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Hybrid life-LTC policies are a hit among advisers

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Scarce options in traditional LTC insurance bring hybrids to the fore

Hybrid products that combine life insurance and long-term-care benefits are getting their time in the sun among financial advisers.

The marketplace for traditional long-term-care coverage has shrunk considerably in recent years as carriers contend with low interest rates, which hurt the returns insurers earn on their bond portfolios, and longer life expectancy among the insured. The 1-2 punch of low rates and longer lives has led insurers to raise premiums on in-force business and come up with innovative ways to help clients handle those necessary premium increases.

Advisers and insurers are hoping to sidestep those problems for some of their clients through the use of products that combine life insurance with some long-term-care features.

“If the client simply needs long-term-care coverage and has no need for life insurance, we look

at traditional long-term-care insurance," said Gregory L. Olsen, partner at Lenox Advisors."But if they can benefit from a life insurance policy, say if they have children who might benefit from an inheritance, then the hybrid makes sense."

"People like the fact that when you present it, there is no way to lose on the policy," he added.

Mr. Olsen isn't alone.

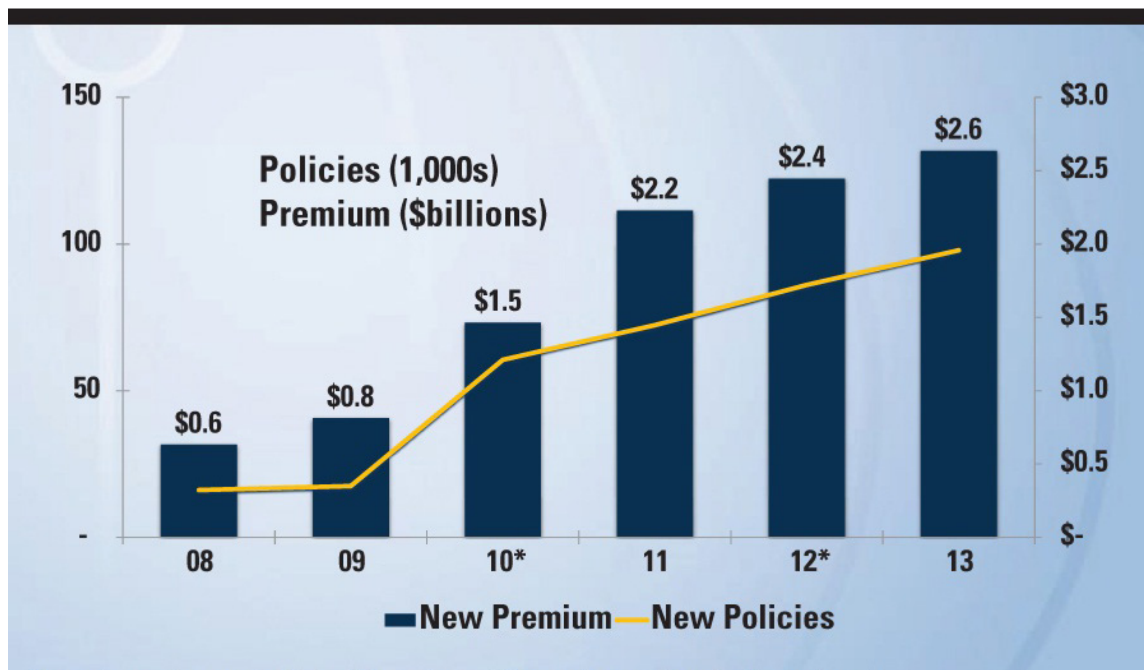
"We have for some time preferred the additional flexibility and dual uses of hybrid products," said Judson Forner, director of investment marketing at ValMark Securities Inc. "The reason, first and foremost, is the rate increases we're seeing on traditional long-term-care insurance and the traditional players exiting the market."

(More: Traditional long-term-care insurance providers, ranked by the number of policies sold in 2013)

HYBRID LIFE FOR CARE NEEDS

First, advisers need to make the distinction between the different flavors of hybrid life policies. Cathy Ho, research actuary at Limra's insurance product department, points to two major varieties: long-term-care coverage and chronic illness.

The distinction between the two is based on how they're viewed in the eyes of the tax code. Long-term care riders are defined as qualified long-term-care insurance contracts under Section 7702B in the tax law. When an LTC rider is considered qualified, benefits that are paid from the contract are not included in gross income; they are considered excludable accident and health expenses.

