Combination Long-Term Care Insurance Products

Whether you sell life insurance, annuities, disability income, or health insurance, it is not difficult to transition to long-term care insurance because of its power to fill a financial planning gap. If you sell life insurance or annuities, perhaps you’d feel better if the product solution you present to solve a long-term care financial issue was—life insurance or an annuity.

Consumer preferences must also be considered. In this age of consumerism, your product needs to have some demonstrated value to the end-user or chances of purchase will drop dramatically. Yet insurance is an intangible product, a packet of paperwork that springs to life only during a claim. Consumers want to know what they get for their money *if they never need long-term care*…

Many people continually highlight what they feel are the disadvantages of individual long-term care insurance, including: 1) it is relatively expensive; 2) that there is a possibility that rates will increase in the future; 3) the policy cannot accumulate cash value; and 4) there are generally few benefits if the insured doesn’t file a claim.

For these reasons, some financial gurus have encouraged consumers to avoid individual long-term care insurance as the funding vehicle for uninsured long-term care expenses. Instead, they often recommend buying more life insurance or an annuity and raiding its value (through withdrawal or loan) should the need to finance long-term care expenses arise.

The insurance industry may move slowly, but it does listen. A large proportion of long-term care policies are sold each year by nonspecialists. Flummoxed by objections (“What if we never need it?”), producers turned to insurers for help, who responded by making riders available on life and annuity policies which negated the objection.

We make the distinction *nonspecialists* since it has been observed that producers who excel at combination product sales are mutually exclusive from those who excel at long-term care insurance sales, as a rule of thumb.[[1]](#endnote-1) (Of course there are exceptions! After all, some agents can sell anything you put in front of them, from insurance to copiers to vacuums.) But according to LIMRA, most combo products were sold in 2012 by banks and savings institutions.[[2]](#endnote-2)

We know from experience that the sale itself is qualitatively different: generally speaking, LTC insurance requires collecting a detailed medical history and asking for premium at the end of the presentation (ranging from a couple hundred dollars to a few

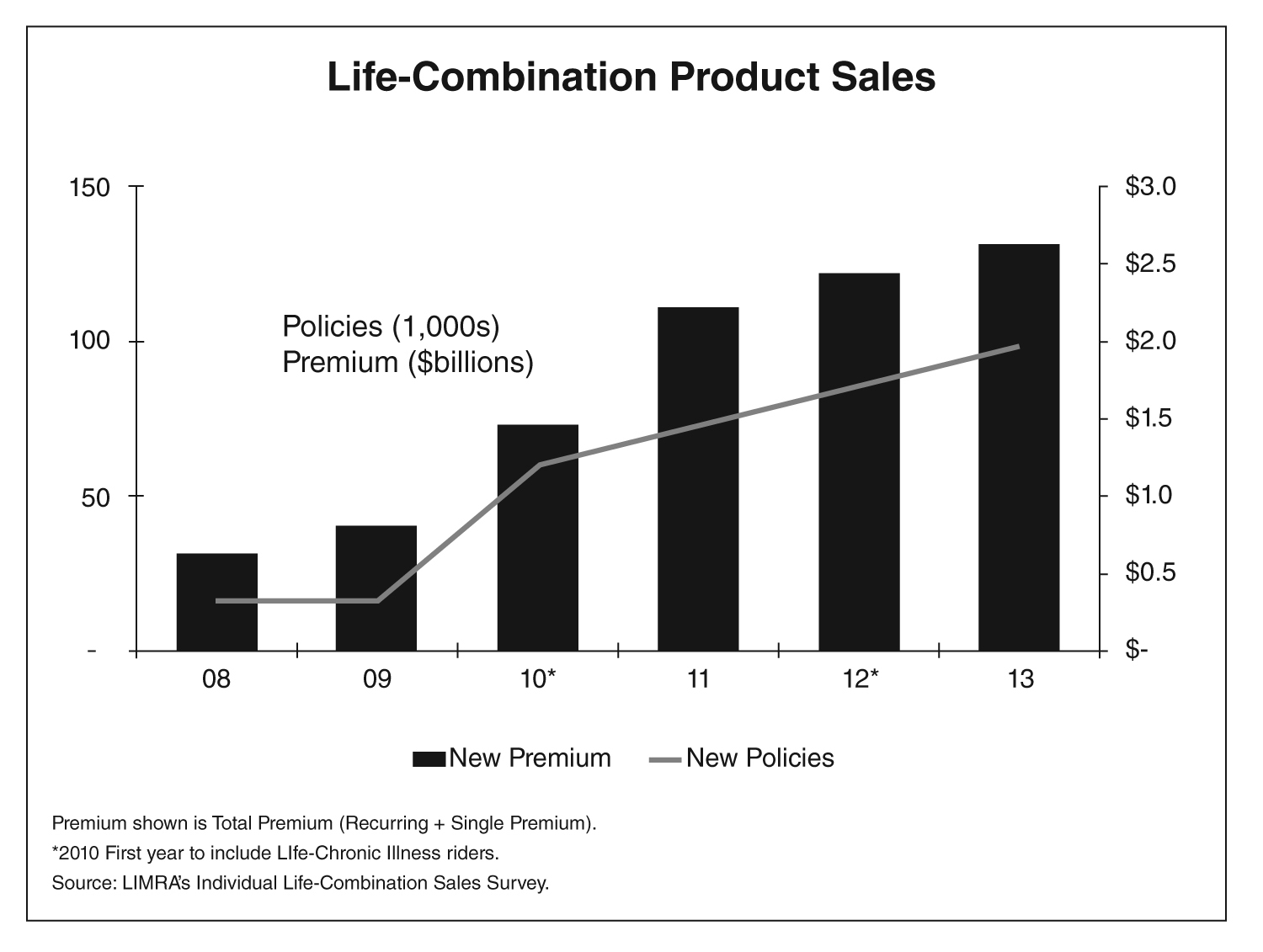
Combination Long-Term Care Insurance Products

