td>
</tr>
<tr>
<td>$239/day</td>
<td></td>
</tr>
</tbody>
</table>

Why is Long-Term Care Insurance Important?

- The total estimated cost to employers for full-time employees with intense care giving responsibilities is $17.1 billion*
- The long term care needs of employees or their families combined with the emotional and financial burdens of a caretaker can have a substantial impact on the employee’s productivity.

*The MetLife Caregiving Cost Study: Productivity Losses to U.S. Business
MetLife Mature Market
Institute® National Alliance for Caregiving July 2006.

How Employers Can Leverage DI & LTC Insurance to Attract, Retain & Reward Select Employees?
Definition of Disability

Know what your plan defines as "disabled" and how it treats your occupation or ability to earn money at claim time!

TAKE TIME TO REVIEW THIS

Simply…As a Selective DI Benefit

Possible Selection Criteria:

1. Tenure
2. Pay
3. Job Title
The Solution to Reverse Discrimination: The Combo DI Plan….

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Better</th>
<th>Best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group LTD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Most employers offer Group LTD. It is an expected and unappreciated benefit and, most importantly, provides insufficient coverage to your key employees.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Individual DI |         |        |      |
| Highly compensated employees need special coverage but, unless offered by their employers, pay retail prices to buy it on their own. |

| Combo Plan |         |        |      |
| By combining both Group LTD and Individual DI, employers provide a needed, cost-effective and appreciated benefit to their executives |

Why a Supplemental DI Plan? To Overcome Group Limits. . . .

An individual supplemental policy:
- May be owned by the employee but paid for by the employer – employer paid benefit
- May not be cancelled by the insurance company and can be PORTABLE
- May provides a highly compensated EE “own-occupation” definition of disability;
- May include a Cost of Living Adjustment (COLA); or make retirement plan contributions
- Can provide for a partial disability benefit should the executive’s earnings be less after returning to work than prior to becoming disabled
**The Combo Plan… In Action**

**Employee**
Earning $50,000
Total Income Replaced: 60%

- $30,000
- $20,000
- $20,000

Total Income Replaced: 60%

*Can be higher or lower as required*

**Executive**
Earning $200,000
Total Income Replaced: 75%

- $90,000
- $60,000
- $50,000

*Note: Table reflects a 5A, 3+ Multi-Life, Employer-pay case*

**Example: Supplemental DI Provides More For the Executive.**

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Monthly income including Bonus</th>
<th>Existing Group LTD Coverage (60% to a max of $6,000)</th>
<th>Monthly Income Protected</th>
<th>Proposed Executive Supplemental DI</th>
<th>Proposed Monthly Income Protected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive A</td>
<td>$10,147</td>
<td>$6,000</td>
<td>59%</td>
<td>$1,610</td>
<td>75%</td>
</tr>
<tr>
<td>Executive B</td>
<td>$12,500</td>
<td>$6,000</td>
<td>48%</td>
<td>$3,375</td>
<td>75%</td>
</tr>
<tr>
<td>Executive C</td>
<td>$11,988</td>
<td>$6,000</td>
<td>51%</td>
<td>$2,900</td>
<td>75%</td>
</tr>
<tr>
<td>Executive D</td>
<td>$13,085</td>
<td>$6,000</td>
<td>43%</td>
<td>$4,414</td>
<td>75%</td>
</tr>
<tr>
<td>Executive E</td>
<td>$27,942</td>
<td>$6,000</td>
<td>21%</td>
<td>$14,957</td>
<td>75%</td>
</tr>
</tbody>
</table>

*Excludes FL, GA, Puerto Rico*
Leveraging Long-Term Care Ins.

1. Helps protect employee’s assets and retirement plan
2. Helps provide the dollars for quality long term care i.e. home health care, assisted living
3. Employee discount may extended to family members – can be substantial
4. Helps relieve emotional and financial burden on caretakers
5. Coverage can be portable
6. Potential tax benefits - deductibility of premiums as benefits
7. Possibility of “partnership” eligibility with state

Coverage options

- Executive carve-out
- Voluntary benefit
- Employer-paid coverage
Tax advantages

- To employees
  - Premiums may be tax deductible if paid by employee – consult your tax advisor
- To the business
  - May be considered an expense for the business - cyta

LTC Benefits to your employees

- Helps protect assets
- Employee discount extends to family members
- Can provide two discounts at the employer and family level
- Potential tax advantages
- Coverage is portable
In Conclusion: 
By Maximizing Your Suite of Benefits

- *Retain top employees*
  - Less Attrition = Lower Recruiting Costs
- *Attract new employees*
  - Reduced Recruiting Costs
- *Promote Financial Health in the Organization*
  - Better Focus, Quality of Care, Upbeat EEs

**TAKE THE TIME TO REGULARLY REVIEW YOUR BENEFITS TO DIFFERENTIATE YOUR ORGANIZATION !!!**

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**Thank You!**

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