Hybrid Long-Term Care Policies Provide Cash and Leave Some Behind

By JOHN F. WASIKMARCH 4, 2016

Photo

There's a good reason to have long-term care coverage in your wealth management plan. If you need to go to a nursing home, it can cost more than $90,000 a year for a private room, according to a survey by Genworth Financial, an insurance company. The costs, especially for longer stays because of Alzheimer's disease, can deplete your estate.

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The financial impact of prolonged long-term care expenses concerned Brian Cassell, 55, a veterinarian in Denver, and his wife, Linda. Although they had looked at several stand-alone policies for long-term care, they didn't like them because they were expensive and the premiums could rise. They wanted something more flexible.

Working with financial planners, the Cassells looked at a relatively new option, hybrid policies that package coverage for long-term care with a universal life insurance policy or a fixed annuity. Such products can be tapped for reasons other than long-term care and even passed on to heirs, although the amount available for other uses is reduced if you use the hybrid to pay for long-term care.

The Cassells decided on a universal life policy that included long-term care coverage. They paid a $97,000 lump sum with a fixed $4,800 annual premium. Unlike conventional policies for long-term care, theirs allowed them to tap into all the money

paid in after seven years for any reason. The money grows with interest and is invested.

“It’s a triple threat,” Dr. Cassell said, “because it could be viewed as a fixed-income investment, cover long-term care and provide a life insurance benefit.”

Sales of such hybrid or combination products have more than doubled since 2008 to more than $2.4 billion last year, according to Limra, an insurance industry research group. In comparison, $300 million in stand-alone policies for long-term care are sold annually, which are now actively sold by only 16 insurers, compared with nearly 100 a decade ago, as companies face higher costs and drop out of the market.

A hybrid policy for long-term care works by keeping a certain amount of cash within the policy.

The cash can later be used to pay for long-term care benefits. For a hybrid life plan, for example, you may pay a single premium of $100,000 and be entitled to $400,000 in payments for long-term care after a certain period. Many hybrid plans have such so-called surrender periods that put the money off limits for a certain number of years. A penalty is imposed if the money is withdrawn during that period.

Kevin Couper, a certified financial planner with Sontag Advisory in New York, says he recommends hybrid policies for clients with $3 million to $4 million in total assets, if they are seeking insurance for long-term care. With this kind of insurance, though, the insurance company gets quite a bit of cash upfront. Once you pay into a policy, the insurance company will be holding and managing the money, and it may be difficult to get it out in the short term because of surrender fees.

“Not all of my clients can write a $100,000 check,” said Kristi Sullivan, a certified financial planner in Denver, who advised the Cassells. “It’s not for everybody.” She said clients with $500,000 to $2 million in assets should consider the policies. Above

those thresholds, it's possible to self-insure, or cover the costs out of pocket. Below that range, clients could spend down their assets to eventually qualify for Medicaid.

Hybrid long-term care plans can become complicated and, given their varying features, it is hard to compare their value with traditional long-term care coverage. And you can be denied coverage — a difference from standard health insurance.

Insurers will carefully review your medical history for chronic diseases like diabetes and acute events like strokes. Such so-called health underwriting is an obstacle for those who may need long-term care insurance the most, particularly those with a family history of dementia, debilitating maladies or Alzheimer's disease.

Before deciding on a hybrid policy, you'll need to consider: Do you need monthly income? If so, you should lean toward an annuity. Does a spouse or partner need coverage? Do you need a death benefit for survivors? How long must you wait for access to the money in the policy?

Many insurance products may have riders that provide features like accelerated benefits, which allow policyholders to tap the cash in the policy before death, or coverage for chronic conditions. But you will certainly pay more for policies with riders than for conventional stand-alone life or annuity products.