thousand[[3]](#endnote-3)). By contrast, while combo products require the collection of only limited health history on the part of the agent, they are often described as “*transactional*”—that is, instead of asking for money, the agent is only asking to *move* it (for example, transferring five or six figure sums from “the left pocket to the right”.) This might be routine for a money manager, trader or financial planner, but intimidating for a dyed-in-the-wool LTC agent.

For the last few years, the growth in combo products (also called linked-benefit, hybrid, or asset-based) has doubled[[4]](#endnote-4). Having said that, when something starts very small, it is easy to double in size, as an embryo doubles repeatedly. As a fully-grown adult, can you imagine doubling in size? Of course not, which is why comparisons to a mature long-term care industry are irrational (yet frequently made).

Figure 1 displays the strong growth in life-combination products between 2008 and 2013 in both premium volume and policy count.[[5]](#endnote-5) If one were to draw a comparison between long-term care insurance sales and combination product sales, it might be best to do so on the basis of policy count. After all, most long-term care insurance is funded by regular, recurring lifetime payments; whereas—at least until recently—most combination products have been front-loaded with large single premiums. Only within the last few years have newer combination product designs encouraged recurring premiums (10-pay, 20-pay, lifetime, or some variation).

Figure 1

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Combination Long-Term Care Insurance Products

To be sure, combo products are not new. In fact, pioneers have been selling this type of dual product for more than fifteen years. Pairing life insurance with long-term care was done initially with Accelerated Death Benefit riders(ADB), which paid out a portion of the death benefit on a monthly basis if the policyholder met the definition of disability or was diagnosed with a specific condition likely to require long-term care. Such riders generally do not incur any charges unless they are invoked. The portion advanced is typically discounted to compensate for the interest the company losses due to early payout.

Primary categories of ADB include *terminal illness riders,* which advance a portion or all of the policy’s death benefit in the event your client is diagnosed with fewer than six, twelve or twenty-four months to live, *critical illness riders*, which are triggered due to conditions such as heart disease or cancer, *nursing home confinement* (where the institutionalization must be permanent) and *long-term care*, based on classic tax-qualified triggers.

This kind of solution was created to return something of tangible value to your clients whether they ultimately needed long-term care services or not. Both consumers and agents worry about spending money on long-term care insurance that is never used. There are many kinds of consumers; appropriately, there are many different ways to satisfy them and still meet their long-term care needs.

Advisors, too, may find themselves attracted to this approach because it: 1) uses another product chassis they feel more comfortable with; and 2) overcomes a primary objection to long-term care insurance itself, namely, “Where’s the value?”

The most prevalent of the combination policy forms is the pairing of life insurance with long-term care coverage. This program can be designed in two ways: long-term care insurance benefits independent of life insurance coverage or, as we’ve described, long-term care insurance benefits as an acceleration of the death benefit.

Acceleration of the death benefit is the more economical method to address the need for long-term care. In this case, an individual purchases, for example, a $300,000 death benefit. If the person needs long-term care and qualifies as chronically ill, then the policy will begin to advance a percentage of the death benefit each month. The insured elects the percentage at the time of application. The choice is usually 1, 2, 3, or 4 percent of the face amount.