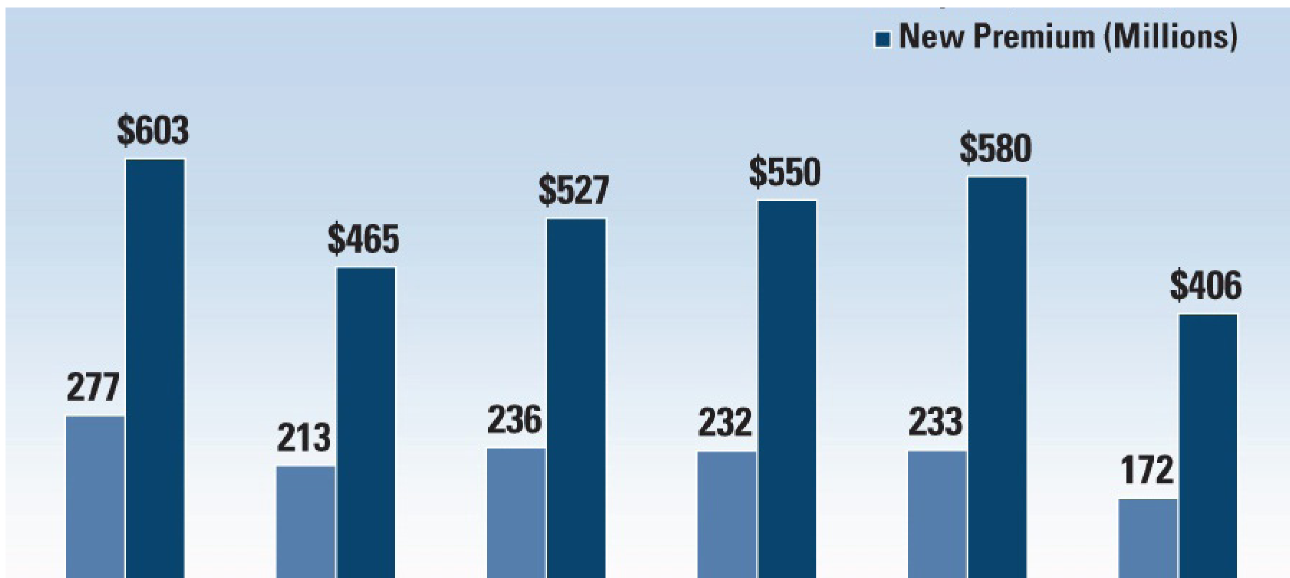


Chronic illness riders aren't necessarily considered LTC products. They're classified only under Section 101(g) in the tax law as "certain accelerated death benefits." State insurance regulations typically require that a doctor certify that the client's chronic condition is going to last the

remainder of his or her life. Meanwhile, products with LTC riders don't require that the client's condition be non-recoverable.

"[Accelerated benefit riders] require a permanent condition as opposed to something that might be a broken hip, surgery or something that requires a limited nursing home stay," said Chip Chatlain, an advanced sales attorney with Lincoln National. The insurer is the manufacturer of the MoneyGuard line of universal life and long-term-care products.

Depending on the product, the payments can come from either the product's cash value or from the death benefit, notes Andrew Edelsberg, a vice president at A.M. Best, an insurance ratings firm.



When it comes to the payment of the benefits, the amount of money going toward long-term-care needs can be two to three times the amount of the death benefit, Mr. Chatlain said.

TRADITIONAL VS. HYBRID PREMIUMS

Premiums for long-term-care insurance in 2012 were $580 million, compared with $2.3 billion for hybrid life insurance policies, according to Ms. Ho at Limra. But she pointed out that the premium payments themselves are different because of the ways the policies are funded.

For one thing, traditional LTC is generally funded with steady ongoing payments, while hybrid policies are funded with lump sums. There are versions of both products that allow clients to pay down the policy over the course of 10 years.

The average policy premium was $2,400 for a standalone LTC policy in 2012 for an estimated total maximum benefit of $400,000, according to Ms. Ho. Hybrid policies, meanwhile have an average premium just shy of $7,000 with a total maximum amount of coverage of around $320,000.

Hybrid products cost more because clients are in fact getting two products and will be receiving a payout, either in the form of a death benefit or through the use of long-term-care benefits.

“It’s based on the nature of two products: you pay extra premiums because if you don’t use the LTC benefit, you get the death benefit,” Ms. Ho said.

As far as payment of benefits, however, hybrid products are new enough that few advisers have clients who’ve tapped them for LTC needs.

POPULARITY OF TRADITIONAL LTCI

Despite the “two-fer” value proposition that hybrids offer, traditional LTCI has its fans. Not only is this because the total LTCI benefits can be larger compared to a hybrid product, but because clients can take advantage of state programs that encourage them to obtain coverage.

A handful of states partake in a long-term-care partnership, which allows purchasers to buy LTCI coverage in exchange for retaining their assets under the Medicaid program if their needs outweigh the policy’s coverage.

Further, some say that it’s simply easier to get into the insurer’s pocket when the time comes for claims.

“With hybrids, you’re using your money [during the claim], it’s off set from the death benefit,” said Marty Puin, an insurance agent at an eponymous firm in Lyndhurst, Ohio. “With traditional LTC insurance, you’re using the insurer’s money.”

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