

## **Life Insurance with Long Term Care Riders**

*As conventional LTC policies grow costlier, alternatives have emerged.*

**The price of long term care insurance is really going up.** If you are a baby boomer and you have kept your eye on it for a few years, chances are you have noticed much costlier premiums for LTC coverage today compared to several years ago. For example, in 2015 the American Association for Long-Term Care Insurance found that married 60-year-olds would pay \$2,170 annually to get a total of \$328,000 of coverage.<sup>1</sup>

As CNBC notes, about three-quarters of the insurers that sold LTC policies ten years ago have stopped doing so. Demand for LTC coverage will only grow as more baby boomers retire – and in light of that, insurance providers have introduced new options for those who want to LTC coverage.<sup>1</sup>

**Hybrid LTC products have emerged.** Some insurers are structuring “cash rich” whole life insurance policies so you can tap part of the death benefit while living to pay for long term care. You can use up to \$330 a day of the death benefit under such policies, with no reduction to the cash value. Other insurance products are being marketed featuring similar potential benefits.<sup>2</sup>

This option often costs a few hundred dollars more per year – not bad given that level annual premiums on a whole life policy with a half-million or million-dollar payout often come to several thousand dollars. The policyholder becomes eligible for the LTC coverage when he or she is judged to require assistance with two or more of six daily living activities (dressing, bathing, eating, etc.) or is diagnosed with Alzheimer’s disease or some other kind of cognitive deficiency.<sup>2</sup>

This way, you can get what you want from one insurance policy rather than having to pay for two. Contrast that with a situation in which you buy a discrete LTC policy but die without requiring any long term care, with the premiums on that policy paid for nothing.

**The basics of securing LTC coverage applies to these policies.** As with a standard LTC policy, the earlier you start paying premiums for one of these hybrid insurance products, the lower the premiums will likely be. You must pass medical underwriting to qualify for coverage. The encouraging news here is that some people who are not healthy enough to qualify for a standalone LTC insurance policy may qualify for a hybrid policy.<sup>3</sup>

**These hybrid LTC products usually require lump sum funding.** An initial premium payment of \$50,000 is common. Sometimes installment payments can be arranged in smaller lump sums

over the course of a few years or a decade. For a high net worth individual or couple, this is no major hurdle, especially since appreciated assets from other life insurance products can be transferred into a hybrid product through a 1035 exchange.<sup>1,3</sup>

**Are these hybrid policies just mediocre compromises?** They have detractors as well as fans, and the detractors cite the fact that a standalone LTC policy generally offers greater LTC coverage per premium dollar paid than a hybrid policy. They also cite their two sets of fees, per their two forms of insurance coverage. While it is possible to deduct the cost of premiums paid on a conventional LTC policy, hybrid policies allow no such opportunity.<sup>3</sup>

Paying a lump sum premium at the inauguration of the policy has both an upside and a downside. You will not contend with potential premium increases over time, as owners of stock LTC policies often do; on the other hand, the return on the insurance product may be locked into today's (minimal) interest rates.

Another reality is that many middle-class seniors have little or no need to go out and buy a life insurance policy. Their heirs will not face inheritance taxes, because their estates aren't large enough to exceed the federal estate tax exemption. Moreover, their children may be adults and financially stable themselves; a large death benefit for these heirs is nice, but the opportunity cost of paying the life insurance premiums may be significant.<sup>4</sup>

Cash value life insurance can be a crucial element in estate planning for those with large or complex estates, however – and if some of its death benefit can be directed toward long term care for the policyholder, it may prove even more useful than commonly assumed.

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**Citations.**

1 - [cnbc.com/2015/08/07/fer-more-products-that-cover-long-term-care-costs.html](http://cnbc.com/2015/08/07/fer-more-products-that-cover-long-term-care-costs.html) [8/7/15]

2 - [consumerreports.org/cro/news/2015/04/get-long-term-care-from-whole-life-insurance/index.htm](http://consumerreports.org/cro/news/2015/04/get-long-term-care-from-whole-life-insurance/index.htm) [4/16/15]

3 - [tinyurl.com/o3ty2j3](http://tinyurl.com/o3ty2j3) [5/4/14]

4 - [marketwatch.com/story/hedging-your-bets-on-long-term-care-2013-11-06](http://marketwatch.com/story/hedging-your-bets-on-long-term-care-2013-11-06) [11/6/13]