In our $300,000 example, if the insured selects a 2 percent payout (in other words, 2 percent of $300,000, which is $6,000), the policy would yield $6,000 per month for fifty months ($300,000 divided by $6,000 = 50). Fifty months is just over four years, which is

Combination Long-Term Care Insurance Products

more than sufficient for the majority of long-term care claims. The $6,000 per month payment is just shy of the 2014 median average rate for a semi-private room in a nursing home.[[6]](#endnote-6)

If the insured dies before any long-term care benefits are paid out, the beneficiaries would receive the full $300,000 (minus any policy loans, of course). If long-term care services were needed for twenty months, the policy would have accelerated (or advanced) $120,000 to the insured. Should the individual then die, the balance of the death benefit ($180,000) would be payable to any beneficiaries. In any event, *$300,000 will be paid, one way or another*—exactly what the consumer wants and expects.

Because the policy does not promise to pay out more in cases of death or disability, its cost is often guaranteed (unlike stand-alone long-term care insurance) and the premium costs less than for the two plans purchased separately. This guarantee could depend on the life insurance policy that accelerates the death benefit. A whole-life policy comes with guaranteed rates. So does universal life coverage with a no-lapse guarantee. For consumers who have decided against long-term care insurance because of uncertainty regarding future rate increases, this product can ease their fears while providing the protection they need.

When an individual seeks long-term care benefits under a policy of this type, there is often an *elimination period* (e.g., 90 or 100 days), after a *chronically ill* diagnosis (since benefits are tax-qualified) before payments begin.

The *benefit period* is a function of the percentage of death benefit selected for monthly payout. Using the above $300,000 face as our example, a 2 percent payout would last for fifty months, a 3 percent payout would last thirty-three months, and a 4 percent payout would last twenty-five months.

As befits a tax-qualified long-term care insurance plan, coverage is *comprehensive*, covering all the same aspects of long-term care as stand-alone individual products, from home care to adult day care to assisted living and skilled facility care.

Some of these riders are the *expense-reimbursement* type, meaning that the payment may be less than the maximum allowed, depending on expenses incurred. This also means that benefits could last longer than the fifty months or whatever length of time the insured has chosen. There are also *indemnity-*styleADB riders for those who prefer to receive the specified monthly payment without regard to the cost of long-term care.

Even if the entire death benefit is accelerated to pay for long-term care, a *residual death benefit* is often paid to beneficiaries upon death of the insured. This can be as much as

Combination Long-Term Care Insurance Products

$25,000 or more depending on the product; it is intended to help with final expenses (e.g., funeral, final medical expenses, among other things).

Your client can pay a regular annual (or monthly, quarterly, or semi-annual) premium or opt for depositing a single premium. In the 1990s, early versions of such products usually offered only a single premium option, but these plans have since provided more payment flexibility.

# Life & LTC Combo: Extension of Benefits

Consumers concerned that they may outlast their accelerated benefits (which only pay up to a maximum of 100 percent of the face amount) have an alternative: an Extension of the Death Benefit (EDB). Most such options call for a doubling or trebling of the benefit. In the example above, the $300,000 payable at $6,000 per month for fifty months would double to $6,000 per month for 100 months—more than eight years of coverage.

Exhibit 1 provides an illustration of what such a single-premium life/long-term care combo product proposal might look like. In this case, it includes an ADB which first advances the death benefit, and once that’s exhausted, taps an EDB which doubles this amount:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Exhibit 1 Sample Life/Long-Term Care Insurance Combo Product Proposal.[[7]](#endnote-7) | | | | | | | |
| Prepared for: Valued Client  Sex/Age: Female/60  Init Prem: $50,000  Init Spec Amt: $115,946  Prem Class Life: Preferred No Nicotine Use  Prem Class LTC: Preferred – With 20% Couples Discount | | | | | | | |
| Guaranteed Illustrated Benefit Values 3.00% Guaranteed Interest Rate and Maximum Guaranteed Insurance Charges | | | | | | | |
| Year | Age | Premium Outlay | Policy Value | Net Cash Surrender Value | Death Benefit | Total LTC Lifetime Maximum Benefit | Monthly Maximum Benefit |
| 1 | 60 | 50,000.00 | 46, 275 | 41, 648 | 115, 946 | 347, 838 | 4, 831 |

