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Life Insurance Products with Long-Term Care Riders

Are they worthwhile alternatives to traditional LTC policies?

Provided by Robert W. Bruner

The price of long-term care insurance has really gone up. If you are a baby boomer and you have kept your eye on it for a few years, chances are you have noticed this. Last year, the American Association for Long-Term Care Insurance (AALTCI) noted that married 60-year-olds would pay between $2,000-3,500 annually in premiums for a standalone LTC policy.[1]

Changing demographics and low interest rates have prompted major insurers to stop offering LTC coverage. As the AALTCI notes, the number of LTC policies sold in this country fell from 750,000 in 2000 to 105,000 in 2015. Today, only about 15 insurers offer these policies at all. The demand for the coverage remains, however – and in response, insurance providers have introduced new options.[1,2]

Hybrid LTC products have emerged. Some insurers offer "cash rich" permanent life insurance policies that let you tap part of the death benefit to pay for long-term care. Other insurance products feature similar potential benefits.[1,2]

As these insurance products are doing "double duty" (i.e., one policy or product offering the potential for two kinds of coverage), their premiums are costlier than that of a standalone LTC policy. On the other hand, you can get what you want from one insurance product, rather than having to pay for two.[3]

Another nice perk offered by these hybrid LTC products: sometimes, insurers guarantee that the premiums you pay will never rise. (Many retirees wish that were the case with their traditional LTC policies.) Whether the premiums are locked in at the initial level or not, the death benefit, coverage amount, and cash value are all, commonly, guaranteed.[3]

Hybrid LTC policies provide a death benefit, a percentage of which will go to your heirs. Do traditional LTC policies offer a death benefit? No. If you buy a discrete LTC policy, but die without needing long-term care, all those LTC policy premiums you paid will not return to you.[3]

The basics of securing LTC coverage applies to these policies. The earlier in life you arrange the coverage, the lower the premiums will likely be. If you are not healthy enough to qualify for a standalone LTC insurance policy, you might qualify for a hybrid policy – sometimes no medical exam is required. The LTC insurance benefit may be used when a doctor certifies that the policyholder is unable to perform two or more of the six activities of daily living (eating, dressing, bathing, transferring in and out of bed, toileting, and maintaining continence).[4,5]

These hybrid LTC policies usually require lump-sum funding. A single premium payment of $75,000-$100,000 is not unusual. 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.[2,3,4,6]

Are these hybrid policies just mediocre compromises? They have critics as well as fans. Detractors cite their two sets of fees per their two forms of insurance coverage. They also point out that hybrid LTC policies are not inflation protected, so the insurance benefit is worth less with the passage of time. Also, while the premiums paid on conventional LTC policies are tax deductible, premiums paid on these hybrid policies are not.[3]

Funding the whole policy up front with a single premium payment 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 low interest rates.

Another reality is that many middle-class seniors have little or no need to buy a life insurance policy. Their heirs will not face inheritance taxes, because their estates will not 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.

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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