Financial Planning

New Combo Policies Offer Long-Term Care Option

By Bruce W. Fraser
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As traditional long-term care coverage continues to lose ground -- due to escalating premiums, greater numbers of claims, lower returns and lower mortality rates -- a new set of insurance products has been gaining ground.

Unlike most traditional long-term care policies, this new series of so-called "combo" products offers living benefits beyond a mere death benefit. These combination or hybrid products package long-term care coverage with a life insurance policy or annuity-like product, providing for critical, chronic or terminal illness along with a death benefit.

"They pay the benefit when the insured needs it the most," says Steve Shorrock, president of LifeVentures, a consulting firm in Northport, N.Y. "If you die prematurely, the death benefit is paid to your beneficiaries, and if you live too long it can be accelerated to offset the expense of chronic, critical or terminal illness."

As these combo products are making steady inroads with wealth managers, financial advisors, CPAs, attorneys, actuaries and others, traditional LTC coverage is now being written by only a few providers.

"They give clients the ability to spend premium dollars on policies that they can use one way or another," says Lee Conti Jr., director of advisor development at CPS Elite Advisors Insurance Services in Mamaroneck, NY. "It allows them to better leverage existing annuities or reposition life premium payments and cash value into contracts that fill more than one need."

PRODUCT OPTIONS

Here's how the most common combo products work:

Life insurance hybrids: Over the past few years, many life insurance companies have expanded their product lines to offer the ability to accelerate the death benefit if needed for a chronic, critical or terminal illness. Even though there are many flavors in the market today, this particular product provides the ability to use your death benefit as a living benefit.

Its standard requirements are similar to long-term care insurance: To qualify for the acceleration of the death benefit, a client must be unable to perform at least two out of six of the activities of daily living (bathing, dressing, eating, transferring, continence or toileting). The policy has an either/or dimension: It can be used as either a death benefit or a living benefit for chronic, critical or terminal care. If the long-term care costs much less than the death benefit, the remaining amount of money would then be paid out to the beneficiary. And like long-term care insurance, the benefit can be paid tax-free in either case.

Annuity combo products: Like life insurance combo products, annuity combo products come in various structures with different approaches. The base plan used as a platform for a combination deferred annuity, for example, could be a fixed annuity -- which accounts for the vast majority of the market -- or an equity-indexed annuity.

Annuity/long-term care products' payout structure typically begins with an accelerated benefit, with long-term care payments made from the annuity account value without surrender charges. There are various types of enhancements that may cover care costs, depending on whether the root product is a variable annuity or a fixed annuity combined with a long-term care rider. The benefit is paid monthly and usually expressed as a percent of the annuity account value at the time of initial claim.

Annual pay life/long-term care products: Unlike a lot of the products advisors are familiar with, which involve a single upfront premium of $100,000 or $200,000, these hybrid products allow the client to pay annually instead of in a large lump sum. They also offer access to a larger amount of dollars for long-term care than the single-premium hybrid product. Although they tend to be neglected, they offer one big advantage for clients, according to Conti: the ability to spread out payments over a longer period, from purchase to utilization.

When looking at these policies, Conti says, advisors should focus on three factors: long-term care or critical illness riders, base life contract type, and whether the premium is waived when on claim. Another significant decision: whether to use a fixed universal life policy as the base policy, a guaranteed universal life rider to guarantee the premium never increases, or a whole life base. An ideal contract for some might include a GUL rider, so the premium doesn't increase, with a special LTC rider or indemnity, and includes a waiver of premium while on claim.

Yet these policies do have some major disadvantages, Conti says: They cost more than traditional long-term care policies; they don't have inflation riders; and the monthly maximum allowable benefit that can be drawn down from the policy for most contracts is tied to Health Insurance Portability and Accountability Act per diem limits.

Among the major providers of various combo products are Nationwide, AXA, National Life Group, Minnesota Life, North America Life Insurance, John Hancock, Symetra, Security Benefit, Athene and American Equity.

SHARP GROWTH

Although in the early stages of development and still largely unknown, combo products are nevertheless starting to make waves in the staid insurance industry. Sales numbers point to steady growth. Sales of traditional long-term care policies fell 23% to 233,000 in 2012 from 303,000 in 2007, according to insurance trade group LIMRA, while hybrid sales have risen sharply, to 86,000 from 15,000 over the same time period.

"Baby boomers want LTC-type coverage, but don't want to pay premiums and never receive LTC benefits," says Mark Brownstein of Asset Marketplace in Nyack, N.Y. Brownstein, who is also chairman of the FPA of the Greater Hudson Valley, says he is now recommending combo products alongside traditional long-term care coverage.

The big advantage of the hybrid products, according to advisor Curt Knotick, CEO of Accurate Solutions Group in Butler, Pa., is "they all provide "some type of protection, in the event of needing LTC care in the future. But if the LTC isn't needed, their premiums are not being thrown away."

Another reason for their popularity: "You don't have to give up much in the base benefit, often less than 10%, in order to get an enhanced income benefit for LTC needs," notes Glenn Daily, an independent fee-only life insurance and annuity advisor in New York. "It allows a broader group of people to gain access."

HIGHER RATES

One drawback of combo products is that some cost more than traditional LTC -- but advisors say that price is offset by the greater benefits paid.

"Clients are gravitating toward these products because they provide a 'use it or use it approach," says Conti, instead of the "use it or lose it" challenge of traditional long-term care policies.

The guaranteed payoff is appealing, Conti says, for the same reason that some policy holders have chosen permanent life insurance over term life: "As long as clients know they are going to get something for certain, they are willing to pay the extra money."

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