Combination Long-Term Care Insurance Products

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Exhibit 1 Sample Life/Long-Term Care Insurance Combo Product Proposal.[[8]](#endnote-8) | | | | | | | |
| Prepared for: Valued Client  Sex/Age: Female/60  Init Prem: $50,000  Init Spec Amt: $115,946  Prem Class Life: Preferred No Nicotine Use  Prem Class LTC: Preferred – With 20% Couples Discount | | | | | | | |
| Guaranteed Illustrated Benefit Values 3.00% Guaranteed Interest Rate and Maximum Guaranteed Insurance Charges | | | | | | | |
| Year | Age | Premium Outlay | Policy Value | Net Cash Surrender Value | Death Benefit | Total LTC Lifetime Maximum Benefit | Monthly Maximum Benefit |
| 2 | 61 | .00 | 46, 994 | 42, 295 | 115, 946 | 347, 838 | 4, 831 |
| 3 | 62 | .00 | 47, 664 | 50, 000 | 118, 325 | 347, 838 | 4, 831 |
| 4 | 63 | .00 | 48, 304 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 5 | 64 | .00 | 48, 907 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 6 | 65 | .00 | 49, 369 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 7 | 66 | .00 | 49, 671 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 8 | 67 | .00 | 49, 888 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 9 | 68 | .00 | 50, 009 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 10 | 69 | .00 | 50, 006 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 11 | 70 | .00 | 49, 846 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 12 | 71 | .00 | 49, 510 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 13 | 72 | .00 | 48, 956 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 14 | 73 | .00 | 48, 143 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 15 | 74 | .00 | 47, 040 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 16 | 75 | .00 | 45, 624 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 17 | 76 | .00 | 43, 857 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 18 | 77 | .00 | 41, 736 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 19 | 78 | .00 | 39, 195 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 20 | 79 | .00 | 36, 166 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |

Combination Long-Term Care Insurance Products

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Exhibit 1 Sample Life/Long-Term Care Insurance Combo Product Proposal.[[9]](#endnote-9) | | | | | | | |
| Prepared for: Valued Client  Sex/Age: Female/60  Init Prem: $50,000  Init Spec Amt: $115,946  Prem Class Life: Preferred No Nicotine Use  Prem Class LTC: Preferred – With 20% Couples Discount | | | | | | | |
| Guaranteed Illustrated Benefit Values 3.00% Guaranteed Interest Rate and Maximum Guaranteed Insurance Charges | | | | | | | |
| Year | Age | Premium Outlay | Policy Value | Net Cash Surrender Value | Death Benefit | Total LTC Lifetime Maximum Benefit | Monthly Maximum Benefit |
| 25 | 84 | .00 | 8, 164 | 50, 000 | 115, 946 | 347, 838 | 4, 831 |
| 26 | 85 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| 30 | 89 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| 35 | 94 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| 40 | 99 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| 45 | 104 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| 50 | 109 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| 55 | 114 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| 60 | 119 | .00 | 1 | 50, 000 | 80, 388 | 241, 164 | 3, 350 |
| The amount shown is the greater of the cash surrender value and the ROP amount.  This illustration is based on the minimum guaranteed interest rate and maximum guaranteed insurance charges for all years, and shows the reduction of the policy’s benefits to the guaranteed minimum benefit values at the earliest possible time. This illustration assumes that sufficient premiums have not been remitted to get the policy out of the grace period, and no loans, withdrawals or long-term care claims have been made under the policy.  All benefits and values shown in this illustration assume that the initial premium is received on the policy date and no changes are made to the policy other than as illustrated. This illustration assumes that there have been no policy loans, withdrawals and long-term care claims. Death benefit and premiums shown are beginning-of-year values. In the year of reduction to the GMBR values, the death benefit shown is as of the end of the year. Other values shown are end-of-year values. | | | | | | | |

Combination Long-Term Care Insurance Products

This policy begins to lose steam about twenty to twenty-five years in when the insured reaches the eighties, so it would be wise to look at a higher single premium deposit to retain the maximum benefits longer. This policy falls back on minimum guarantees, but you want to design a plan that will hold up a bit longer. A $75,000 single premium likely would do the trick for this client.

Such EDB riders are typically tax-qualified, meaning the benefits paid out enjoy an income tax-free status, just as life insurance proceeds do. However, it is important to check the rider language for the term *tax-qualified* and for references to Section 7702(b) of the Internal Revenue Code to be sure. There used to be a tax issue associated with combination products, but it was resolved by the Pension Protection Act of 2006 (which took effect January 1, 2010). The payment of morbidity costs for tax-qualified long-term care protection out of life insurance cash values is now no longer considered a distribution to the insured. These internal charges within the plan are often only evidenced by the illustration in your policy that shows the monthly or annual cost of the rider.

The underlying life product chassis can be whole life, universal life, or variable universal life and can be paid with a regular premium payment or a single premium. The latter payment option creates a Modified Endowment Contract (MEC), with penalties for withdrawing benefits before age fifty-nine and a half. Chances are the long-term care insurance portion won’t be needed until later than that, but you never know. The variable universal life policy, in particular, may contain an inflation hedge, because its value can grow significantly over the years, thereby increasing the death benefit and long-term care insurance payout. The variable product requires a securities license to sell, and there are limitations on the illustration and sales material you can distribute.

The value of these policies is that you can actually meet two needs with one policy because the life and long-term care benefits are separate and distinct. Contracts based on the extension of benefits structure (also called linked benefit) have traditionally offered more robust long-term care benefits and features than those which simply advanced a percentage of the face amount. In part, this was because the former were offered by carriers with a long-term care background and claims experience, while the latter were offered chiefly by life carriers with little direct experience administering long-term care claims. Their LTC benefits were seen as token. Now that the market is experiencing rapid expansion and competition, we expect a convergence of quality.

Combination Long-Term Care Insurance Products

Generally, one of the knocks against combo products is that, in trying to solve two needs through one product, they solve both weakly. Whichever risk is met, the other is cannibalized: life *or* long-term care. One might argue: if your client has a legitimate life insurance need (e.g., estate planning), then solve that need with the appropriate product. Same with long-term care. Certainly either by itself can achieve more leverage. But that argument misses the point—the important thing is to equip more arrows in your quiver for any kind of client you might encounter.

The combo sales strategy is to counter a client who insists on *self-insuring*, and ask, “What if there were a *smarter* way to self-insure?” Table 1 compares traditional long-term care insurance against the two most common types of life combination product we’ve examined. As you can see, each provides a different amount of leverage.

|  |  |  |  |
| --- | --- | --- | --- |
| Table 1 Average Premium and Benefits for LTC Insurance and Life Combination Products.[[10]](#endnote-10) | | | |
|  | Average Annualized Premium | Average Monthly Benefit / Life Death Benefit | Total Max LTC Benefit |
| Standalone LTCI | $2,400 | $5,000 | $420,000\* |
| Life Combo—Extension of Benefits | $6,950\*\* | $109,000 | $327,000\*\* |
| Life Combo—Acceleration of Benefits | $6,600 | $326,000 | $326,000 |
| \* Average LTC Benefit based on $5,000 monthly benefit for seven years.  \*\* Annualized premium is 10% of single premium. Max LTC benefit assumed to be three times death benefit. | | | |

## Long-Term Care Riders versus Chronic Illness Riders

Be careful! It may walk like a duck, and quack like a duck—but it’s a goose. Such is the case when comparing long-term care riders vs. chronic illness (or critical care) riders. You can choose when to sell which; we want to make sure you can tell the difference.

Long-term-care riders use policy language which adheres to Section 7702(b) of the Internal Revenue Code, created by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). You will recall this defines an individual as *“chronically ill”* as a result of one of two criteria: the loss of two or more Activities of Daily Living (ADLs) expected to last ninety days or longer; or a cognitive impairment.

Combination Long-Term Care Insurance Products

Other riders are promoted as combo life/long-term care insurance plans, but they have a slightly different definition of chronic illness. If the marketing material refers to Section 101(g) of the Internal Revenue Code, then we’re not in tax-qualified long-term care insurance land anymore (see Table 2):

|  |  |  |
| --- | --- | --- |
| Table 2 Comparison of Chronic Illness Riders vs LTC Riders | | |
|  | **Chronic Illness Rider 101(g)** | **Long-Term Care Rider 7702(b)** |
| Upfront Cost | Typically not charged unless or until needed | Generally a recurring charge each year |
| Benefit Amount Flexibility | Client decides at claim how much benefit is desired (up to per diem limit). Can be taken as lump sum without restriction on use. | Benefit elected at time of issue (e.g., 1%, 2% or 4% of face). |
| Benefit Period Flexibility | Policyowner can often elect multiple accelerations (although no more than once per twelve months). | Benefit is usually paid for a pre-defined number of months, elected at issue. |
| Expenses Covered | No restriction | Must be qualified LTC expenses |
| LTC CE Requirements | No LTC training required | DRA Partnership or State-specific training often required |
| Underwriting | Rider automatically included with all policies at issue (depending on carrier) | Additional LTC underwriting often required to qualify |

The typical chronic illness, critical care, or critical illness rider generally requires that the insured’s illness have *no hope of recovery*; whereas the long-term care rider does not require this. In the latter case it is only required that the insured continue to meet the definition of chronically ill (i.e., two of six ADL’s or Cognitive Impairment). In Section 101(g) language, the word *permanent* may be inserted into the ADL and cognitive impairment triggers. The long-term care insurance rider does not contain this word, which is more restrictive than Section 7702(b) wording.

Chronic illness riders typically pay on an indemnity basis and contain language that limits payments to the annual per diem limit. As previously noted, payments above the per diem limit could incur taxation if the amount paid exceeds the cost of care delivered.

Combination Long-Term Care Insurance Products

By limiting the maximum payment to the per diem amount, chronic illness riders ensure this does not happen.

This rider may also refer to a limit of 24 percent of the face amount payable in any one year.[[11]](#endnote-11) This is another indication that you are not in the more familiar world of long-term care insurance rider language.

Chronic illness riders are generally less costly than long-term care insurance accelerated benefit riders (because of their more restrictive language). Both types of rider can offer protection from long-term care expenses; be aware of the difference as you evaluate them. The fact that distinctions among types of ADB’s exist demonstrates that the market is maturing. Insurers are paying increased attention to the entire market segment, where it’s believed increasing sales lie.

# Annuity / Long-Term Care

It has always made sense to connect long-term care with an annuity. They address a similar problem—living too long and running out of money. A long life may mean your client has outlived any support system that might have been available to help with a long-term care need.

Thus, the pairing of annuities with long-term care insurance seems like a natural fit—with one notable exception: an annuity requires no underwriting, although certain suitability standards must be met. Assuming they are, the insurer returns the policy to the client in just a few short days.

That has not been the case with long-term care insurance. Typically no medical exam is required (e.g., a physical work-up), but medical records are generally ordered, which can take many weeks to receive and evaluate. Invariably this will take much longer than the issuance of an annuity, and a long time in underwriting may jeopardize the placement of the more quickly issued annuity policy.

Carriers have been able to overcome this sheerly by the design of a true annuity/long-term care insurance combination.

Annuities can interact with long-term care insurance benefits in some distinctive ways. The first is that income can be withdrawn free of surrender charges (i.e., waived) if the annuitant meets a long-term care definition of *chronically ill*.

Combination Long-Term Care Insurance Products

The second is that the annuity benefit could be increased should a long-term care event occur. This might take the form of increasing the payment of a single-premium or deferred annuity contract once it is annuitized, such as a 50 percent increase in payments received from a single-premium immediate annuity, or a 10 percent bonus applied to an annuitized value in a deferred annuity.

The *annuity with confinement waiver* can accelerate access to funds free of market-value adjustments and surrender charges. Typically there is no charge for this privilege up front and no underwriting is involved.[[12]](#endnote-12)

These are simply enhancements to an annuity already in place. But there is an opportunity, just as with life insurance, to buy a combo, or linked-product version.

The desirability of this product received a welcome boost from the Pension Protection Act of 2006. Before implementation on January 1, 2010, a Form 1099 was issued annually for the morbidity cost of the long-term care portion of this product. As a result of the PPA, that is no longer the case for both new and existing policies. Contract holders are now also allowed 1035 exchanges from various insurance products into tax-qualified long-term care (see Chapter 3).

With a true annuity/long-term care insurance combo product, your client deposits a lump sum into an annuity, which accumulates value on a tax-deferred basis according to a contractual interest rate. At some point in the future, a long-term care disability might be incurred (once again, the *chronically ill* definition is used, making it a tax-qualified plan). The individual begins to withdraw money from the annuity—*their own money* *first*—and when that is depleted, begins to draw from an extended pool of funds provided by the insurer to continue paying for their long-term care claim. The extended pool is typically some multiple of the annuitant’s account value (two or three times) as of the day the client first begins receiving benefits.

Key to the success of this product is that, by using personal annuity money first, the insured creates a sizable *elimination period*, because it will be some time before they need to access the insurer’s money for long-term care. For example, a person pays $50,000 into an annuity, which creates the $50,000 annuity and an additional $100,000 in long-term care benefits. Once the consumer is disabled, the $50,000 (plus any interest accrued) is used first and the insurer’s $100,000 follows for a total potential payout of $150,000.

Because the annuitants are using their money first, the underwriting is reduced to a very simplified form (although not entirely). This is because initially the insurer is not on the

Combination Long-Term Care Insurance Products

hook for the risk. The insured is self-insuring, using personal funds. It may be a couple of years before the insurer’s dollars are tapped. Therefore, this product may be the answer for individuals who are struggling with their insurability for stand-alone or life-insurance-based long-term care insurance.

This is what annuity producers want to hear: the ease of underwriting for this product. Some insurers for this type of combo plan guarantee a seventy-two-hour up or down decision. Annuity producers expect this short turnaround time when an annuity application is submitted.

Even individuals who are highly rated or ineligible for individual or combo life/long-term care insurance plans may be underwritten here. It is important to check the insurer’s underwriting guidelines to see what unexpected conditions might be covered. At any rate, this is another option to explore with your potential long-term care clients.

Here’s an example of how the annuity/long-term care linked-policy benefit works: A couple was seeking long-term care protection; the husband was eighty and the wife was fifty-eight. She was still working and had purchased long-term care coverage through her employer. The husband also wanted coverage, but because of his age the premium for an individual policy for the coverage desired was more than $12,000 annually. Because he had $100,000 in cash set aside, he used that money to buy a deferred annuity with a long-term care benefit. He also added a joint long-term care rider, covering both him and his wife. He qualified for the annuity/long-term care combo, the wife dropped her policy, and both then had coverage at a price comparable to what she had been paying alone.

This dual-function approach hedges the bet on the need for long-term care coverage. If not used for long-term care, the policy functions just as well as an annuity to convert into income when needed. This gives the buyer another tangible return on investment—something you now understand has been the key to recent consumer sales success with long-term care insurance.

Exhibit 2 provides another illustration, this time using a $150,000 deposit to create an annuity/long-term care insurance combo product.

Combination Long-Term Care Insurance Products

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Prepared for: Valued Client  Sex: Male Age: 60  State: WA  Contract Premium: $150,000.00  Presented by: Stephen Forman CLTC | | | | | | | |
| End of Policy Year | Age | Accumulated Value | Cash Surrender Value | LTC Accumulated Value | COB Balance | Total LTC Balance\* | LTC Monthly Benefit |
| 1 | 61 | $151, 824 | $ 139, 526 | $ 153, 315 | $ 229, 972 | $ 383, 287 | $ 6, 388 |
| 2 | 62 | $152, 146 | $ 141, 192 | $ 156, 686 | $ 235, 029 | $ 391, 715 | $ 6, 529 |
| 3 | 63 | $ 152, 446 | $ 142, 842 | $ 160, 107 | $ 240, 160 | $ 400, 266 | $ 6, 671 |
| 4 | 64 | $ 152, 722 | $ 144, 475 | $ 163, 576 | $ 245, 364 | $ 408, 940 | $ 6, 816 |
| 5 | 65 | $ 152, 974 | $ 146, 090 | $ 167, 093 | $ 250, 640 | $ 417, 733 | $ 6, 962 |
| 6 | 66 | $ 153, 212 | $ 147, 697 | $ 167, 355 | $ 251, 033 | $ 418, 388 | $ 6, 973 |
| 7 | 67 | $ 153, 451 | $ 149, 308 | $ 167, 617 | $ 251, 426 | $ 419, 043 | $ 6, 984 |
| 8 | 68 | $ 153, 691 | $ 150, 924 | $ 167, 880 | $ 251, 820 | $ 419, 700 | $ 6, 995 |
| 9 | 69 | $ 153, 930 | $ 152, 545 | $ 168, 143 | $ 252, 214 | $ 420, 357 | $ 7, 006 |
| 10 | 70 | $ 154, 170 | $ 154, 170 | $ 168, 406 | $ 252, 609 | $ 421, 016 | $ 7, 017 |
| 11 | 71 | $ 154, 411 | $ 154, 411 | $ 168, 670 | $ 253, 005 | $ 421, 675 | $ 7, 028 |
| 12 | 72 | $ 154, 651 | $ 154, 651 | $ 168, 934 | $ 253, 401 | $ 422, 336 | $ 7, 039 |
| 13 | 73 | $ 154, 893 | $ 154, 893 | $ 169, 199 | $ 253, 798 | $ 422, 997 | $ 7, 050 |
| 14 | 74 | $ 155, 134 | $ 155, 134 | $ 169, 464 | $ 254,196 | $ 423, 660 | $ 7, 061 |
| 15 | 75 | $ 155, 376 | $ 155, 376 | $ 169, 729 | $ 254, 594 | $ 424, 323 | $ 7, 072 |
| 16 | 76 | $ 155, 618 | $ 155, 618 | $ 169, 995 | $ 254, 993 | $ 424, 988 | $ 7, 083 |
| 17 | 77 | $ 155, 861 | $ 155, 861 | $ 170, 261 | $ 255, 392 | $ 425, 653 | $ 7, 094 |
| 18 | 78 | $ 156, 104 | $ 156, 104 | $ 170, 528 | $ 255, 792 | $ 426, 320 | $ 7, 105 |
| 19 | 79 | $ 156, 347 | $ 156, 347 | $ 170, 795 | $ 256, 192 | $ 426, 987 | $ 7, 116 |
| 20 | 80 | $ 156, 591 | $ 156, 591 | $ 171, 062 | $ 256, 594 | $ 427, 656 | $ 7, 128 |
| 21 | 81 | $ 156, 835 | $ 156, 835 | $ 171, 330 | $ 256, 995 | $ 428, 326 | $ 7, 139 |
| 22 | 82 | $ 157, 080 | $ 157, 080 | $ 171, 598 | $ 257, 398 | $ 428, 996 | $ 7, 150 |
| 23 | 83 | $ 157, 324 | $ 157, 324 | $ 171, 867 | $ 257, 801 | $ 429, 668 | $ 7, 161 |
| 24 | 84 | $ 157, 570 | $ 157, 570 | $ 172, 136 | $ 258, 204 | $ 430, 341 | $ 7, 172 |
| 25 | 85 | $ 157, 815 | $ 157, 815 | $ 172, 406 | $ 258, 609 | $ 431, 014 | $ 7, 184 |
| 26 | 86 | $ 158, 061 | $ 158, 061 | $ 172, 676 | $ 259, 013 | $ 431, 689 | $ 7, 195 |
| 27 | 87 | $ 158, 307 | $ 158, 307 | $ 172, 946 | $ 259, 419 | $ 432, 365 | $ 7, 206 |
| 28 | 88 | $ 158, 554 | $ 158, 554 | $ 173, 217 | $ 259, 825 | $ 433, 042 | $ 7, 217 |

Combination Long-Term Care Insurance Products

As you can see, the interest rate applied (even after subtracting the morbidity charge for the long-term care risk) helps act as a hedge against inflation as the long-term care daily and maximum benefits continue to grow under guaranteed interest rates.[[13]](#endnote-13) What’s more, there is no concern about rate increases. Once the deposit is made, the annuity and the long-term care benefit do what they are designed to do—provide money in the event of a very long life.

The annuity/long-term care insurance combo plan is an asset repositioning sale. The client is simply moving money from one pocket to another. The difference is that the movement of the money provides additional financial resources in the event of a long-term care need. If the long-term care scenario never arises, the money will still have earned tax-deferred interest to be used for additional income, to pass on to heirs, or to annuitize if your client needs the income.

1. “2012 Long-Term Care Sales Achievement Award,” American Association for Long-Term Care Insurance, 2012-2013 LTCi Sourcebook, www.aaltci.org. [↑](#endnote-ref-1)
2. “Individual Life Combo Products Grew 10% in 2012,” by Warren S. Hersch, 5/14/13, National Underwriter. [↑](#endnote-ref-2)
3. To be sure, it is frequently possible to submit applications without a premium deposit, but inadvisable. Not only does it void any conditional coverage for which the applicant might have been eligible, but statistics show applicants who submit a premium deposit are—on average—over 20 percent more likely to result in placed business. [↑](#endnote-ref-3)
4. “Individual life combination premiums grew 12 percent in 2013—the fifth consecutive year of double-digit growth.” Source: “LIMRA: Life Combo Products Hit Record High Again,” by Warren S. Hersch, 5/27/14, LifeHealthPro. http://www.lifehealthpro.com/2014/05/27/limra-life-combo-products-hit-record-high-again [↑](#endnote-ref-4)
5. Source: LIMRA’s Individual Life-Combination Sales Survey, Catherine Ho, ASA, MAAA, July, 2013. [↑](#endnote-ref-5)
6. Genworth 2014 Cost of Care Survey, Executive Summary, Nursing Home Care Semi-Private Room, National Median Daily Rate $212. [↑](#endnote-ref-6)
7. Genworth Financial, Total Living Coverage Flexible Premium Adjustable Life Insurance Policy with Long-term Care Insurance Benefits (Form ICC12-GL5000. Illustration not complete without all pages). [↑](#endnote-ref-7)
8. Genworth Financial, Total Living Coverage Flexible Premium Adjustable Life Insurance Policy with Long-term Care Insurance Benefits (Form ICC12-GL5000. Illustration not complete without all pages). [↑](#endnote-ref-8)
9. Genworth Financial, Total Living Coverage Flexible Premium Adjustable Life Insurance Policy with Long-term Care Insurance Benefits (Form ICC12-GL5000. Illustration not complete without all pages). [↑](#endnote-ref-9)
10. Source: LIMRA [↑](#endnote-ref-10)
11. Thomas E. Daley, “The Chronic Illness Safety Net,” Life Insurance Selling (January 2011): http://www.lifehealthpro.com/2011/01/05/the-chronic-illness-safety-net. [↑](#endnote-ref-11)
12. Diane Shemi, “Alternatives to LTCI,” Health Insurance Underwriter (February 2009): 61. [↑](#endnote-ref-12)
13. Current interest rates were illustrated as well, but not reproduced here. [↑](#endnote-ref-13)